
Introduction

- 2 SCA in brief
- 4 The year at a glance
- 8 CEO's message
- 10 A changing world
- 12 SCA's strategy
- 14 Objectives
- 23 Strategies
- 30 Value creation for SCA's stakeholders
- 32 The SCA share
- 34 Information to shareholders

BOARD OF DIRECTORS' REPORT

Group

- 38 Operations and structure
- 40 Acquisitions, investments and divestments
- 42 Other Group information
- 43 Sales and earnings
- 44 Operating cash flow
- 45 Financial position

Business areas

- 48 Personal Care
- 54 Tissue
- 60 Forest Products

Responsibility and governance

- 66 Corporate governance
- 72 Board of Directors and Auditors
- 74 Executive Management Team
- 76 Risks and risk management

Financial statements and notes

- 82 Contents
- 84 Consolidated income statement
- 84 Consolidated statement of comprehensive income
- 85 Consolidated statement of change in equity
- 85 Consolidated operating cash flow statement
- 86 Consolidated cash flow statement
- 87 Correlation between consolidated cash flow statement and operating cash flow statement
- 88 Consolidated balance sheet
- 89 Notes
- 129 Financial statements, Parent Company
- 134 Adoption of the annual accounts
- 135 Proposed disposition of earnings
- 136 Auditor's report

SCA Data

- 140 Multi-year summary
- 141 Comments to the multi-year summary
- 142 Description of costs
- 142 Raw materials, energy and transport activities
- 143 Production plants
- 144 Definitions and key figures
- 144 Glossary
- 145 Addresses
- 145 Awards and memberships

SCA

VISION

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

MISSION

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

NET SALES 2016

117,314
SEKm

ADJUSTED OPERATING PROFIT 2016

13,989
SEKm

Excluding items affecting comparability

SALES IN APPROXIMATELY

100
COUNTRIES

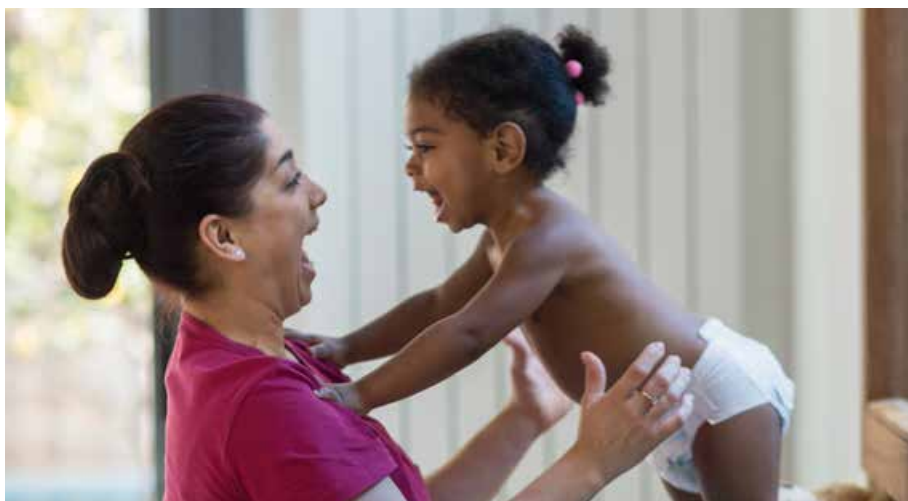
EMPLOYEES

46,429

As of December 31, 2016



SCA in brief



Libero



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.

Read more about the Personal Care business area on pages 48–53.

29%

of SCA's net sales for 2016



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.

Read more about the Tissue business area on pages 54–59.

57%

of SCA's net sales for 2016



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.

