

Our external environment

Drawing up Essity's business strategy, we analyze the external trends and changes that are continuously ongoing. We identify the macro-economic drivers that we believe are most relevant to our business in order to leverage the opportunities and to manage the associated risks. We analyze how trends can impact Essity and how the company can benefit from these.

We maintain continuous dialogue with customers and consumers to develop products and services that meet needs and solve the challenges that many are facing in their everyday lives. The foundation of Essity's strategy is a materiality analysis where Essity and company's stakeholders prioritize the issues and areas that are deemed important for the company. Through this process, Essity creates a strategy for profitable and sustainable growth.

External trends and drivers

Growing and aging population

The world's population is growing and living longer. This growing population is resulting in an increased demand for hygiene and health products and thus creating favorable growth opportunities for Essity. The greatest global population increase is expected to occur in Asia, Latin America and Africa. Essity is prioritizing growth in selected emerging markets, such as China, Southeast Asia, Latin America, Eastern Europe and Russia. An aging population is increasing demand for incontinence and health products, both in mature and emerging markets. For example, the occurrence of incontinence among people over the age of 65 is estimated to be between 15 and 20%.

Higher standard of living

At the same time as the population is growing, the level of poverty in the world is decreasing. Once people's most basic needs for food and shelter are met, hygiene becomes a top priority. Increased disposable income and higher living standards are expected to drive demand for hygiene and health products.

Global insight into hygiene and health

Limited access to hygiene and sanitation is a major global challenge. There is a growing awareness of the relationship between good hygiene and health, and how this improves well-being in the world, as indicated by the UN's 17 Sustainable Development Goals. Essity continuously develops new hygiene and health solutions and is educating, for example, healthcare and medical staff in incontinence and good hand hygiene. Young women are educated about menstruation and puberty, and children and preschool teachers are taught about the importance of good hand hygiene.

Increased prevalence of chronic conditions

Increased prevalence of chronic diseases and greater life expectancy of people with chronic conditions are expected to increase demand for such items as incontinence and health products.

Digitalization

The digitalization of our society entails substantial changes and opportunities. For Essity, digitalization offers a variety of opportunities to improve and evolve all parts of our value chain. We are digitalizing production, administration and logistics to achieve efficiency and quality improvements. In product development, we are working to create digital solutions that improve our offering to customers and consumers. Each year, Essity's products are increasingly sold and marketed online.

Sustainable consumption and the circular economy

Conscious customers and consumers are increasing expectations on, and demand for, sustainable solutions. Essity's objective is to develop products and services that are compatible with a sustainable and circular society.

Risks

The annual strategy process includes an analysis phase and assessment of the risks present in the business units.

The responsibility for long-term and overall management of strategic risks follows the company's delegation scheme, from the Board of Directors to the President, and from the President to the Business Unit Presidents. A description of the most significant risks that impact Essity's opportunities to achieve its established targets, and how these risks are managed, is presented on pages 33–38.

External dialogue and materiality analysis

An active stakeholder dialogue is one way of ensuring that Essity's priorities and ways of working are relevant in today's society. Millions of people across the globe have an impact on, and an interest in, Essity's business. Through dialogue with our various stakeholders, we understand the expectations on us as a company and how we can develop and improve. We also conduct materiality analyses to identify the issues that are significant to us at Essity and to our stakeholders. These also form the basis of Essity's strategy and sustainability work. The latest analysis was conducted in 2017 of about 1,000 stakeholders including customers, consumers, suppliers, investors, analysts and employees.

UN's 17 Sustainable Development Goals

At Essity, we believe that the work to fulfill the sustainability goals will make the world a better place while offering favorable business opportunities for companies around the world, not least in the areas of health, hygiene and sanitation, where we possess substantial expertise. We are working to overcome global challenges together with like-minded partners. Essity has chosen to prioritize goals 3, 5, 6, 12, 13 and 15, which are most relevant to our business. For a number of years, Essity has been the convening partner for the United Nations Foundation Global Dialogue concerning these goals.



Essity's strategic framework

Essity's vision is: Dedicated to improving well-being through leading hygiene and health solutions. Our strategy is designed to generate value for all of the company's stakeholders with a focus on profitable growth. Operations are based on a sustainable business model, focused on value creation for customers and consumers. Essity's vision has been broken down into four objectives and four strategies with clear connections to stakeholder groups, such as shareholders, customers and consumers, society and employees.

