

SCA's business areas



PERSONAL CARE

Personal Care develops, produces, markets and sells incontinence products, baby diapers and feminine care products.

Pages **48–53**



TISSUE

Tissue develops, produces, markets and sells consumer tissue and AfH tissue.

Pages **54–59**



FOREST PRODUCTS

Forest Products develops, produces, markets and sells solid-wood products, pulp, kraftliner, publication papers, pellets and other biofuels as well as district heating and green electricity.

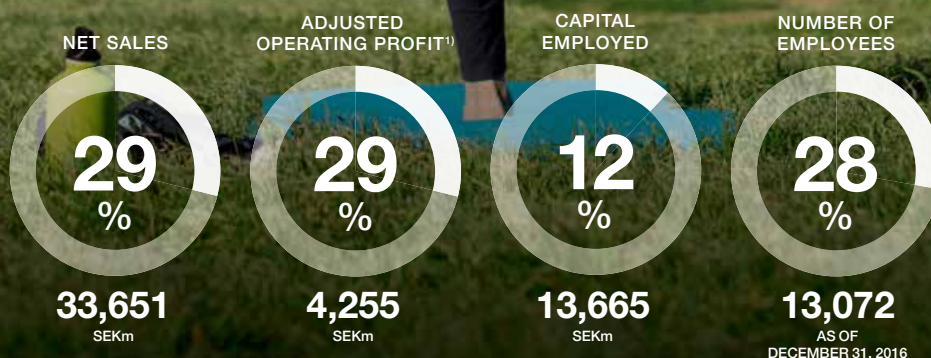
Pages **60–65**

Personal Care

SCA is a global leader in personal care. The company develops, produces, markets and sells incontinence products, baby diapers and feminine care products. Within these product segments, SCA also offers such products as wet wipes, soap, lotion, baby oil and cotton pads. The products are sold under SCA's global and regional brands, such as Libero, Libresse, Nosotras, Saba and TENA, as well as under retailers' brands. Distribution channels for the products are the retail trade, online sales, pharmacies and care institutions.



Share of Group 2016



¹⁾ Excluding items affecting comparability.

Operations in 2016

Net sales

SEK 33,651m

Adjusted operating profit¹⁾

SEK 4,255m

Adjusted operating margin¹⁾

12.6%

Net sales decreased by 2% to SEK 33,651m (34,344). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased by 3%, of which volume accounted for 2% and price/mix for 1%. The divestment of the baby diaper business in South Africa decreased net sales by 1%. Organic sales increased by 2% in mature markets and by 3% in emerging markets. Emerging markets accounted for 41% of net sales. Exchange rate effects decreased net sales by 4%.

For incontinence products, under the globally leading TENA brand, organic sales increased by 2%. Growth is attributable to emerging markets and Western Europe. For baby diapers, organic sales decreased by 1%. Western Europe showed high growth, while sales in emerging markets decreased. For feminine care products, organic sales increased by 10%, attributable to emerging markets and Western Europe.

The adjusted operating profit¹⁾ rose 7% (10% excluding currency translation effects and divestments) to SEK 4,255m (3,990). Profit was favorably affected by higher volumes, a better price/mix and cost savings. Higher raw material costs had a negative earnings effect. Selling costs were higher, and investments were made in increased marketing activities. The British pound and Mexican peso have weakened against several trading currencies, which had a negative earnings effect.

The adjusted operating margin¹⁾ was 12.6% (11.6).

The adjusted return on capital employed¹⁾ was 31.8% (29.2).

The operating cash surplus amounted to SEK 5,314m (5,018). Operating cash flow amounted to SEK 4,723m (3,792).

Capital expenditures amounted to SEK 1,896m (1,743).

¹⁾ Excluding items affecting comparability

Targets

- Annual organic sales growth of 5–7%
- Return on capital employed of 30% over a business cycle

Outcome 2016

Organic sales

+3%

Adjusted return on capital employed¹⁾

31.8%

Net sales by product segment



- Incontinence products, 53%
- Baby diapers, 28%
- Feminine care, 19%

SCA's sales to retailers' brands as a proportion of total sales:
Incontinence products, 1%
Baby diapers, 36%
Feminine care, 6%

Net sales by region



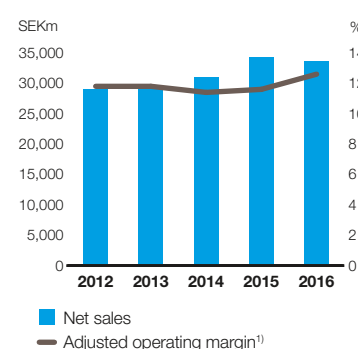
- Europe, 59%
- Asia, 11%
- North America, 8%
- Latin America, 19%
- Other, 3%

Key figures

SEKm	2016	2015
Net sales	33,651	34,344
Operating cash surplus	5,314	5,018
Change in working capital	289	-314
Current capital expenditures, net	-805	-840
Other operating cash flow	-75	-72
Operating cash flow	4,723	3,792
Adjusted operating profit ¹⁾	4,255	3,990
Adjusted operating margin, % ¹⁾	12.6	11.6
Capital employed	13,665	13,148
Adjusted return on capital employed, % ¹⁾	31.8	29.2
Strategic capital expenditures		
plant and equipment	-1,091	-903
company acquisitions/divestments	197	23
Average number of employees	13,154	12,688
No. of employees at Dec. 31	13,072	12,700

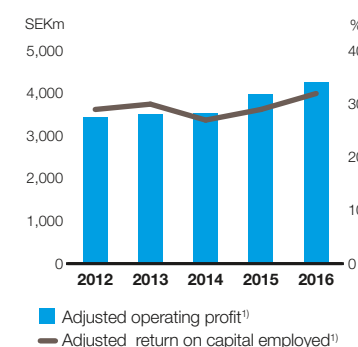
¹⁾ Excluding items affecting comparability.

Net sales and adjusted operating margin¹⁾



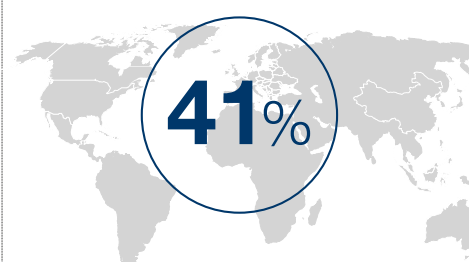
¹⁾ Excluding items affecting comparability. 2012 and 2013 restated in accordance with IFRS 10 and 11.