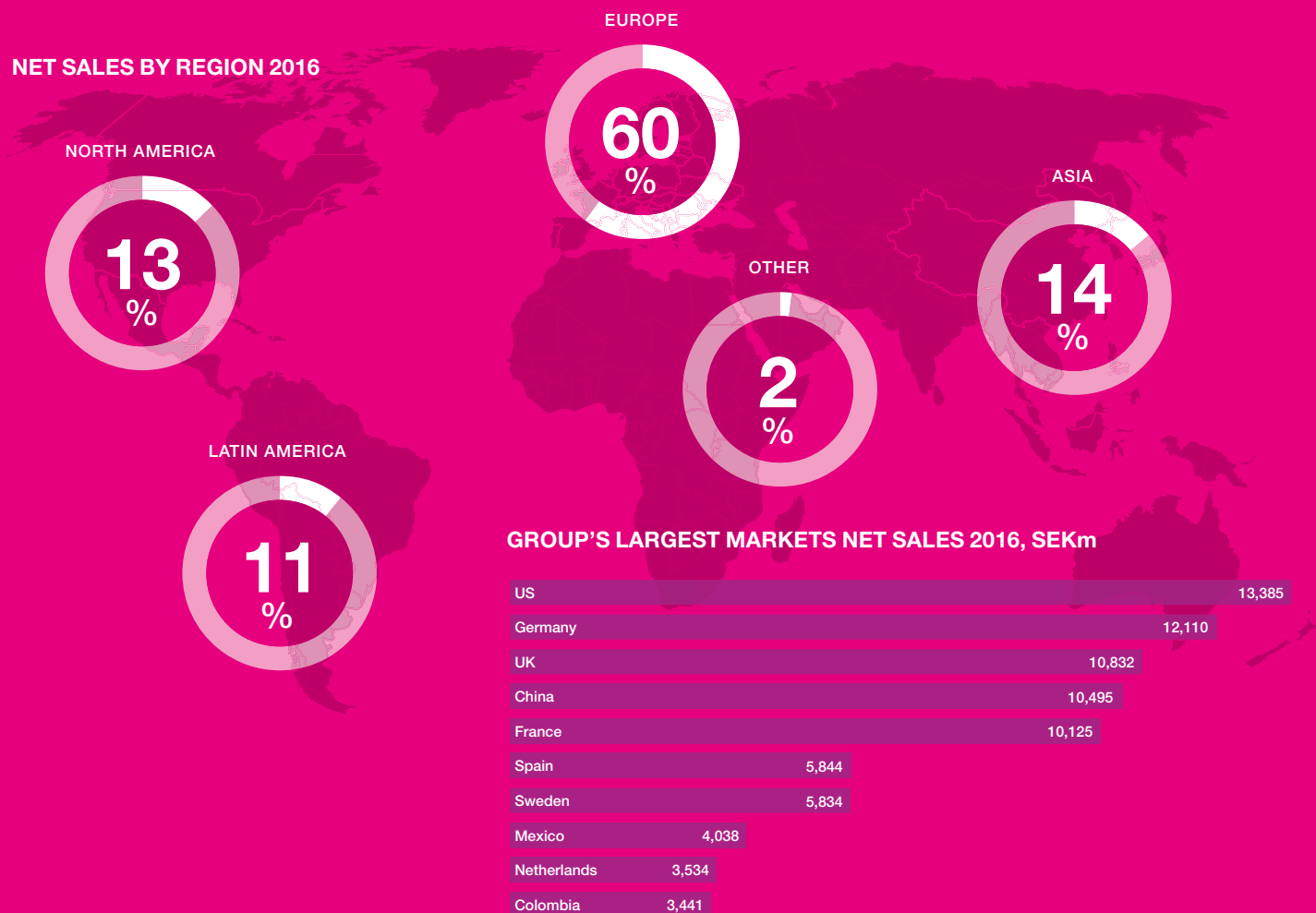
Read more about the Forest Products business area on pages 60–65.

14%

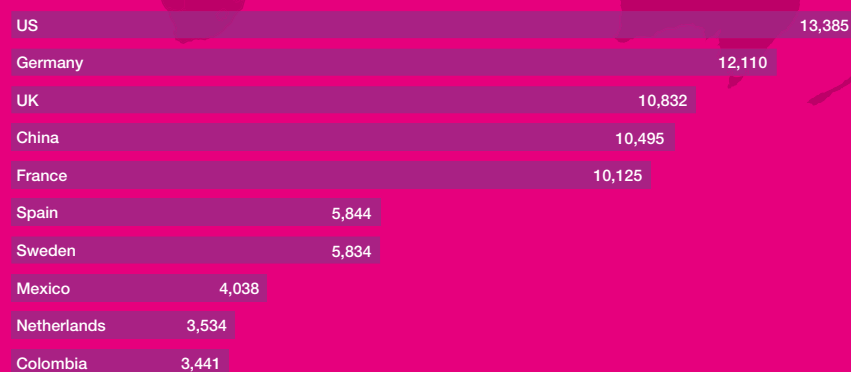
of SCA's net sales for 2016



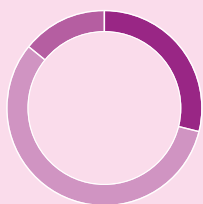
NET SALES BY REGION 2016



GROUP'S LARGEST MARKETS NET SALES 2016, SEKm

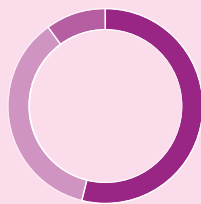


Net sales 2016 (share of Group)



