

Business areas

Personal Care



Personal Care includes the Incontinence Products, Medical Solutions, Baby Care and Feminine Care product categories. The offering includes incontinence products, baby diapers, pads, panty liners, tampons, wet wipes, skincare products and digital solutions with sensor technology, as well as products and services in wound care, compression therapy and orthopedics.

Consumer Tissue



Consumer Tissue includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes, napkins and face masks.

Professional Hygiene



Professional Hygiene includes complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand sanitizer, dispensers and digital solutions, such as Internet of Things sensor technology that enables data-driven cleaning, as well as face masks.



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■ The Board of Directors' Report and financial statements

The Annual and Sustainability Report 2020 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 8–10 and 24–132 and include the auditor's report. Essity's Sustainability Report is prepared in accordance with GRI Reporting Standards: Core, SASB Household & Personal Products Standard and includes disclosures based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); for index refer to pages 133–134. It also constitutes Essity's Communication on Progress (COP) to the UN Global Compact. Pages 36–51 and 119–127 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 page 15.

Essity's strengths

Long-term value creation through profitable growth

- › Improves well-being through leading hygiene and health solutions
- › Favorable market trends
- › Increases customer and consumer benefits through successful innovations
- › Strong market positions and brands
- › Digital transformation and strong growth in e-commerce
- › Expansion in emerging markets
- › Focus on efficiency improvements and cost savings
- › Clear category and portfolio strategy
- › Strives toward a sustainable and circular society
- › High-performing organization with a winning culture



2020 in figures

Sales in approximately

150 countries

Employees, approx.

46,000

Market capitalization,
December 31, 2020

186 SEKbn

Net sales

121,752 SEKm

Organic net sales¹⁾

-1.9%

Operating cash flow

16,018 SEKm

Adjusted EBITA²⁾

17,626 SEKm

Adjusted EBITA margin²⁾

14.5%

Adjusted return on
capital employed²⁾

15.7%

Adjusted earnings per share³⁾

15.45 SEK

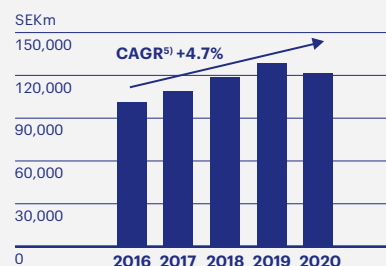
Earnings per share

14.56 SEK

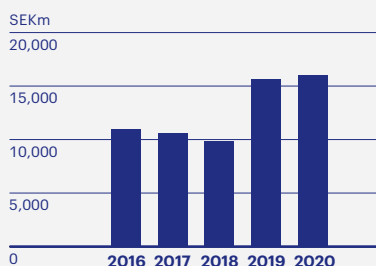
Proposed dividend per share⁴⁾

6.75 SEK

Net sales



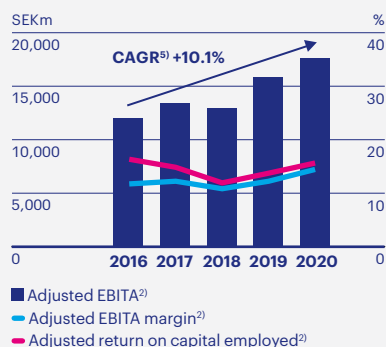
Operating cash flow



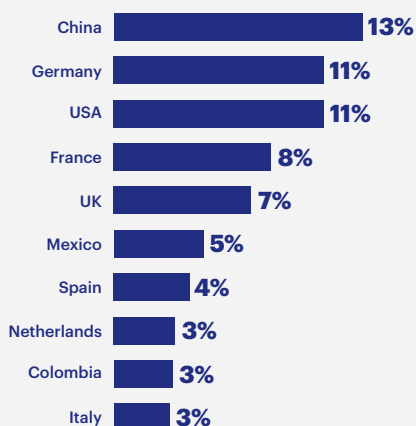
Net sales by business area



Earnings trend



The Group's largest markets, % of net sales



Net sales by distribution channel



E-commerce sales accounted for 13% of net sales.

Net sales by region



¹⁾ Net sales 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.

⁵⁾ Compound Annual Growth Rate.