Adjusted operating profit and adjusted return on capital employed¹⁾



¹⁾ Excluding items affecting comparability. 2012 and 2013 restated in accordance with IFRS 10 and 11.

Emerging markets accounted for



of the business area's net sales in 2016. In emerging markets, organic sales increased by 3% in 2016.



In 2016, net sales in the Personal Care business area amounted to approximately SEK 34bn. The globally leading brand for incontinence products, TENA, is the largest brand in Personal Care, a “billion dollar brand” with annual net sales exceeding SEK 15bn. At the end of the year, SCA had production at 27 plants in 21 countries.

Market

Shifts in global demographics such as population growth – due primarily to a lower infant mortality rate and increased longevity – and higher disposable income point to continued favorable growth for personal care products. The effect of higher disposable income is that more people prioritize hygiene when food and housing needs have been, or are in the process of being, satisfied. Consequently, demand for personal care products is rising in emerging markets. The growth potential for personal care products is also greatest in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, improved infrastructure and the retail trade are evolving rapidly. One example of the lower market penetration in emerging markets is that the consumption rates for baby diapers and incontinence products per capita per year in Asia are only about one-fifth and one-sixth, respectively, of those in Western Europe. In mature markets, baby diapers and feminine care products have attained high market penetration. However, market penetration for incontinence products

in mature markets is still low for certain product segments, particularly among men. Market growth is positively impacted by global hygiene and health trends and increased awareness of the importance of hygiene to improve health and avoid diseases, especially in emerging markets. Incontinence, which is classed as a disease by the World Health Organization (WHO), affects 4–8% of the world’s population, corresponding to approximately 400 million people. Many indicators point to the proportion of people affected increasing on a global scale as a result of an aging population. By 2020, the population of the world over the age of 60 is expected to have increased by 13% and pass the one billion mark. The occurrence of incontinence among people over the age of 65 is expected to be between 15 and 20%.

During 2016, the European and North American markets for incontinence products in the health care sector showed higher demand, but with continued price pressure as a result of fierce competition. The European and North American retail markets for incontinence products showed high growth. Emerging markets showed higher demand for incontinence products. The global market for incontinence products was characterized by continued high competition. In Europe, demand for baby diapers and feminine care products was stable. In emerging markets, demand increased for baby diapers and feminine care products. The global market for baby diapers and several markets for feminine care products were characterized by increased competition and campaign activity.

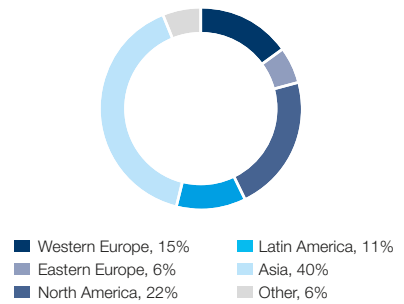
SCA’s competitors in personal care include Kimberly-Clark, Procter & Gamble and Unicharm.

SCA’s market positions

	GLOBAL	EUROPE	NORTH AMERICA	LATIN AMERICA	ASIA
Incontinence products	1	1	4	1	3
Baby diapers	4	2	–	6	6
Feminine care	6	3	–	1	12

Data is based on market data and SCA’s estimates.

Personal care products – global market



Data is based on market data and SCA’s estimates.



Examples of brands



Data is based on market data and SCA’s estimates.

SCA's business

INCONTINENCE PRODUCTS

Offering and market position: SCA offers a broad range of incontinence products under the TENA brand and is the global market leader. SCA's offering, which includes both products and services, improves the quality of life for consumers. They reduce costs for institutional customers, such as nursing homes. SCA's offering also includes an assortment of skincare products, wet wipes and wash gloves. Through TENA Solutions, SCA helps nursing homes provide the best care by offering procedures, analysis tools and training. The advantages include improved well-being for the care recipients, a better workplace environment for the care-givers, less resource consumption and lower overall costs.

SCA's global market share in incontinence products is approximately double that of the second largest player. SCA is the market leader in Europe, Asia (excluding Japan) and Latin America.

Strategy: SCA is prioritizing activities to strengthen TENA's global market-leading position by driving profitable growth and expanding at a faster rate than the market. Growth is to be achieved by increasing market shares and penetration and by broadening the customer offering by increasing sales in such segments as skincare products and wet wipes. Innovation activities are important and involve understanding customer and consumer needs in order to continuously enhance products and services and develop the offer-

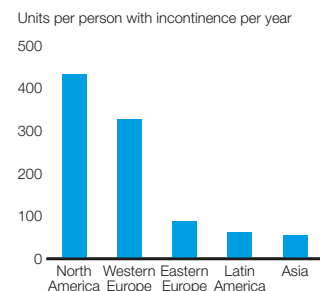
ing to further increase customer satisfaction and brand loyalty. In North America, the situation for SCA's TENA brand has been more challenging and the priority has been to achieve satisfactory profitability ahead of sales growth. Actions have been taken to reduce costs, discontinue unprofitable products and focus on fewer but more profitable products. For example, TENA Overnight Underwear was launched in North America in 2016.

Since incontinence is surrounded by social taboos in many regions of the world, it is vital to raise understanding and acceptance of the condition to enhance the quality of life for people suffering from incontinence. SCA does this by:

- Working actively to break the taboos surrounding incontinence and continuing to invest to increase market penetration by providing information and through marketing activities, training and global forums. Focusing in the retail trade on information, advertising and the development of increasingly discreet, comfortable, easy-to-use and effective products, always with customer and consumer benefits in mind.
- Arranging seminars and educational programs for nurses and professional care-givers within the scope of the health and medical care systems in various countries.
- Working with decision-makers and governments in different countries to help establish sustainable reimbursement systems.



Use of incontinence products



Data is based on market data and SCA's estimates.

Greater digital focus

Purchasing incontinence products online is both convenient and discreet. SCA's strategy is – through its TENA brand – to increase online sales of incontinence products to consumers. A greater digital focus also requires the use of digital solutions to improve efficiency, build customer and consumer loyalty, continuously develop SCA's e-commerce solutions to make it even easier to order incontinence products and create awareness of incontinence via social platforms, such as Facebook and

YouTube. For consumers, the benefits are easy-to-access information about incontinence and the opportunity to simply and discreetly order incontinence products from one of SCA's e-commerce partners or one of TENA's 17 e-commerce platforms worldwide. For customers and care providers, this creates an opportunity to offer services over and above the physical product. Examples of these include online training courses, home delivery of online orders and loyalty programs.