Vision and mission

VISION

Dedicated to improving well-being through leading hygiene and health solutions

MISSION

To sustainably develop, produce, market and sell value-added products and services within hygiene and health

Objectives

Generate increased
shareholder value
through profitable
growth

Enable more
people every
day to enjoy
a fuller life

Contribute to
a sustainable
and circular
society

Enable
our **employees**
to realize their full
potential, as part of
one winning team

Read more on pages **12–15**

Strategies

Win in chosen
geographies and
categories

Focus on **customers** and **consumers**

Innovate
bigger
brands

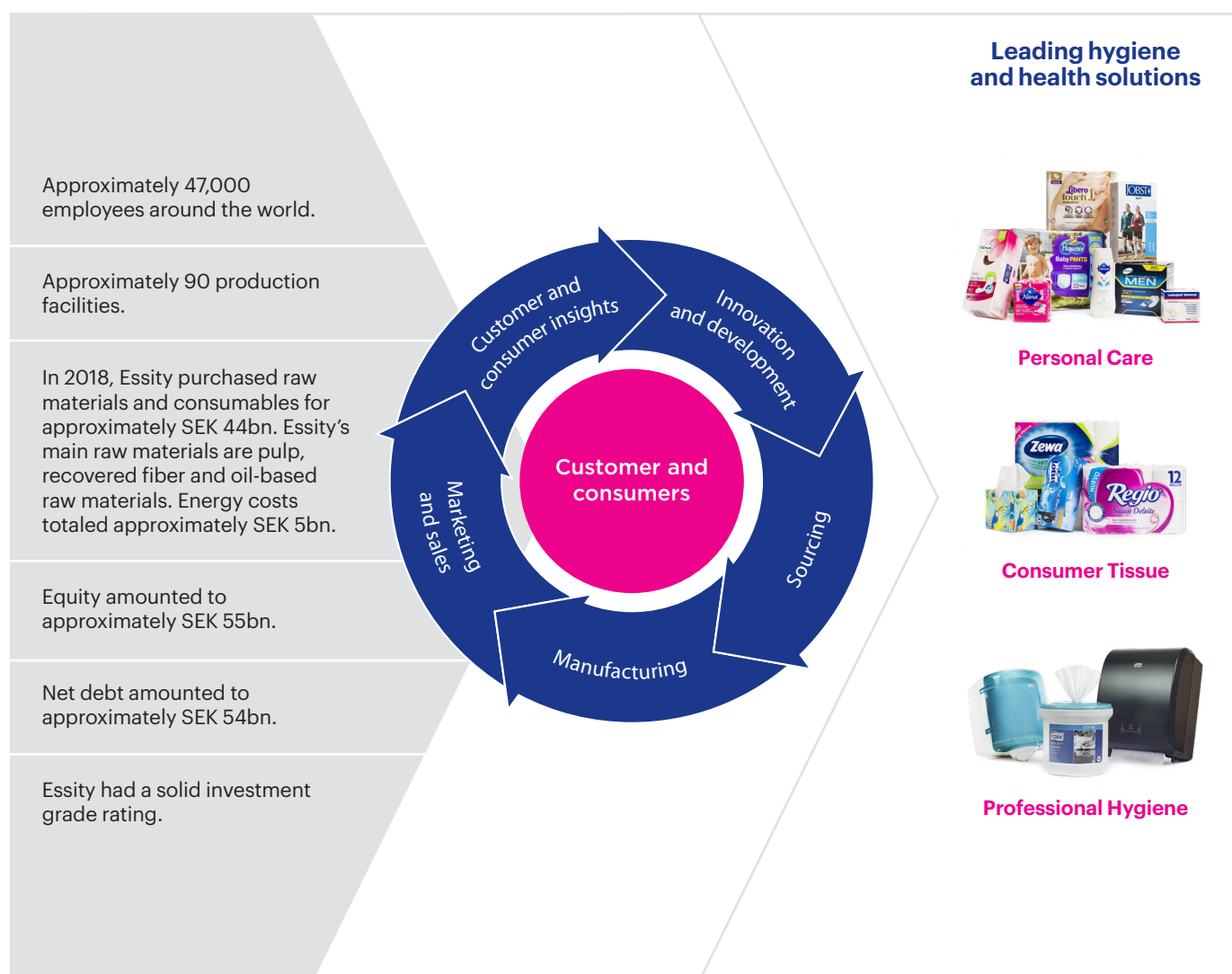
Drive
efficiency

Read more on pages **16–19**



Essity's business model

Our customers and consumers are at the center of Essity's business model. We begin by building knowledge and understanding of their daily needs and challenges. This unique insight allows us to develop products and services to help simplify everyday life for hundreds of millions of people worldwide.