2020 at a glance

Key events

Progress in hygiene and health, innovation, e-commerce, digitalization and sustainability strengthens Essity for the future.

COVID-19 pandemic

The COVID-19 pandemic has had a major impact on people and the global economy. Essity has had three overall priorities during the pandemic: care for our people, contribute to society and secure business success. Essity has worked to promote a better global hygiene and health standard by safeguarding production and deliveries and continuing to develop customer and consumer offerings. For example, we invested in production of face masks and increased hand sanitizer delivery capacity. We support the WHO COVID-19 Solidarity Response Fund and several local initiatives. Our business areas were impacted both negatively and positively. For Professional Hygiene and Personal Care, the lockdowns and restrictions led to a temporary decrease in demand. Demand for Consumer Tissue, however, was positively impacted by the fact that consumers were spending more time at home. Greater awareness of the importance of hygiene and health is positive for Essity.

Higher market shares and increased e-commerce

Essity has gained market shares in many markets due to high delivery reliability and successful product launches, in addition to increased activity and a strengthened presence in digital sales channels. The Group's e-commerce sales increased to approximately SEK 15bn, corresponding to about 13% of net sales.

Innovations for improved quality of life and reduced environmental impact

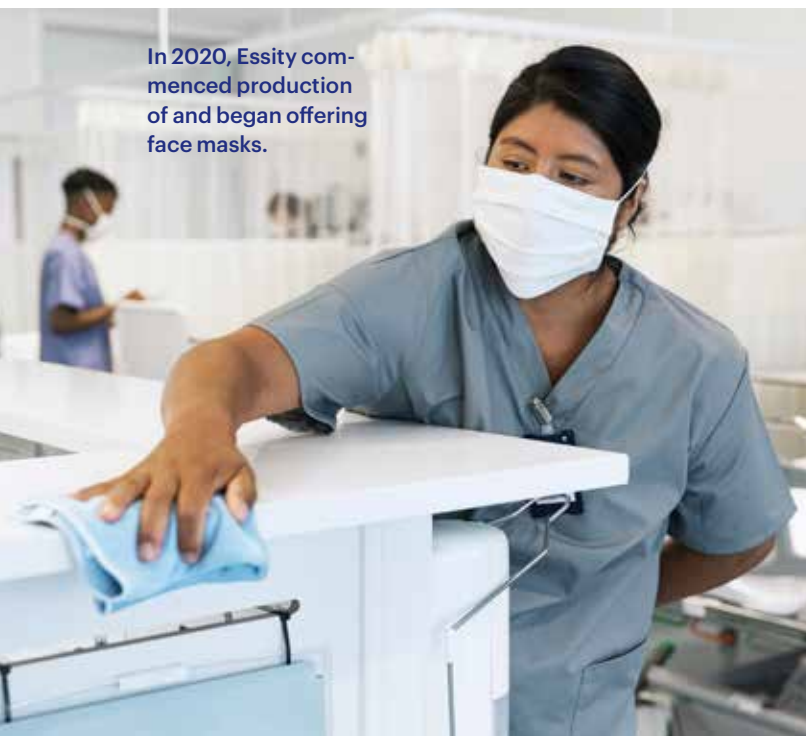
During the year, Essity launched several innovations that strengthened its customer and consumer offering, improved its product mix and reduced its environmental impact. Examples include the launch of washable absorbent underwear under the SABA and Nosotras brands, TENA SmartCare, which is a digital solution for continence care, and face masks under the Colhogar, Lotus, Tempo, Zewa and Tork brands.

Two acquisitions and one divestment

Essity acquired 75% of the Swedish medical solutions company ABIGO Medical AB. The company develops, manufactures and markets products including the Sorbact® technology for advanced wound care. ABIGO Medical as a whole is valued at SEK 900m on a debt-free basis. We also strengthened our continence care offering through the acquisition of Novioscan, which develops smart ultrasound technology for monitoring the bladder. The purchase price was approximately SEK 70m on a debt-free basis.

Essity divested its 49% stake in the company Sancell Tunisia, which offers a range of Essity's products and brands in Tunisia, Algeria, Morocco and Libya. Essity will retain a presence in these markets through license and distribution agreements.

