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The Board of Directors' Report and financial statements

The Annual and Sustainability Report 2019 for Essity Aktiebolag (publ) has been submitted by the Board of Directors and describes the company's overall objectives and strategies and earnings for the year. The aim is to describe the business from an economic, social and environmental perspective. The Board of Directors' Report and financial statements are presented on pages 6–8 and 22–126 and include the auditor's report. Pages 34–45 and 114–121 encompass Essity's statutory sustainability report according to the requirements stated in the Annual Accounts Act. The company's business model can be found on pages 12–13. The report was prepared in accordance with GRI Reporting Standards: Core. It also constitutes Essity's Communication on Progress (COP) to the UN Global Compact.



JOBST: A complete assortment of compression therapy solutions for venous and lymphatic conditions, from support compression for everyday life to medical wear.

Our business areas



Personal Care page 22



Consumer Tissue page 24



Professional Hygiene page 26

This is Essity

Essity is a leading global hygiene and health company. We improve people's well-being with our leading hygiene and health solutions. Sales are conducted in approximately 150 countries under the globally leading brands TENA and Tork, and other strong brands, such as JOBST, Leukoplast, Libero, Libresse, Lotus, Nosotras, Saba, Tempo, Vinda and Zewa. Essity is listed on Nasdaq Stockholm.



Net sales 2019
128,975 SEKm

Employees, approximately
46,000

Market capitalization
at Dec 31, 2019
212 SEKbn

Our strengths

Improving well-being and contributing to a sustainable and circular society	Essity's vision is: Dedicated to improving well-being through leading hygiene and health solutions. We achieve this by offering our solutions to more people around the world, by constantly improving our customer and consumer offering and by promoting awareness of hygiene and health. We develop production, offerings and business models to contribute to a sustainable and circular society, which also creates new business opportunities for Essity. We have the highest MSCI ESG rating.
Strong brands and successful innovations	Essity is the global market leader in incontinence products with the TENA brand and in professional hygiene with the Tork brand. We also have strong brands and market positions in the markets for baby care, feminine care, medical solutions and consumer tissue. Important aspects of our innovation work are to develop market-leading digital solutions and contribute to a sustainable and circular society.
Leading positions in an attractive market	Essity has sales in approximately 150 countries. We hold the number one or number two position within at least one product category in approximately 90 countries. Several trends in our external environment are favorable for Essity's growth, such as a growing and aging population, higher disposable income, increased access to health care and greater awareness of hygiene and health.
Sustainable business model with profitable growth	Using a sustainable business model and a focus on profitable growth, Essity strives to achieve Group targets relating to organic sales growth, profitability and sustainability and to generate long-term value creation. Over the past five years, Essity's net sales has increased 47% and the annual increase in organic net sales ¹⁾ amounted to 3.6%. Over the same period, adjusted EBITA ²⁾ rose 67% and the adjusted EBITA margin ²⁾ increased 1.5 percentage points.
A high-performing organization with a winning corporate culture	Essity has a winning corporate culture characterized by courage, care, collaboration and commitment to results. Our employees receive training in our Code of Conduct to pursue operations in a responsible manner, which benefits the company, society and the environment. Essity was named Sweden's most attractive employer in 2019 ³⁾ .
Focus on efficiency improvements and cost savings	Essity continuously works to improve efficiency in order to strengthen competitiveness, improve financial performance and reduce environmental impact. We are leveraging digitalization, innovation, global economies of scale and knowledge sharing to create a world-class value chain.

¹⁾ Net sales excluding exchange rate effects, acquisitions and divestments. ²⁾ Excluding items affecting comparability. ³⁾ By the recruitment and staffing agency Randstad.

2019 at a glance

Key events

Successful innovations and marketing campaigns

Successful innovations have increased customer and consumer value while decreasing the environmental impact. Innovations were launched in all of Essity's product categories. Essity has received several awards for innovative solutions and marketing campaigns.

SEK 13bn in online sales

Online sales increased to approximately SEK 13bn, corresponding to about 10% of net sales.

Group-wide cost-savings program

The Group-wide cost-savings program, which was launched in September 2018, has been concluded and at the end of 2019 savings amounted to slightly above SEK 900m on an annualized basis.

Divestment of the jointly owned company in Turkey

Essity has exited the Baby Care segment in Turkey through the divestment of its 50% stake of the jointly owned company SCA Yildiz.

Investments in sustainable alternative fiber technology

A decision was taken to invest approximately SEK 400m in an integrated facility for the production of pulp based on alternative fibers from plant-based agricultural by-products.