Innovations and product launches are a top priority when it comes to delivering increased customer and consumer value and strengthening Essity's brands and market positions. To contribute to a sustainable and circular society, there is a need for new business solutions and innovations that close the loop.

Input goods, such as pulp, recovered fiber and oil-based raw materials are sourced through a centralized purchasing function to achieve economies of scale and a stronger negotiating position. Essity works throughout the supply chain

to guarantee responsible sourcing and we subject our suppliers to stringent demands.

Essity has approximately 90 production facilities worldwide for manufacturing Personal Care, Consumer Tissue and Professional Hygiene products. Efficiency work at our facilities is a continuous process, and includes digitalization and automation, in order to achieve sustainable, efficient, world-class production.

Essity is the global market leader in incontinence products with the TENA brand and in professional hygiene with the

Tork brand. Essity also has strong brands in other product categories. Essity has sales in approximately 150 countries and a well-developed and efficient "go-to-market" model. Our products are distributed in a number of ways, from small convenience stores in rural areas to supermarkets, hospitals, healthcare centers, restaurants, pharmacies and e-commerce. In 2018, the retail trade accounted for 58% of Essity's net sales, business-to-business for 24% and the healthcare sector for 18%.

Objectives, targets and outcomes

Generate increased shareholder value through profitable growth

Essity works to generate long-term value for its shareholders and that the Essity share is to have a higher total shareholder return than competitors.

Essity focuses on profitable growth in order to increase the Group's value creation and the total shareholder return. We prioritize growth in our product categories

with the highest margins and our ambition is that these will account for an increasing share of Essity's net sales. In addition to organic sales growth, Essity sees an opportunity to also grow through acquisitions. With respect to underperforming market positions, we are primarily focusing on improving profitability. To strengthen competitiveness and improve profitability,

Essity is also constantly working to reduce the cost base related to cost of goods sold as well as costs for sales and administration.

Shareholder value is achieved through a positive share price trend and dividends.

Read more about the Essity share on pages 6–7.

	Target	Outcome 2018
Organic sales growth¹⁾	Annual organic sales growth of above 3%. >3%	2.6%
Adjusted return on capital employed²⁾	Adjusted return on capital employed of above 15%. >15%	12.0%

Policy and outcomes 2018

Dividend Policy: Essity aims to provide long-term stable and rising dividends to its shareholders. When cash flow from current operations exceeds what the company can invest in profitable expansion over the long term, and under the condition that the capital structure target is met, the surplus shall be distributed to the shareholders. The Board of Directors proposes a dividend of SEK 5.75 per share for the 2018 fiscal year.

Capital Structure Policy: Essity's target is to have an effective capital structure at the same time that the long-term access to debt financing is ensured. Cash flow in relation to net debt shall take into account the target to maintain a solid investment grade rating.

In 2018, Essity had a solid investment grade rating.

¹⁾ Net sales excluding exchange rate effects, acquisitions and divestments.

²⁾ Excluding items affecting comparability.



Enable more people every day to enjoy a fuller life

Essity aims to enable more people every day to enjoy a fuller life. To do so, we are working on sharing our knowledge with customers and consumers through education in hygiene and health and by pursuing a global dialogue about hygiene, health and well-being. At the same time, we are also creating business opportunities.

What makes Essity successful is the knowledge and insight about the needs of customers and consumers and the ability to transform this into innovative offerings that increase quality of life and make everyday life easier for people. Essity wants to offer customers and consumers value-added hygiene and health solutions.

We adapt our offering to local and regional market conditions to increase hygiene and health standards worldwide.

Essity's ambition is to improve well-being of 2 billion people every day by 2030.