In 2020, Essity commenced production of and began offering face masks.



In Feminine Care, Essity launched washable absorbent underwear, offering the user a more sustainable alternative to disposable products.

Raised target for adjusted return on capital employed to above 17% by 2025

The target for adjusted return on capital employed was raised to above 17% by 2025. The previous target was above 15% and was achieved in 2020. The raised target will be achieved through the continued execution of Essity's existing strategy, an accelerated digital transformation and further streamlining of production, logistics and distribution. Other financial targets remain unchanged.

Acceleration of Essity's digital transformation

Essity's digital transformation will accelerate in the years ahead through a new digital platform. This will further strengthen the Group's customer and consumer offerings, generate significant cost savings and reduce the need for working capital. This digital investment is expected to amount to approximately SEK 2.6bn. Of this amount, approximately SEK 1.4bn will comprise costs that will be charged to the 2020–2024 period, and about SEK 1.2bn will comprise capital expenditures. A positive sales and earnings impact is expected gradually from 2022. In the short term, costs are expected to be offset by savings in other areas.

Manufacturing Roadmap launched

The new Manufacturing Roadmap program will optimize and streamline all of Essity's approximately 60 wholly owned facilities for world-class cost efficiency, quality and service levels. The program also encompasses logistics and distribution. Moreover, the program contributes to Essity's sustainability target relating to the reduction of carbon emissions in line with the Science Based Targets initiative.

Inclusion in Dow Jones Sustainability Index and in CDP's A List

Essity was included in the Dow Jones Sustainability Europe Index, one of the world's most prestigious sustainability indexes, in the Household Products category. Furthermore, Essity was recognized for its leadership in corporate sustainability by global environmental non-profit CDP, securing a place on its prestigious 'A List' for the company's action to tackle deforestation and to source more sustainable commodities.

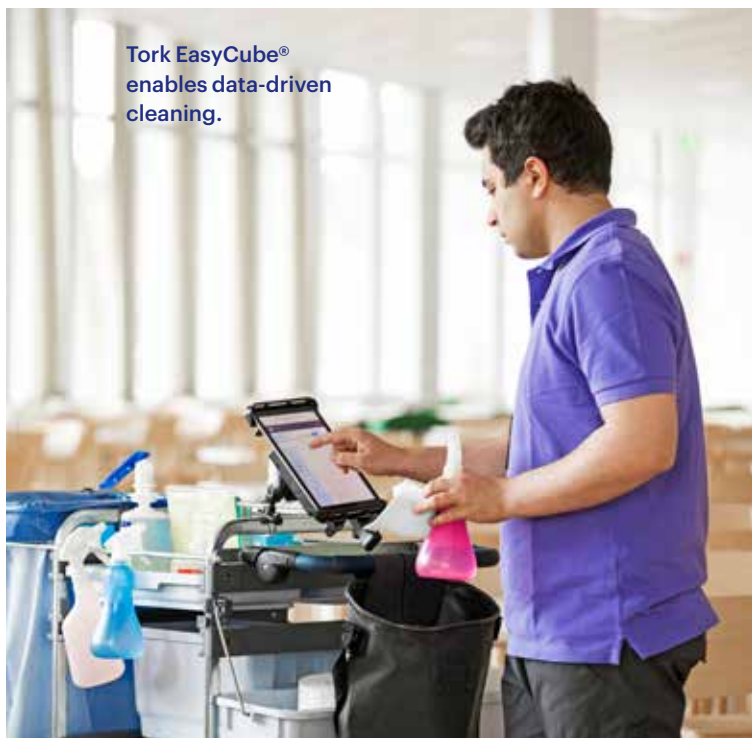
One of the world's most sustainable companies

Essity has been recognized as one of the world's 100 most sustainable companies by Corporate Knights. The list was announced in conjunction with the World Economic Forum Annual Meeting. Corporate Knights has analyzed and compared 8,080 companies with a minimum gross revenue of USD 1bn against global industry peers.

Convening partner to the annual United Nations Foundation's Global Dialogue

In 2020, Essity was once again a convening partner to the United Nations Foundation's annual Global Dialogue on the Sustainable Development Goals (SDGs). In conjunction with the meeting, Essity launched the seventh edition of the Hygiene and Health Report compiled in collaboration with UN body Water Supply and Sanitation Collaborative Council (WSSCC). In addition to a speech from Essity's President, a representative from Essity's Health and Medical Solutions business unit spoke about anti-microbial resistance.