The Libero Club is a platform for discussion, advice and information. 75% of Libero's target audience in the Nordic region are members of the club. The Libero Club facilitates a dialog between Libero and parents as well as between the parents.

Libero
Klubben

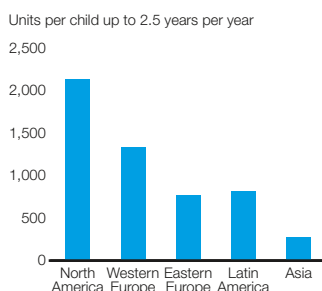
BABY DIAPERS

Offering and market position: SCA offers open baby diapers and pant baby diapers, as well as baby care products such as wet wipes, shampoo, lotion and baby oil. In Europe, SCA markets baby diapers under its own Libero brand and under retailers' brands. SCA is the world's fourth largest player in the segment and the second largest in Europe. SCA's strongest market is the Nordic region, where the Libero brand is the market leader. Examples of other strong regional brands are Drypers in Southeast Asia and Pequeñin in South America.

Strategy: SCA works to strengthen its branded positions in both mature and emerging markets and to improve the profitability in the baby diapers segment. The strategy is to hold the number one or two position in the selected markets in which SCA is represented. For baby

diapers, it is important to have a premium or super-premium product offering in order to be competitive. Through continuous innovation activities, SCA develops its customer offering for both its branded and retailer-branded product ranges. In 2016, the Libero brand launched a new premium offering, Libero Newborn and Libero Comfort. As part of efforts to address weak market positions with inadequate profitability, SCA closed its baby diaper operations in Mexico in the fourth quarter of 2016. The decision was also made in 2016 to discontinue the hygiene business in India, the majority of which was related to baby diapers. The discontinuation will take place in the first quarter of 2017.

Use of baby diapers



Data is based on market data and SCA's estimates.



FEMININE CARE

Offering and market position: In feminine care, SCA offers a broad product portfolio that includes pads, panty liners, tampons, intimate soaps and intimate wipes. SCA is the world's sixth largest player in the segment and the third largest in Europe. SCA is the market leader in Latin America.

A large and growing share of SCA's sales takes place in emerging markets such as Latin America, Russia, Eastern Europe, the Middle East and Asia. Examples of regional brands supported by SCA's global brand platform include Libresse in the Nordic region, Russia and Malaysia, Bodyform in the UK, Nana in France, the Middle East and North Africa, and Saba and Nosotras in Latin America.

Strategy: SCA's strategy is to be the fastest growing feminine care brand globally and to increase sales while maintaining good profitability. SCA uses innovation to improve customer offerings and broaden the product category with such items as intimate wipes and intimate soaps to increase market share and brand loyalty. The Group's feminine care brand platform and global advertising campaigns enable SCA to reach more consumers in various geographic markets with the same product improvements. SCA endeavors to break the taboos surrounding menstruation and promote awareness of hygiene and menstruation. Educational programs are arranged in Latin America, Asia and Europe that aim to educate girls about what happens to their bodies during puberty and when they have their period.

Examples of innovations 2016

INCONTINENCE PRODUCTS

SCA invests to

promote awareness of hygiene

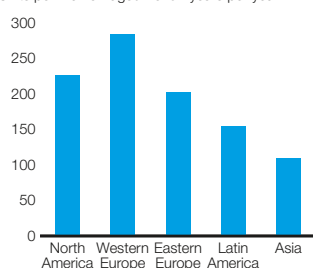
There is a clear link between good hygiene, better health and a greater sense of well-being. SCA has the knowledge, experience and drive to contribute to an improvement in hygiene standards worldwide. Through our educational program, which reaches 2,000,000 people annually, SCA promotes awareness of, and breaks the silence and taboos surrounding, hygiene-related issues such as incontinence and menstruation. In 2016, SCA published its fifth Hygiene Matters report, which aims to stimulate global dialog on the theme of hygiene, health and well-being. This year's report – based on a global survey – was published for the first time in partnership with the UN Water Supply and Sanitation Collaborative Council (WSSCC). Some 12,000 people from 12 countries were surveyed, gathering their perspectives on hygiene, health and well-being.

In 2016, SCA launched “Red.fit” – a global campaign with the motto “No blood should hold us back” to promote awareness of the various phases of the menstrual cycle.



Use of feminine care products

Units per woman aged 10–54 years per year



Data is based on market data and SCA's estimates.



TENA Lady Mini and Maxi Night

TENA is leading the development of products for night use. TENA Lady Mini and TENA Maxi Night with Triple Protection are specifically designed to give a good night's sleep. The products have extra absorbency and leak-proof solutions to maintain a dry and comfortable feeling even when lying down. The night products have, together with all other TENA Lady products, both Silky Softness and Fresh Odour control for a soft feel and optimal discretion.

Lights by TENA

Ultra thin pads are body-shaped to offer a better fit. A top-sheet that dries rapidly for lasting dryness and freshness. It offers optimal protection without compromising on discretion. FeelFresh Technology quickly encapsulates moisture and controls odors

from unexpected little leaks, to help consumers feel fresh and secure all day long.



BABY DIAPERS

Libero Comfort

Libero Comfort has been given new and softer leakage barriers made from a completely new material with a cotton feel. The new, highly soft barrier fits gently around the legs and offers a diaper that is pleasant to wear. The new Libero Comfort is comfortable and keeps the child's skin dry at all times – day and night.

The new Libero Comfort is also dermatologically tested.



Libero Newborn

Libero Newborn with GentleCare has a new, softer lining material that is adapted to the new-born infant's sensitive skin, without compromising on absorption. The new lining material has a comfortable cotton feel, which provides the softness that is important for the youngest babies.

The new Libero Newborn is also dermatologically tested.

FEMININE CARE

Libresse ProSkin Formula

Libresse is upgrading its range of panty liners with a new product that both allows air to pass through and contains ProSkin Formula, a pH-balanced lactic acid. Libresse ProSkin Formula is a panty liner that not only protects underwear but is also gentle on a woman's sensitive, intimate skin.