UN Foundation and Essity convene Global Dialogue

As part of our efforts to break barriers to well-being that are linked to hygiene and health and to contribute to achieving the global sustainable development goals, Essity was convening partner for the fourth consecutive year for the UN Foundation's Global Dialogue at the UN headquarters in New York.

Additional sustainability targets for packaging

Essity strives for 100% recyclability of packaging and has set additional packaging targets, for example that 85% of the company's packaging is to be manufactured from renewable or recycled material by 2025. The new targets are part of Essity's commitment within the framework of the Ellen MacArthur Foundation's plastics initiative "New Plastic Economy" where Essity is an active member.



Key figures

Organic net sales, which exclude exchange rate effects, acquisitions and divestments, increased 4.5%, of which volume accounted for 2.3% and price/mix for 2.2%. Organic net sales increased 2.1% in mature markets and increased 9.1% in emerging markets. Emerging markets accounted for 37% of net sales.

Adjusted operating profit before amortization of acquisition-related intangible assets (adjusted EBITA), increased 22% (16% excluding currency translation effects, acquisitions and divestments) to SEK 15,840m (12,935). The adjusted EBITA margin rose 1.4 percentage points to 12.3%.

Net sales
128,975 SEKm

Organic net sales¹⁾
+4.5%

Operating cash flow
15,639 SEKm

Adjusted EBITA²⁾
15,840 SEKm

Adjusted EBITA margin²⁾
12.3%

Adjusted return
on capital employed²⁾
13.8%

Adjusted earnings per share³⁾
14.69 SEK

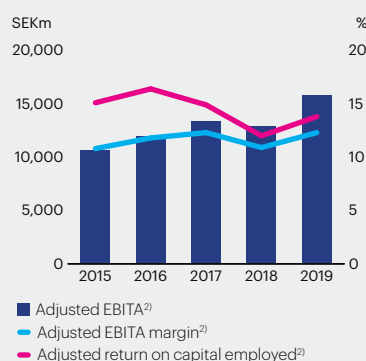
Earnings per share
13.12 SEK

Proposed dividend per share⁴⁾
6.25 SEK

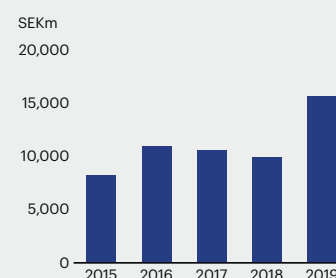
Net sales



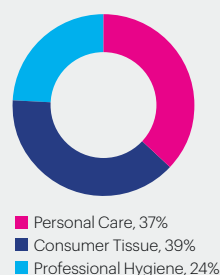
Earnings trend



Operating cash flow



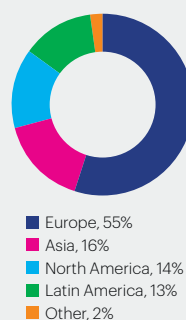
Net sales by business area



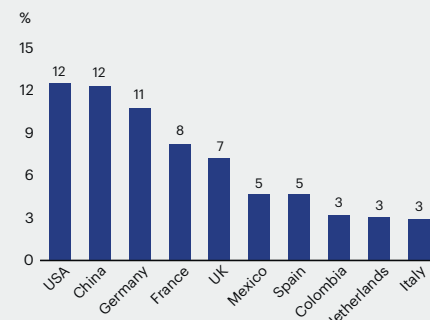
Net sales by distribution channel



Net sales by region



The Group's largest markets, % of net sales



¹⁾ Excluding exchange rate effects, acquisitions and divestments. ²⁾ Excluding items affecting comparability.

³⁾ Excluding items affecting comparability and amortization of acquisition-related intangible assets. ⁴⁾ Board of Directors' dividend proposal.

Strengthened competitiveness yields higher earnings

2019 was a year of strong growth and improved profitability. Through price increases, improved product mix, higher volumes and cost savings, we have more than offset the significant headwinds over the past two years from higher raw material costs. Successful innovations and investments in sales and marketing have strengthened market positions and brands. As part of ongoing efforts to contribute to a sustainable and circular society, we established additional sustainability targets for packaging with a special focus on plastic packaging. We are working actively to break barriers and increase knowledge of hygiene and health.

Strong growth and higher earnings

In 2019, the Group's organic net sales increased 4.5% and net sales amounted to approximately SEK 129bn. All business areas reported good growth. Adjusted EBITA increased 22% and the adjusted EBITA margin rose 1.4 percentage points to 12.3%. Price increases, a better product mix, higher volumes and cost savings had a positive impact on earnings. The adjusted return on capital employed rose by 1.8 percentage points to 13.8%. Earnings per share increased 17% to SEK 13.12. The Board of Directors proposes an increase in the dividend of 9% to SEK 6.25 per share.