	Target	Outcome 2018
People and nature innovations We will deliver better, safe and environmentally sound solutions to our customers. We strive to continuously improve resource efficiency and reduce our environmental impact by considering the whole life cycle for new innovations.	At least 33% of Essity's innovations will yield social and/or environmental improvements. 33%	59%
Hygiene solutions We will make our knowledge about hygiene and health available to customers and consumers and ensure access to affordable, sustainable solutions to help them lead a healthy and dignified life. In markets in which we operate, we will: • Provide information and implement education programs on hygiene and health • Strive to raise hygiene and health standards		Worldwide, around 2.5 million people were reached by hygiene and health training arranged by Essity. Hundreds of millions of people used Essity's products every day. Essity held the number one or two position in at least one product category in approximately 90 countries.

Our contribution to the UN Sustainable Development Goals

3 GOOD HEALTH AND WELL-BEING
Goal 3
Good health and well-being
 Our contribution toward Goal 3 includes developing sustainable products and services for hygiene and health, educating consumers and care professionals, and preventing the spread of diseases and other health risks. Business value is also created by meeting societal needs. This offers more people an opportunity to work, better conditions to provide for their families and increased well-being.

5 GENDER EQUALITY
Goal 5
Gender equality
 Essity works to break the silence around issues such as menstruation and incontinence. We want a society where everyone can fully participate. Essity's contribution toward Goal 5 includes pursuing a global dialogue, making our knowledge about hygiene and health available to customers and consumers and ensuring access to affordable, sustainable hygiene and health solutions to contribute to a dignified life on equal terms.

6 CLEAN WATER AND SANITATION
Goal 6
Clean water and sanitation
 Our contribution toward Goal 6 covers our work to achieve efficient water usage throughout the entire life cycle of our products and improve access to sustainable sanitation and hygiene solutions. Essity works independently as well as with partners to contribute to sustainable water use and sanitation.

Contribute to a sustainable and circular society

Essity's objective is to develop products and services for a sustainable and circular society. Circularity is a business model that involves striving to reduce resource consumption and an efficient recycling or composting of our hygiene and health products. This means we must include this in our innovation work and develop new business models that create new business opportunities for Essity.

Our ambition is that our environmental footprint will be reduced by 33% in 2030.

In December 2018, Essity's expanded climate targets for carbon emissions were

approved by the Science Based Targets initiative. The initiative is a collaboration between for example CDP, the UN Global Compact and the WWF and includes a scientific method to ensure that companies' targets for the reduction of carbon emissions are aligned with the global climate target set by the Paris Agreement to keep global warming below 2 degrees Celsius. We are committed to reducing our climate impact linked to energy use and purchased electricity (Scope 1 and 2), and our indirect climate impact from material use, transportation and waste management, which includes emissions from suppliers and consumers (Scope 3).

Essity is working to promote sustainable and responsible business by choosing suppliers who share our values and comply with our Code of Conduct and Global Supplier Standard. In 2018, we strengthened our target for sourcing of fresh fiber. This means all fresh wood based fiber raw material in our products and packaging will be FSC® or PEFC™ certified.

	Target	Outcome 2018		Target	Outcome 2018
Science-Based Targets Essity has undertaken by 2030, with 2016 as reference year, to reduce the climate impact of:			Fiber: All fresh wood based fiber raw material in our products and packaging will be FSC® or PEFC™ certified.	100%	76%¹⁾
– Scope 1 and Scope 2	–25%	–5%	Waste: All waste from all production units will be subject to material and energy recovery by 2030.	100%	60%
– Scope 3	–18%	The outcome will be reported as of 2019	Water: By 2020, with 2014 as reference year, our plants will:		
Suppliers: We will evaluate all of our supply streams from a total risk perspective. By 2020, we will source all of our procurement spend from suppliers committed to the criteria specified in Essity's Global Supplier Standard.	100%	71%	• reduce levels of suspended solids	–10%	–19%
			• reduce water usage	–10%	–3%
			• reduce organic waste (BOD)	–10%	–25%

¹⁾ As of 2018, material that fulfills FSC's criteria for Controlled Wood is not included in the fiber target, which explains the decrease compared with 2017. All fiber must fulfill these criteria as a basic requirement.

Our contribution to the UN Sustainable Development Goals



Goal 12 Responsible consumption and production

Essity's contribution toward Goal 12 consists of establishing collaboration for customers and consumers within consumption and circularity. This could involve highlighting sustainability criteria in public procurements and changing behavior through the use of new business models, technology and education of customers and consumers.