Ultra thin pads

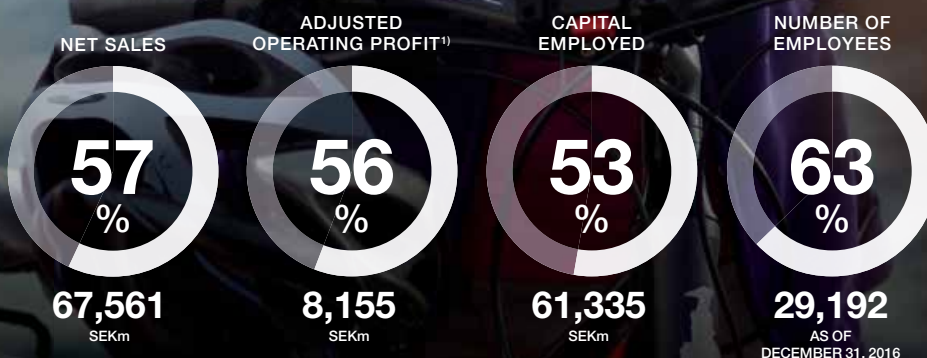
Ultra thin pads in the premium range of products have been upgraded. Pads with SecureFit™ and Triple Protection are specially designed to offer a good and secure fit. The pad has extra leakage security in the back, a core that absorbs quickly and barriers along the edges for best comfort and security.



Tissue

SCA is a global leader in tissue. The company develops, produces, markets and sells consumer tissue and Away-from-Home (AfH) tissue. The consumer tissue product portfolio comprises toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins. In the consumer tissue segment, products are sold to retailers under SCA's own brands, such as Lotus, Regio, Tempo and Zewa, as well as under retailers' brands. In the AfH tissue segment, SCA develops and sells complete hygiene solutions, including toilet paper, paper towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, sensor technology, service and maintenance for institutions and companies, under the globally leading brand Tork. Distribution channels for the products are the retail trade, online sales and distributors.

Share of Group 2016



¹⁾ Excluding items affecting comparability.

Operations in 2016

Net sales

SEK 67,561m

Adjusted operating profit¹⁾

SEK 8,155m

Adjusted operating margin¹⁾

12.1%

Net sales increased by 5% to SEK 67,561m (64,184). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased by 3%, of which price/mix accounted for 1% and volume for 2%. The acquisition of Wausau Paper Corp. increased net sales by 5%. Organic sales decreased by 1% in mature markets and increased by 10% in emerging markets. Emerging markets accounted for 32% of net sales. Exchange rate effects decreased net sales by 3%.

For consumer tissue, organic sales increased by 3%. Growth is related to high growth in emerging markets, particularly China, Latin America and Russia. For AfH tissue, organic sales increased by 3%. The increase was related to Western Europe and emerging markets.

The adjusted operating profit¹⁾ rose 13% (12% excluding currency translation effects and acquisitions) to SEK 8,155m (7,217). A better price/mix, higher volumes, cost savings, lower raw material and energy costs, and acquisitions contributed to the earnings increase. The acquisition of Wausau Paper Corp. increased operating profit by 4%. Selling costs were higher, and investments were made in increased marketing activities. The British pound and Mexican peso have weakened against several trading currencies, which had a negative earnings effect.

The adjusted operating margin¹⁾ amounted to 12.1% (11.2%).

The adjusted return on capital employed¹⁾ was 13.5% (12.9%).

The operating cash surplus amounted to SEK 11,970m (10,703). Operating cash flow amounted to SEK 9,334m (7,667).

Capital expenditures amounted to SEK 4,101m (3,536).

¹⁾ Excluding items affecting comparability.

Targets

- Annual organic sales growth of 3–4%
- Return on capital employed of 15% over a business cycle

Outcome 2016

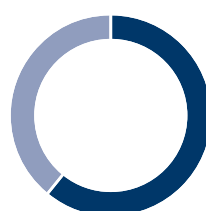
Organic sales

+3%

Adjusted return on capital employed¹⁾

13.5%

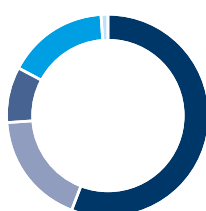
Net sales by product segment



- Consumer tissue, 61%
- AfH tissue, 39%

SCA's sales to retailers' brands as a proportion of total consumer tissue sales was 36%.

Net sales by region



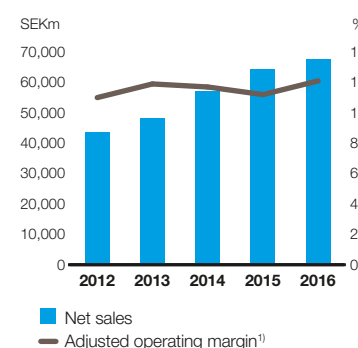
- Europe, 56%
- North America, 18%
- Latin America, 9%
- Asia, 16%
- Other, 1%

Key figures

SEKm	2016	2015
Net sales	67,561	64,184
Operating cash surplus	11,970	10,703
Change in working capital	861	-285
Current capital expenditures, net	-3,159	-2,260
Other operating cash flow	-338	-491
Operating cash flow	9,334	7,667
Adjusted operating profit ¹⁾	8,155	7,217
Adjusted operating margin, % ¹⁾	12.1	11.2
Capital employed	61,335	55,053
Adjusted return on capital employed, % ¹⁾	13.5	12.9
Strategic capital expenditures		
plant and equipment	-942	-1,276
company acquisitions/divestments	-6,395	0
Average number of employees	28,742	27,210
No. of employees at Dec. 31	29,192	27,024

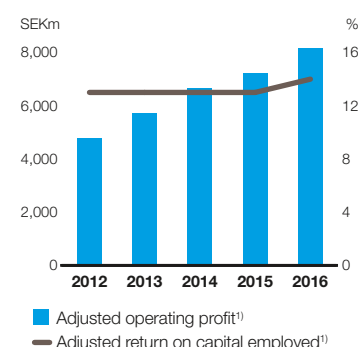
¹⁾ Excluding items affecting comparability.