Tork EasyCube®
enables data-driven
cleaning.



TENA SmartCare – The more we connect, the better we care.

Highest profits ever

During 2020, the COVID-19 pandemic had a major impact on people and the global economy. Essity has had three priorities: care for our people, contribute to society and secure business success. COVID-19 and related lockdowns and restrictions had a negative impact on Essity's sales. Nonetheless, in 2020, Essity achieved its highest operating profit (EBITA) and its highest EBITA margin ever. Vaccinations have started and market conditions will gradually improve. As a company, we are emerging from this stronger. Our vision to improve well-being through leading hygiene and health solutions is more important than ever.

Higher return target and dividend

In 2020, we achieved the target for adjusted return on capital employed and, accordingly, the target was raised to above 17% by 2025. This target will be achieved through continued focus on profitable growth, accelerated digital transformation and further efficiency improvement of sourcing, production, logistics and distribution.

The original dividend proposal for the 2019 fiscal year was withdrawn in the spring of 2020 as a consequence of the major uncertainty surrounding COVID-19. Since Essity displayed continued strong cash flow, a robust balance sheet and financial flexibility in 2020, a resolution was passed at an Extraordinary General Meeting in October to pay a dividend of SEK 6.25 per share. The Board of Directors proposes an 8% increase in the dividend to SEK 6.75 per share for the 2020 fiscal year.

Innovative offerings and medical technology acquisitions

2020 was a strong year of innovation for Essity. We are making use of sensors and new technology to deliver digital solutions that simplify and improve everyday life for customers and consumers. During the year, TENA SmartCare was launched, a reusable sensor that can easily be attached to the outside of a TENA product and notifies the caregiver or family member via an app when the product needs to be changed. COVID-19 has placed higher demands on hygiene and health and we have strengthened our offering to help people to manage the new challenges of everyday life. For example, we broadened our offering to include face masks and increased supply capacity for hand sanitizer.

Acquisitions are one way of further broadening our offering. Through the acquisition of medical solutions company ABIGO Medical AB, Essity owns the unique Sorbact® technology for advanced wound care. We also acquired Novioscan, which is developing a wearable ultrasound sensor for the bladder and provides the user with a discrete notification via an app when it is time to visit the bathroom.

Digitalization and efficiency

We have been investing in digitalization in all areas of the business for several years. From increased automation and robotization of production, logistics and administration to digital offerings and a strong platform for e-commerce. These investments were a major contributing factor to Essity's high level of delivery reliability during the pandemic. We had the infrastructure in place for the rapid shift to a more digital world. We are now increasing our digital initiatives and investing in a new digital platform. This investment is expected to increase our sales through an even better customer and consumer experience in the form of enhanced

flexibility, speed and accessibility. It also enables further efficiency enhancement of sourcing, production, logistics and distribution, which is expected to lead to cost savings and a reduced need for working capital. The initiative goes hand in hand with our new Manufacturing Roadmap program with the aim of optimizing and streamlining all of Essity's approximately 60 wholly owned facilities for world-class cost efficiency, quality and service levels.

Higher market shares and increased e-commerce sales

Through high delivery reliability, successful product launches and strong brands, in addition to increased activity and a strengthened presence in digital sales channels, we have gained market shares for more than 60% of our branded positions in the retail trade. Increasing numbers of people have started to shop online during the pandemic, which has favored Essity's strong brands. The Group's e-commerce sales increased to approximately SEK 15bn, corresponding to approximately 13% of net sales.

Increased sales and profitability in emerging markets

We have a strong presence in China, Southeast Asia, Latin America, Eastern Europe and Russia. In emerging markets, which accounted for 37% of net sales, organic net sales increased by 2.6%. In addition, the adjusted EBITA margin increased 2.7 percentage points to 12.9%. Our ambition is that emerging markets will continue to grow as a share of net sales and earnings.