Goal 13 Climate action

Essity's contribution toward Goal 13 involves improving resource efficiency in manufacturing, achieving Science-Based Targets to reduce greenhouse gas emissions and supporting relevant external initiatives and agreements.



Goal 15 Life on land

We work to promote responsible forest operations throughout our supply chain and require our suppliers to fulfill very strict criteria stipulated in our Global Supplier Standard and in our fiber policy. Essity's contribution toward Goal 15 consists of the certification of suppliers and our own production, ensuring the use of certified fiber in Essity's products and packaging and the responsible use of other input goods.

Enable our employees to realize their full potential, as part of one winning team

We offer career opportunities in a leading global hygiene and health company that is working to increase well-being in the world through leading hygiene and health solutions. Improved hygiene and health are basic conditions for a better life and play a vital role in well-being.

The health and safety of our employees is a top priority. We are striving to continuously improve the work environment to make it safe and healthy. Everyone should feel safe when they work for Essity. Managers, employees and partners receive training on a regular basis and all Essity plants have plans to improve safety at their facilities.

Essity's success is dependent upon motivated, competent and performance-

oriented employees. Our ambition is that all employees will reach their full potential, and assume responsibility for driving their own development. To achieve the objective, we work to continuously develop our corporate culture, our leadership and to provide a number of programs and initiatives to build capabilities.

Essity offers a strong corporate culture based on our "Beliefs & Behaviors": we are committed, we care, we collaborate, and we have courage. These express, in different ways, what is required of all employees to successfully develop Essity. Our "Beliefs & Behaviors" are supplemented by Essity's Code of Conduct, which was updated in 2018. The Code of Conduct instructs

employees in how we conduct our business in a responsible manner to benefit our company, society and the environment. The Code helps employees to make correct decisions in daily work.

In 2018, Essity conducted a global employee survey. This was completely digital and the response rate was 80%. The survey shows strong employee engagement with particularly high scores in areas such as collaboration, results orientation, team spirit, health and safety.

Target

Outcome 2018

Employee Health and Safety

Our aim is zero workplace accidents, and we will decrease our accident frequency rate by 50% between 2014 and 2020.

-50%

-39%

Business ethics and human rights

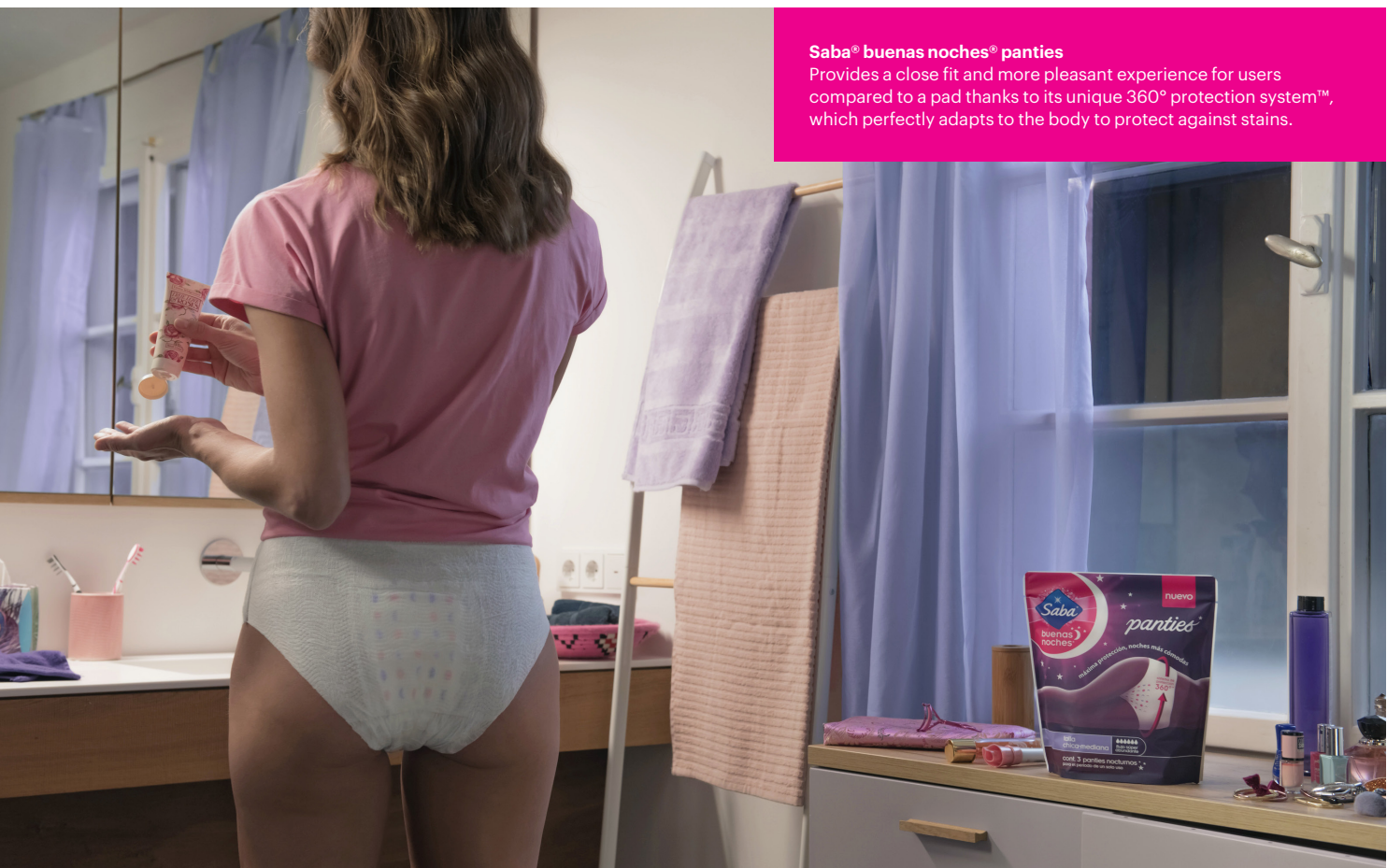
We will maintain compliance with our Essity Code of Conduct. All employees will receive regular training in the Code.