Net sales and adjusted operating margin¹⁾



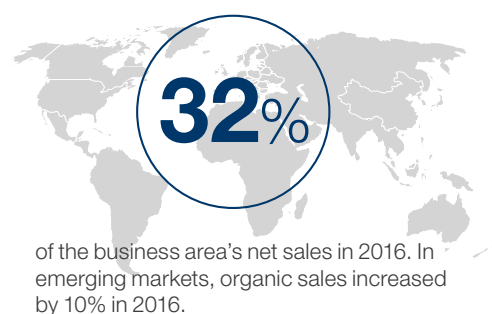
¹⁾ Excluding items affecting comparability. 2012 and 2013 restated in accordance with IFRS 10 and 11.

Adjusted operating profit and adjusted return on capital employed¹⁾



¹⁾ Excluding items affecting comparability. 2012 and 2013 restated in accordance with IFRS 10 and 11.

Emerging markets accounted for





In 2016, net sales in the Tissue business area amounted to approximately SEK 68bn. The globally leading brand for AfH tissue, Tork, is Tissue's largest brand, a "billion dollar brand" with annual net sales exceeding SEK 15bn. At the end of the year, SCA had production at 59 plants in 20 countries.

Market

Shifts in global demographics such as population growth – due primarily to a lower infant mortality rate and increased longevity – and higher disposable incomes point to continued favorable growth for tissue products. The effect of higher disposable incomes is that more people prioritize hygiene when food and housing needs have been, or are in the process of being, satisfied. Consequently, demand for tissue products is rising in emerging markets. The growth potential for tissue products is also greatest in emerging markets where market penetration is significantly lower than in mature markets and where urbanization, improved infrastructure and the retail trade are evolving rapidly. One example of the lower market penetration in emerging markets is that tissue consumption per capita per year in Eastern Europe is only about one-third of that in Western Europe. Growth is also occurring in mature markets owing to lifestyle changes and innovations that lead to increased use. Market growth is positively impacted by global hygiene and health trends and increased awareness of the importance of hygiene to improve health and avoid diseases, especially in emerging markets.

In 2016, the European market for consumer tissue showed low growth and increased competition. The European and North American markets for AfH tissue showed low growth. Growth was slightly higher in Europe than in North America. The Chinese tissue market showed higher demand.

SCA's competitors in tissue include Georgia-Pacific, Hengan, Kimberly-Clark and Sofidel.

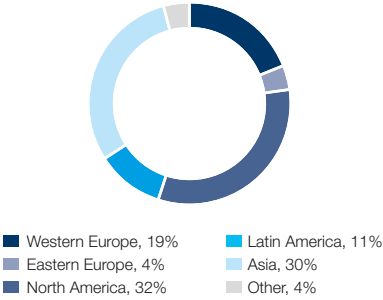


SCA's market positions

	GLOBAL	EUROPE	NORTH AMERICA	LATIN AMERICA	ASIA
Consumer tissue	2	1	–	3	1
AfH tissue	1	1	2	3	3

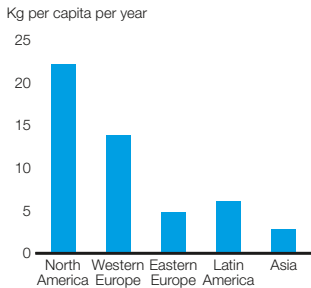
Data is based on market data and SCA's estimates.

Tissue – global market



Data is based on market data and SCA's estimates.

Use of tissue



Data is based on market data and SCA's estimates.

Examples of brands



SCA's business

CONSUMER TISSUE

Offering and market position:

SCA is the world's second largest supplier of consumer tissue. SCA's product offering includes toilet paper, household towels, handkerchiefs, facial tissues, wet wipes and napkins.

In Europe, SCA is the market leader and holds a market share that is about double that of the second largest player. SCA also holds strong positions in many emerging markets, such as in Russia and Colombia, where the Group is the market leader, and in Mexico, where it holds the number two position. SCA holds the number one position in China through its majority shareholding in Vinda.

Products sold under SCA's own brands account for about 64% of sales, while the remaining 36% is sold under retailers' brands. SCA's brand portfolio comprises several strong regional and local brands. Tempo, Zewa and Lotus are leading brands in large areas of Europe. Cushelle, Velvet and Plenty are strong brands in the UK and Ireland, and Edet in the Nordic region and the Netherlands. In Hong Kong and Morocco, Tempo is the market leader in handkerchiefs. In South America, SCA markets products under the Familia and Favorita brands, and holds strong

positions in emerging markets including Colombia, Chile and Ecuador. In the Mexican market, SCA occupies a strong position with the Regio brand. Vinda is the leading brand in China.

Strategy: In the markets where SCA is represented, the strategy is to be the leading supplier of strong brands by maintaining a high pace of innovation and successful brand marketing. SCA is also focused on expanding its product categories to further strengthen the customer offering. For example, a moist toilet paper was launched under the Lotus brand and wet wipes under the Tempo brand in 2016. For consumer tissue, SCA has assigned priority to increase profitability by reducing costs and optimizing sourcing, production and distribution efficiency. In Europe, the aim is to further strengthen SCA's leading market position and SCA's own consumer tissue brands and to grow the branded share of total sales. In parallel, SCA aims to be the best retailer-branded supplier.

Tissue Roadmap:

To improve efficiency and further increase value creation within the Tissue business area, a "Tissue Roadmap" was launched during 2016. This consists of a ten-year plan to optimize the supply chain, increase cost and capital efficiency and secure capacity for future growth. In addition, the aim is to enable faster production adaptation in conjunction with innovations and product upgrades. It balances structural and organic efficiency opportunities in the supply chain with capacity expansion in selected markets. In Europe, measures were implemented during 2016 to further enhance efficiency and strengthen competitiveness. A tissue production plant in Sant Joan de Mediona, Spain, was closed and restructuring measures were carried out at production facilities in Hondouville and Saint-Etienne-du-Rouvray in France.





In 2016, Tork SmartOne® was relaunched with a new design and new functions. Tork SmartOne® is a toilet paper solution designed for use in demanding environments, such as schools, hospitals, stadiums and airports. Consumption of toilet paper can be reduced by up to 40% compared with traditional jumbo roll dispensers.

AFH TISSUE

Offering and market position:

SCA is the world's largest supplier of AfH tissue with the global brand Tork. The AfH segment comprises institutions and companies, including care institutions, offices, universities, industries, restaurants, hotels and venues for which SCA develops and sells complete hygiene solutions, including toilet paper, paper towels, napkins, hand soap, hand lotion, hand sanitizers, dispensers, cleaning and wiping products, sensor technology, service and maintenance. The products are distributed by distributors and service companies.