Clear strategy

Our portfolio strategy provides a clear prioritization of the different categories and geographies for profitable growth. We have therefore prioritized investments

in innovation and sales and marketing for market positions with high profitability. Activities to improve underperforming market positions continued and resulted in improved profitability in several markets.

Successful innovation activities have increased customer and consumer value and decreased the environmental impact. For example, during the year Tork Xpressnap Fit® was launched, a new napkin dispenser system, and TENA Silhouette, an incontinence product with superior protection that is similar to normal underwear.

During the year, we achieved cost savings of approximately SEK 1.1bn, of which SEK 456m was related to continuous cost savings and SEK 637m to the Group-wide cost-savings program. The program has been concluded and at the end of 2019, savings amounted to slightly above SEK 900m on an annualized basis. Through operational efficiency improvements, material rationalization and sourcing savings, we have achieved a more cost-efficient value chain.

Strong presence in emerging markets

We have a strong presence in China, Southeast Asia, Latin America, Eastern Europe and Russia. Emerging markets accounted for 37% of net sales, and organic net sales increased by 9.1%. In Latin America, we strengthened our market positions and organic net sales increased 10%. In China, our Asian subsidiary Vinda strengthened its position as market leader in tissue and launched Feminine Care with the Libresse brand during the year. In Asia, organic net sales increased 11%. Our ambition is that emerging markets will continue to grow as a share of net sales and earnings in the future.

Sustainable solutions

Climate change has become even clearer in 2019. Essity has for many years worked with sustainability throughout our value chain: from responsible raw material sourcing, more efficient production with a smaller climate footprint, and sustainable solutions to customers and consumers. We have Group targets for the climate impact of innovations, materials and production. Our ambitious targets to reduce carbon emissions have been verified by the Science Based Targets initiative and are in line with the ambition of the Paris agreement to limit global warming. We



Tork Xpressnap Fit® was launched during the year and is a new napkin dispenser system for restaurants and cafés that offers greater efficiency with its compact design and serves more guests between refills.

have packaging targets that mean at least 85% of the company's packaging is to be manufactured from renewable or recycled material by 2025. The new targets are part of Essity's commitment within the framework of the Ellen MacArthur Foundation's plastics initiative "New Plastic Economy" where Essity is an active member.

At the same time, we will continue to grow and this places demands on the need to make a transition and on new production methods and circular business models. Our investment in sustainable alternative fiber technology for tissue manufacturing is one example of this.

We also help our customers become more sustainable and circular. With our world-leading Tork brand, we launched tissue dispensers that reduce consumption while maintaining functionality. Essity's Tork Papercircle®, the world's first recycling service for paper hand towels, is one example of a unique circular offering that a growing number of customers joined in 2019.

Contribution to the UN Sustainable Development Goals

Our leading hygiene and health solutions contribute toward the UN's goal for health and well-being. We support the UN Global Compact, a call for companies to adapt their strategies and operations to international principles concerning human rights, labor law issues, environment and anti-corruption.

We are working actively to break barriers and increase knowledge of hygiene and health, and activities during the year included educating children and young people in matters relating to hygiene.

Digital progress

Digitalization is rapidly changing purchasing behavior and the boundaries between different sales channels are being erased. We are developing our offerings to ensure they are available and attractive regardless of channel and platform with the aim of gaining a larger market share online than offline. Our online sales increased in 2019 by 16% to approximately SEK 13bn, corresponding to about 10% of net sales. We are also attracting customers through our digital solutions: Tork EasyCube, the first software solution for data-driven cleaning, and TENA Identifi, a digital solution that is revolutionizing continence care in

elderly care operations. Digital solutions in production and logistics have increased efficiency, product quality and delivery reliability.

Employees drive successful change

Our employees are essential for our success and we strive continuously to develop the corporate culture and leadership as well as promoting lifelong learning to create the best possible conditions for continued success. Our corporate culture is characterized by care for customers, consumers, society and the environment as well as by courage, collaboration and commitment to results.

Strengthened competitiveness

At Essity, we work every day to create value for our customers, consumers and

shareholders and to contribute to a circular society and develop our employees. Improved earnings and cash flow have strengthened the balance sheet, which means we can again grow through acquisitions, with Medical Solutions as one prioritized area. Together with my colleagues around the world, I look forward to continuing to strengthen our competitiveness and striving for an even more successful and value-creating Essity.

Magnus Groth
President and CEO



“Successful innovations have strengthened our market positions and brands.”