100%

90% of new employees received training in the Code.



Strategies



Saba® buenas noches® panties

Provides a close fit and more pleasant experience for users compared to a pad thanks to its unique 360° protection system™, which perfectly adapts to the body to protect against stains.

Win in chosen geographies and categories

We aim to hold a number one or number two position in the geographies and product categories where Essity chooses to operate. We compare ourselves with the best competitors in each product category in each geographic market and aim to perform better or in line with the best competitor.

Prioritized markets

Essity has a clear priority for which geographic markets it wants to operate in, and which product categories it will offer in these markets. Sales are conducted in approximately 150 countries. In approximately 90 of these, Essity holds the number one or two position in at least one product category. Essity aims to increase the emerging markets' percentage of net sales and earnings, since these markets' potential for growth is higher because market penetration of hygiene and health

products is lower than in the mature markets. We are prioritizing growth in selected emerging markets such as China, South-east Asia, Latin America, Eastern Europe and Russia, where we already have strong market positions. In emerging markets, which accounted for 35% of net sales, organic net sales increased 5.9% in 2018.

Profitable growth

Essity creates value through profitable growth. Every product category in each market must generate a certain level of profitability if growth is to create value. In 2018, we continued work with Cure or Kill, a plan to improve profitability for underperforming market positions. We prioritize growth in product categories with the highest margins and our ambition is that these will account for an increasing share of Essity's net sales. This means we are focusing on growth in Incontinence Prod-

ucts, Medical Solutions, Feminine Care and Professional Hygiene while prioritizing improved margins in Consumer Tissue and Baby Care. In addition to organic growth, Essity has the ambition to grow through acquisitions.

Expanding the customer offering

To grow our product categories and strengthen market positions, we work continuously to improve and expand our customer and consumer offering. For example, Essity offers wet wipes, skincare products and soap. Expanding the customer offering is also about providing service and solutions to customers and consumers and developing digital solutions.

Focus on customers and consumers

Essity's products and services help to simplify everyday life for hundreds of millions of people. To succeed, we have to understand the needs, challenges and expectations of our customers and consumers. Customer understanding and consumer insight determine the innovations we develop and how we deliver finished products or services to the market.