SCA is the market leader in Europe and holds a market share that is about double that of the second largest player. Following the acquisition of Wausau Paper Corp., which was completed on January 21, 2016, SCA is the second largest supplier in North America. SCA's market position is particularly strong in foodservice in North America, where approximately every second napkin is supplied by the Group. SCA also holds strong positions in emerging markets, such as Russia and Colombia, where it is the market leader.

The global brand Tork provides significant synergies since the difference in customer

requirements is minimal in regard to tissue and dispensers in the various parts of the world.

Strategy: SCA is prioritizing activities to strengthen Tork's global market-leading position through profitable growth, expanding at a faster rate than the market and growing to become a market leader in North America. SCA is focusing on increasing customer satisfaction and loyalty by helping its customers to be more efficient and environmentally friendly and by improving hygiene standards. Great emphasis is on sustainability. For example, SCA relaunched Tork SmartOne® with a new design and new functions in 2016. Tork SmartOne® is a toilet paper solution designed for use in demanding environments, such as schools, hospitals, stadiums and airports. These public places often have washrooms with high traffic where stringent demands are placed on cost control and good hygiene. Consumption of toilet paper can be reduced by up to 40% compared with traditional jumbo roll dispensers. The single-sheet dispensing system also improves hygiene and reduces the risk for pipe blockages.

In 2016, SCA worked on the integration of Wausau Paper Corp. The acquisition is an excellent strategic fit for SCA and strengthens SCA's presence and production capacity in North America. The Wausau Paper product portfolio complements SCA's offerings in North America. The acquisition is expected to generate annual synergies of approximately USD 40m, with full effect three years after closing. Synergies are expected in sourcing, production, logistics, reduced imports, increased volumes of premium products and reduced SG&A costs. The restructuring costs are expected to amount to approximately USD 50m.



Examples of innovations in 2016

CONSUMER TISSUE



New Okay® Compressed household towels

The new Okay® Compressed household towels are manufactured using patented technology that compresses the individual sheets, and makes Okay® Compressed less bulky than ordinary household towels. It is both easier to carry and store and uses 30% less packaging.



Lotus Moist toilet paper

Lotus moist toilet paper is a perfect complement to dry toilet paper, for a fresh and clean feeling. The premium range of Lotus moist toilet paper is available in four different versions.



AFH TISSUE



Tork Washstation Dispenser

A paper dispenser with a high capacity that contains extra-long rolls (350 meters), is designed to be easy to clean and thereby hygienic. The dispenser is water resistant.



New global visual identity for household towels

In 2016, SCA launched, for the first time, a global packaging design for its household towels. The aim is to further strengthen the various brands by harmonizing the appearance and feel of the packaging in different markets.

Tork Easy Handling™ packaging for toilet paper

Tork Easy Handling™ packaging is designed to make life easier for anyone who works daily with products from Tork. The new packaging for Tork SmartOne® toilet paper rolls is easy to carry and has a perforated opening that saves time and makes it easier when you need to carry packaging that has already been opened. This means cleaning staff can carry out their duties faster, more efficiently and with better ergonomics that is less physically demanding.



Forest Products

SCA is Europe's largest private forest owner, with 2.6 million hectares of environmentally certified forest land, and produces forest products with a strong environmental profile. SCA's forest asset is a unique growing resource that represents the core of the business area's operations and enables the supply of wood raw materials and energy at a competitive cost to the company's forest products operations. The company has a well-integrated value chain with production facilities close to its forest holdings. SCA develops, produces, markets and sells solid-wood products, pulp, kraftliner, publication papers, pellets and other biofuels as well as district heating and green electricity.

Share of Group 2016



¹⁾ Excluding items affecting comparability.

Operations in 2016

Net sales

SEK 16,587m

Adjusted operating profit¹⁾

SEK 2,211m

Adjusted operating margin¹⁾

13.3%

Net sales decreased by 4% to SEK 16,587m (17,279). Organic sales, which exclude exchange rate effects, acquisitions and divestments, decreased by 3%, of which price/mix accounted for -3% and volume for 0%. The closure of a publication paper machine during the fourth quarter of 2015 decreased net sales by 3%. Exchange rate effects decreased net sales by 1%.

Solid-wood products showed lower prices (including exchange rate effects) and higher volumes. Pulp and kraftliner showed lower prices (including exchange rate effects) and lower volumes. Publication papers showed higher prices (including exchange rate effects) and lower volumes.

The adjusted operating profit¹⁾

decreased by 15% to SEK 2,211m (2,605). Lower prices (including exchange rate effects) and higher energy costs had a negative earnings effect. Lower distribution costs and raw material costs had a positive earnings effect.

The adjusted return on capital employed¹⁾ was 5.7% (6.9).

The operating cash surplus amounted to SEK 2,639m (3,319). Operating cash flow amounted to SEK 1,884m (2,501).

Capital expenditures amounted to SEK 3,190m (1,815).

Targets

- To grow in line with the market
- Return on capital employed is to be in the top quartile of the industry over a business cycle.

Outcome 2016

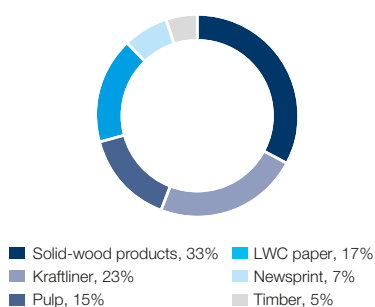
Organic sales

-3%

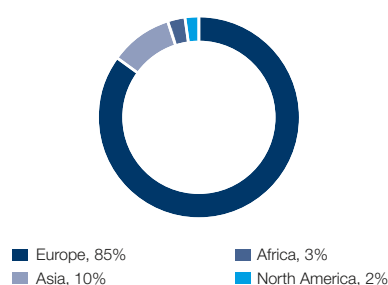
Adjusted return on capital employed¹⁾

5.7%

Net sales by product segment



Net sales by region



¹⁾ Excluding items affecting comparability.