Highest operating profit and margin ever

In 2020, Essity achieved its highest operating profit (EBITA) and its highest EBITA margin ever. This was the result of successful product launches under our strong brands, higher market shares, improved profitability in emerging markets, lower raw material and energy costs, continued efficiency and digitalization of the business, as well as reduced resource consumption. Continuous cost savings amounted to SEK 1.1bn. Adjusted EBITA increased 11% and amounted to SEK 17,626m, while the adjusted EBITA margin rose 2.2 percentage points to 14.5%. The adjusted return on capital employed rose by 1.9 percentage points to 15.7%. Earnings per share increased 11% to SEK 14.56.

As a result of the COVID-19 pandemic and the related lockdowns and restrictions, Essity's organic net sales declined 1.9% in 2020 and net sales amounted to approximately SEK 122bn. Organic net sales in the retail trade increased 3.4%. For Professional Hygiene and Personal Care, the lockdowns and restrictions led to a temporary decrease in demand. Demand for Consumer Tissue, however, was positively impacted by the fact that consumers were spending more time at home. The requirements for high hygiene standards at home and outside the home have increased, which is positive for the demand for our solutions. During the year, for example, we



Our employees have shown an amazing commitment and ability to quickly adapt to help raise the global hygiene and health standard and position Essity for future growth.

saw higher demand for our offerings of soap, hand sanitizer and dispensers. In Medical Solutions, we improved our underlying growth.

Climate transition

In our efforts to reduce climate impact, Essity strives to raise the share of recycled and renewable materials, increase the recycling of products, and launch more products that can be reused. One example of this is our launch of washable absorbent underwear during the year. Under "Pure Natural", toilet paper, handkerchiefs and facial tissues were launched with an extra soft quality. The tissue is made of certified fiber, of which about 30% is unbleached. The plastic packaging is recyclable and 30% of it is made from recycled plastic.

We are working to achieve a world-class sustainable value chain with three focus areas: reduce the use of fossil fuels and electricity, improve product design and optimize resource utilization. Our targets to reduce carbon emissions are approved by the Science Based Targets initiative and, between 2016 and 2020, we reduced our Scope 1 and 2 carbon emissions by 11%. During 2021, we are starting the production of tissue from wheat straw at our facility in Mannheim, Germany. It is a good example of ground-breaking production that generates a significantly lower climate impact while retaining quality.

Essity is working actively to identify and minimize climate-related risks. We report our conclusions based on the recommendations in TCFD on pages 42–43. We have also extended our sustainability reporting to comply with the SASB Household & Personal Products Standard.

Sustainability awards and the UN SDGs

In 2020, Essity was included in the Dow Jones Sustainability Europe Index, one of the world's most prestigious sustainability

indexes, in the Household Products category and secured a place on the CDP's prestigious 'A List' for the company's action to tackle deforestation and to source more sustainable commodities. Essity has also been recognized as one of the world's 100 most sustainable companies by Corporate Knights.

Essity was a convening partner to the United Nations Foundation's annual Global Dialogue, where we discussed with our customers how we can contribute to the UN Sustainable Development Goals (SDGs). We support the UN Global Compact.

Diversity and cooperation our strength

In 2020, our employees showed an amazing commitment and ability to quickly adapt to deliver our important solutions to customers and consumers and to help raise the global hygiene and health standard and position Essity for future growth. By applying rapid and concrete measures and delegated responsibility, we quickly found a way to protect our employees' health, while also maintaining production. The strong earnings reported for 2020 is confirmation of the competent and professional organization we have. I am proud of the culture we have at Essity, where each individual is important, as is the cooperation between us. We value and work to promote increased diversity and inclusion. It makes us stronger when we are different and contribute our unique expertise, background and experience.

Priorities in 2021

Vaccinations have started and market conditions will gradually improve. In 2021, we will work to accelerate growth in Personal Care and prepare for a strong comeback in Professional Hygiene. Within Consumer Tissue, work is continuing to improve structural profitability. Continued digital transformation, the Manufacturing Roadmap and further acquisition opportunities support our strategy for profitable growth. We will continue to lead in the area of sustainability and contribute to the UN Sustainable Development Goals. Together, we make improvements for people and the environment, and create value for our shareholders, customers, consumers, society and employees.

Magnus Groth

President and CEO