Continuous customer and consumer dialogue

Important competitive advantages for Essity are our understanding, knowledge and insight into the needs and purchasing behavior of customers and consumers as well as our global expertise, strong customer relations and knowledge of local and regional market conditions. To understand the needs and expectations, we engage in a continuous dialogue with customers, consumers and patients. We study the world around us to identify trends and new needs. Our sales representatives provide us with insight about our customers

and we conduct regular customer satisfaction surveys. We engage in a dialogue with consumers through focus groups and in-depth interviews. We observe consumer and customer behavior, for example, through home visits. We also gain insight into the needs of consumers and their perceptions of our products by following the discussions on our websites, such as www.libero.com, www.libresse.com and www.tena.com, and on social media.

Digital sales and marketing

By developing market-leading digital solutions in hygiene and health, we improve our offering to customers and consumers. One example is our webshops for incontinence products. The TENA Webshop for consumers is available in 21 countries. The webshop is a strategic sales channel to increase knowledge about incontinence, drive market penetration and provide us with further consumer insight. In 2018, the webshop was further developed and adapted for mobile phones.

Examples of awards in 2018

"Innovation Award"

from Sodexo Supply Management for Tork EasyCube®

"Supplier of the Year"

from Network, an organization with 75 independent distributors in North America

"Cornerstone Partner Award"

from Gordon Food Service (GFS) in North America

"Guldnyckeln"

to Libresse's digital marketing campaign The Period Challenge

"Best Brands 2018"

awarded by the German newspaper Lebensmittel Zeitung to Tempo and Zewa

"Best Toilet Paper – Zewa Just1"

"Best Daily Feminine Liners – Libresse Dailyfresh"

from A.S. Watson Group at the "Consumers' Choice" ceremony in Russia



TENA Complete™ is a high-quality and cost-efficient incontinence product that improves for users and caregivers.



Innovate bigger brands

Successful innovations and strong brands go hand in hand. During 2018, Essity launched 29 innovations that simplify everyday life for people and strengthen Essity's brands and market positions. Essity's innovation strategy is to consistently deliver better, safer and more environmentally sound products and services to our customers and consumers. We intend to increase the pace and impact of our innovations as well as capitalize on global economies of scale and ensure that we have a competitive portfolio of innovations.

Innovation for a sustainable and circular society

During the year, Essity's unit with global responsibility for customer and consumer brands and innovation was given a new name: Global Brand, Innovation and Sustainability. The unit now also covers sustainability and public affairs, since innovation and product development are crucial for pursuing and improving our sustainability efforts. We are developing offerings and business models that promote a sustainable and circular society, both to meet the needs of our customers and consumers and to reduce our envi-

ronmental impact. We strive to develop better solutions for efficient recycling or composting of our products.

Digital applications

To increase customer and consumer benefit and to strengthen Essity's brands, digital offerings are developed in the various product categories. In Baby Care, for example, with the Libero brand, Essity developed a new app in 2018 that includes a pregnancy calendar, tips and facts from the Libero Club's own midwife, a parenting forum and the opportunity to create a photo album for the family.



Effective taboo-breaking marketing

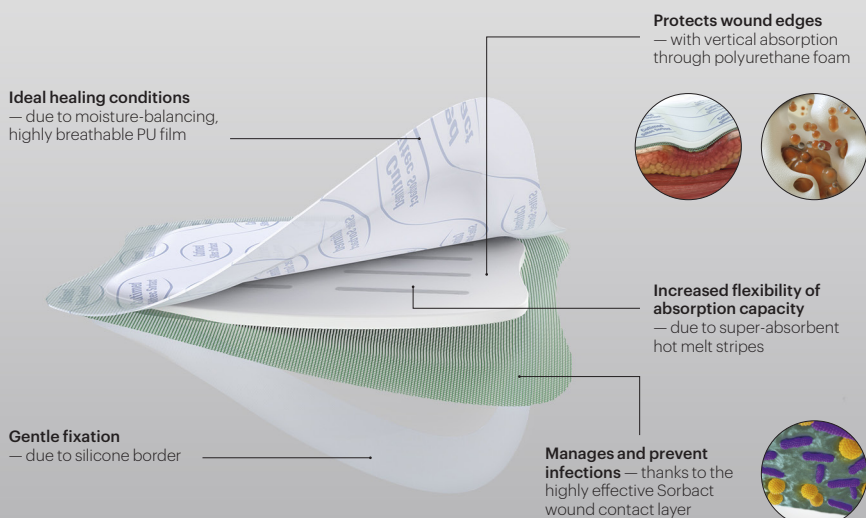
Essity's marketing is often about breaking taboos and stigma surrounding menstruation and incontinence. In 2018, Essity received more than 50 awards, including