Key figures

SEKm	2016	2015
Net sales	16,587	17,279
of which internal	511	482
Operating cash surplus	2,639	3,319
Change in working capital	119	95
Current capital expenditures, net	-959	-869
Other operating cash flow	85	-44
Operating cash flow	1,884	2,501
Adjusted operating profit ¹⁾	2,211	2,605
Adjusted operating margin, % ¹⁾	13.3	15.1
Capital employed	40,109	37,216
Adjusted return on capital employed, % ¹⁾	5.7	6.9
Strategic capital expenditures		
plant and equipment	-2,231	-946
company acquisitions/divestments	112	279
Average number of employees	4,275	4,153
No. of employees at Dec. 31	4,165	4,276

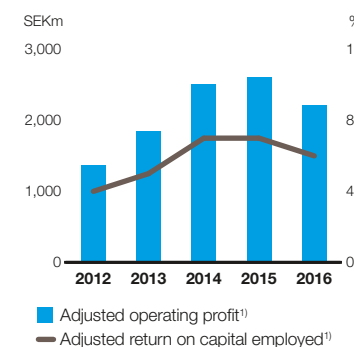
¹⁾ Excluding items affecting comparability.

Net sales and adjusted operating margin¹⁾



¹⁾ Excluding items affecting comparability. 2012 and 2013 restated in accordance with IFRS 10 and 11.

Adjusted operating profit and adjusted return on capital employed¹⁾



¹⁾ Excluding items affecting comparability. 2012 and 2013 restated in accordance with IFRS 10 and 11.





In 2016, net sales in the Forest Products business area amounted to approximately SEK 17bn. At the end of 2016, SCA conducted manufacturing activities at 18 sites.

SCA forest products' production is concentrated to Northern Sweden in proximity to its forest holdings, which enables efficient utilization throughout the value chain from young forest plants via harvestable wood to value-added products.

SCA is one of Europe's largest suppliers of forest-based biofuels where tree branches, crowns, stumps, bark, sawdust and peat are refined into pellets, briquettes or are incinerated directly in the company's own or external heating plants or cogeneration plants.

In 2016, SCA used biofuel equivalent to almost 8 TWh in its own operations and approximately 1 TWh was sold externally. Use in the Group's own operations has increased substantially in recent years as fossil oil in pulp production has been replaced with pellets. In addition, SCA produces and sells district heating externally, equivalent to 0.4 TWh annually. SCA's strategy in terms of wind power is based on making suitable forest land available for leasing or partnership. Some areas of forest land owned by SCA have very good wind conditions and at the end of 2016, 320 wind turbines were in operation or under construction on SCA's land, with an average annual production of about 2.5 TWh. The ambition is that wind power production on SCA's forest land shall increase to 5 TWh by 2020.

Market

Forest

Profitable forest management primarily comprises regular harvesting operations, increase in value through biological growth of the forest, and future price increases of forest land. Examples of other large Swedish forest owners are Bergvik Skog, Holmen and Sveaskog.

Solid-wood products

The main demand for wood products is from the construction and house building industry, with 85% of wood products being used in the construction sector. The construction industry in the Nordic region is in a strong expansion phase, through substantial demand for new building, remodeling and extensions. This benefits sawmills and contributes to a healthy demand in the market for wood products. A significant part of SCA's solid-wood products are sold through SCA's sales offices. The remaining part is sold by third-party agents and by SCA's own wholesalers. Customers in solid-wood products are mainly the construction, processing and building merchants industries. SCA's competitors within

solid-wood products include, for example, Holmen, Moelven, Setra, Stora Enso, Södra and Vida.

European demand for solid-wood products increased in 2016.

Pulp

Within pulp, SCA mainly conducts operations within bleached softwood kraft pulp "NBSK", characterized by high strength and purity. The market development has benefitted from growth in both the hygiene and packaging segments and

that decreasing demand for graphic paper which has reduced the amount of white recovered fiber¹⁾ in circulation. Some paper manufacturers therefore increasingly use fresh fiber. The price of pulp is influenced by changes in inventory, capacity utilization and market expectations among buyers and sellers. Typical end-products in the NBSK range are graphic paper, tissue and white packaging. SCA's competitors within NBSK pulp production include, for example, Mercer International, Metsä Fiber, Stora Enso, Södra and UPM. Pulp

¹⁾ White recovered fiber can be used in the production of certain paper qualities but must be supplemented with fresh fiber. The reduction in demand for graphic paper has resulted in a drop in the availability of white recovered fiber, which means demand for fresh fiber has increased.

products are mainly sold directly from the mill's sales organization and distributed through SCA's logistics system to business customers.

Paper

Globalization, increasing trade volumes, digitalization and higher standards of living are driving demand for packaging solutions, while environmental awareness favors renewable materials, such as paper products and board. Customers within kraftliner, packaging paper based on fresh wood fiber, include corrugated board producers and other packaging manufacturers. Paper products are, in key markets, sold by SCA's sales offices to business customers. Publication paper end-markets are mainly magazines, catalogues and advertising material. SCA's competitors within publication papers include, for example, Holmen, Stora Enso and UPM and for kraftliner International Paper, Mondi, Smurfit Kappa and Stora Enso.

European demand for kraftliner increased in 2016. European demand for publication papers continued to decrease in 2016.



SCA's forest products operations

Forest

SCA is Europe's largest private forest owner, with 2.6 million hectares of environmentally certified forest land, 2 million hectares of which is productive forest land. The forest land is located in Northern Sweden. The forest is a unique and growing resource that offers SCA access to high-quality forest raw materials, which are then converted into sawn, planed and painted wood products, pulp, packaging and publication papers.

Over the past 50 years, the standing volume in SCA's forests has increased by nearly 50%, at the same time as growth, and thus the sustainable harvesting potential, has more than doubled. The forest's standing timber volume amounts to 230 million m³ and comprises pine, contorta pine, spruce, and deciduous trees. Gross growth amounts to approximately 9.5 million m³ per year on productive forest land. Net growth, that is gross growth after felling and natural losses, is calculated to be approximately 3 million m³ per year.

The current planned rate of felling is 4.3 million m³ per year. Planned felling corresponds to 50–60% of the gross annual growth since SCA's younger forests account for a large part of growth. When the younger forests reach harvestable age around 2035, the rate of felling will rise to reach approximately 6 million m³ in the beginning of the next century, based on current calculation methods and conditions.

SCA's forest assets are in very good shape and due to the favorable age profile and the share of fast-growing contorta pine, the growth rate is high, despite its northern location and thus its slightly lower growth potential. At the end of 2016, forest younger than 80 years of age accounted for approximately 75–80% of the productive forest area. Over the coming 20 years, 20% of growth is expected to be from the company's contorta pine stand which began to be introduced in the 1970s and will reach optimum harvestable age around 2030 to 2040. Contorta pine grows approximately 35–40% faster than domestic planted pine. At the end of 2016, contorta pine accounted for about 9% of the standing volume.

To increase the value of the forest destined for harvesting, thinning takes place once or twice before harvesting, which occurs when trees are between 80 and 120 years old. Thinning constitutes for approximately 15–20% of SCA's annual wood extraction from its own forest.

Harvesting from the company's own forests accounts for approximately 50% of the company's total wood consumption. The remaining timber used is almost entirely from other northern forests and only marginal volumes are from border trade with Norwegian and Finnish forest owners or from the Baltic States.

Research and development in SCA's forestry operations is conducted primarily at Boggrundet tree nursery in Sweden and

has an extensive plant quality follow-up that provides valuable information for both tree nursery production, forest management and development of the next generation of plants. In 2016, the company's tree nurseries produced 77 million seedlings, 52% of which were sold externally.

Solid-wood products

SCA is one of Europe's leading suppliers of wood-based products for the construction and interior design industries, with an annual production capacity of 2.1 million m³ of solid-wood products. The operation comprises five sawmills in Sweden, wood processing units with planing mills and painting facilities in Sweden, France and the UK, as well as distribution and wholesale business. The sawmills are strategically located close to the company's forest holdings and are among the most efficient and modern facilities in Europe with large volume capacity. Over the past decade, SCA has channeled investments so that eleven sawmills have become five well-invested sawmills. At the same time, the capacity and the degree of further processing have risen significantly. In late autumn 2016, one of the world's fastest saw lines began operating in Tunadal, following an investment of approximately SEK 500m. The company produces value-added and customized products for markets identified as offering long-term growth.



Timber in Northern Sweden grows slowly and provides a strong, light and environmentally sound construction material with specific quality benefits, which are utilized in the sophisticated control of the timber directly integrated with sawmills and further processing. Timber in Northern Sweden is relatively free from large knots, which offers an aesthetic advantage and provides improved strength in constructions. The high proportion of heartwood and late wood also result in wood products with better dimensional stability.

The company supplies purpose-designed wood products to industry for further processing into such products as paneling, flooring, windows, doors and furniture, which are market segments that value the unique quality advantages offered by wood products from Northern Sweden. Products for the building materials trade are delivered planed and, when appropriate, impregnated and pre-packaged. These customers regard service and qualified logistics solutions as highly important. SCA works in close cooperation with its customers in its main markets in Scandinavia, France and the UK and complements the economies of scale generated at its sawmills in Sweden with further processing, such as planing and painting, conducted close to the customer of products.

SCA's operations within solid-wood products has exhibited strong growth over the past 20 years. The market segmentation has meant that today about 25% of solid-wood products are sold as standard wood products, about 30% are sold to the industrial sector for further processing and the remaining approximately 45% are sold to the building trade.

Pulp

In the pulp market, SCA has positioned itself in the high-strength segment based on its excellent access to, and expertise in, the Nordic long-fiber forest raw material. The company's pulp mill in Östrand produces approximately 430,000 tons of bleached softwood sulfate pulp (NBSK) under the Celeste brand, and about 100,000 tons of chemical thermo mechanical pulp (CTMP), under the Star brand. Celeste is used for a wide range of applications, such as tissue, publication papers, specialty paper and filters. Star is recognized for its high bulk and is used in products such as tissue, bulky (voluminous) paper and board.

The Celeste and Star brands represent products with a unique environmental profile with a low climate impact, very good energy

efficiency and low emissions which fulfil the criteria set by both the Nordic Swan and EU Ecolabel. Both Celeste and Star have certifications that support controlled wood and responsible forestry. Approximately 15% of production at Östrand pulp mill is utilized within SCA's forest products operation for the production of publication papers.

To satisfy the long-term growth in demand for pulp, SCA decided in 2015 to invest in increased capacity for pulp production at Östrand pulp mill in Timrå, Sweden. The annual production capacity of bleached sulphate pulp is estimated to increase from the current level of 430,000 tons to about 900,000 tons. The investment, which is one of the largest industrial investments in Sweden, is estimated to amount to approximately SEK 7.8bn over a three-year period. At the end of 2016, SEK 2.6bn had been invested in Östrand, corresponding to about 34% of the total investment. Production is expected to commence in the second quarter of 2018. Over time, the investment in Östrand is expected to increase sales and competitiveness and create a world-class cost position and higher margins. The expanded pulp plant entails increased demand for pulpwood and sawmill chips in Northern Sweden for a considerable time to come, with a positive effect on the value of the forest.

Paper

SCA's annual production capacity amounts to 865,000 tons of kraftliner and 775,000 tons of publication papers.

The northern softwood, with its long, slender fibers, is well-adapted to manufacturing strong paper products allowing SCA to

offer customers lighter, material-efficient and eco-friendly products. SCA also uses birch raw materials to manufacture white top kraftliner, a strong kraftliner with a white printable surface. Demand continues to rise for strong material-efficient packaging.

The company is the third largest producer in Europe and the largest non-integrated supplier of kraftliner, packaging paper based on fresh wood fiber. The products are mainly used for the visible surface layer in corrugated board, known as kraftliner. SCA's kraftliner mill in Munksund specializes in white-top kraftliner with good printability, and in very strong products and wet strength qualities, while the kraftliner mill in Obbola mainly focuses on standard and lighter qualities. In recent years, the company has made significant investments in both mills to increase production, improve quality, reduce costs and enhance energy efficiency. For example, a new digester was commissioned at the Obbola mill in 2015.

Within publication papers, the company is investing in the foremost quality segment in magazine paper; coated and uncoated offset paper with high brightness. These are used for magazines, catalogues and advertising material. SCA focuses on the segments where the printed media has the best competitive position compared with digital media. The optimum raw material for high-quality publication papers is fresh spruce wood, which SCA has at its disposal in the local area. The company's sales of publication papers mainly take place within the Western European market. The largest markets are the Nordic region, Germany and the UK. In 2015, the company decided to close down a newsprint machine, the smallest and oldest of the Örtviken mill's four machines. Even after the closure of this machine, the mill remains one of the world's largest publication paper mills and has the potential to become one of the most competitive.