Cannes Lions Titanium, Grand Prix Glass Lion for Change and Grand Prix of Excellence at the Marketing Society, for the #bloodnormal advertising campaign. This marketing was a joint initiative for our various Feminine Care brands and had one mission: to break the taboos surrounding menstruation and that are holding back women. We are running the campaign in Mexico under the Saba brand, in the UK under Bodyform and in Malaysia under Libresse.

Awards and initiatives

In 2018, Essity won the "Technological Innovation of the Year" award for the Tork EasyCube® and the "Best Practice: Sustainability" award for Tork PaperCircle™ at the European Cleaning & Hygiene Awards. These are examples of how Essity's innovation efforts drive increased customer benefit and reduced environmental impact.

Essity joined the Ellen MacArthur Foundation's New Plastic Economy Global Commitment "A line in the sand" in 2018, where we are working toward 100% recyclability of the company's packaging by 2025.



Cutimed® Siltec® Sorbact® should be the first choice for chronic wounds that require a combination of infection control and exudate management. Cutimed® Siltec® Sorbact® has no known side effects and is therefore a safe alternative to silver dressings. The effect is clinically proven and the product can also be used to prevent infection.



Drive efficiency

Essity is working to leverage global economies of scale and expertise to continuously increase efficiency in all parts of the business, from the supply chain to sales and administration. We are working to establish a world-class supply chain. By improving productivity, reducing material, energy and logistics costs and minimizing waste, we reduce our costs and improve our earnings at the same time as we reduce the environmental impact.

Safety first

Essity is working to nurture a culture where safety is top of mind and unsafe working conditions and behaviors are immediately reported and rectified in order to prevent accidents. Essity's aim is zero workplace accidents. Our employees continuously receive training so that everyone in the organization will be able to detect and eliminate hazards. In 2018, the theme of Essity's annual global safety week was "Everyone is a safety leader — so are you." During 2018, the accident frequency rate decreased by 1% and in 2014–2018 it fell by 39%. The target is to reduce the accident frequency rate by 50% between 2014 and 2020.

Digitalization for world-class production

During the year, we continued to implement digital solutions including self-regulating processes, smart sensors, data analyses and robotization and automation to improve product quality and efficiency.

Cost savings

We have intensified our efficiency improvements and restructuring of the business and achieved SEK 1,040m in cost savings during the year.

To improve efficiency and increase value creation in the Consumer Tissue and Professional Hygiene business areas, Tissue Roadmap was launched in 2016. The aim is to achieve the lowest cost position combined with the best quality in each market in which we choose to operate. As part of the Tissue Roadmap, we took decisions during the year on restructuring measures in Europe, North America and Latin America.

To improve profitability and strengthen long-term cost efficiency, Essity introduced a Group-wide cost-savings program in September 2018. The program is expected to generate annual cost savings of approximately SEK 900m, with full effect at the end of 2019. The cost-savings



Digital quality controls

In 2018, our Personal Care facility in Hoogezand, the Netherlands, has worked to replace the manual quality control of production lines with digital controls to improve both product quality and efficiency.

program is being implemented in all parts of the Group to reduce the cost base related to cost of goods sold and costs for sales, general and administration. The program includes headcount reductions of approximately 1,000 positions and is in addition to the efficiency initiatives already in progress in the company, for example Tissue Roadmap.

Reduced resource consumption

To achieve increased cost savings while contributing to a sustainable and circular society, Essity continued its work during the year on reducing material and energy use. The accumulated energy savings in the 2010–2018 period amounted to 8%.

New organization for increased efficiency

Changes were implemented to the company's organizational structure and

Executive Management Team in 2018. For example, the two units Global Hygiene Supply Tissue and Global Hygiene Supply Personal Care were merged into one unit, Global Manufacturing, with responsibility for production and technology. A new unit, Global Operational Services, was created in order to further strengthen the Group's overall work related to operational and cost efficiency. The unit encompasses sourcing, logistics, business services, IT and digitalization. The number of Group functions was reduced from six to four.