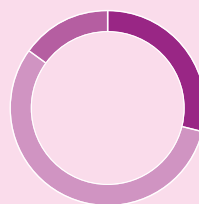
■ Personal Care, 29%
■ Tissue, 57%
■ Forest Products, 14%

Net sales by distribution channel 2016 (share of Group)



■ Retail trade, 54%
■ Business to business, 36%
■ Healthcare sector, 10%

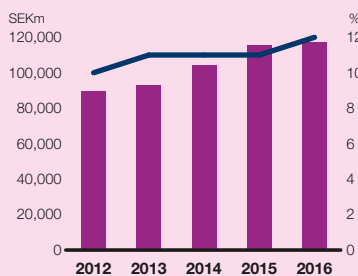
Adjusted operating profit¹⁾ 2016 (share of Group)



■ Personal Care, 29%
■ Tissue, 56%
■ Forest Products, 15%

¹⁾ Excluding items affecting comparability.

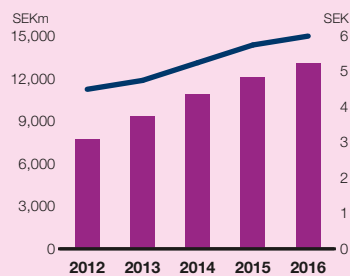
Net sales and adjusted operating margin¹⁾



■ Net sales
— Adjusted operating margin¹⁾

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

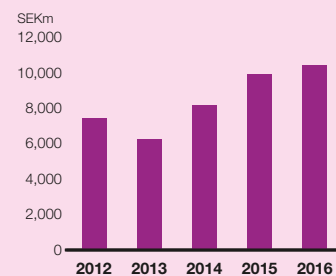
Adjusted profit before tax¹⁾ and dividend per share



■ Adjusted profit before tax¹⁾
— Dividend per share

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

Cash flow from current operations



2012 and 2013 restated in accordance with IFRS 10 and 11.

The year at a glance

GROUP 2016

Net sales	SEKm	Earnings per share	SEK
117,314	(115,316)	7.93	(9.97)
Increased 2% compared with 2015.			
Organic sales	%	Adjusted return on capital employed¹⁾	%
+2%	(+5%)	12.5%	(12.0%)
Excludes exchange rate effects, acquisitions and divestments.			
Adjusted operating profit¹⁾	SEKm	Adjusted return on equity¹⁾	%
13,989	(13,014)	11.0%	(11.6%)
Increased 7% compared with 2015 (8% excluding currency translation effects, acquisitions and divestments).			
Adjusted operating margin¹⁾	%	Cash flow from current operations	SEKm
11.9%	(11.3%)	10,382	(9,890)
Adjusted profit before tax¹⁾	SEKm	Proposed dividend per share	SEK
13,070	(12,059)	6.00	(5.75)
Increased 8% compared with 2015.			

KEY EVENTS IN 2016:

- Initiated work in order to be able to propose to the 2017 Annual General Meeting to decide on a split of the SCA Group into two listed companies: hygiene and forest products.
- Entered into an agreement to acquire BSN medical, a leading medical solutions company, which develops, manufactures, markets and sells products within wound care, compression therapy and orthopedics. The purchase price for the shares amounts to EUR 1,400m and takeover of net debt to approximately EUR 1,340m⁵⁾. The completion of the transaction is subject to customary regulatory approvals and closing is expected to take place during the second quarter 2017.
- The acquisition of Wausau Paper Corp., a leading North American AfH tissue company, was completed. Following the acquisition, SCA is the second largest player in the AfH tissue segment in the North American market.
- The divestment of the hygiene business in Southeast Asia, Taiwan and South Korea for integration with Vinda was closed. SCA is the majority shareholder in Vinda, one of China's largest hygiene companies.
- A new production facility for incontinence products in Brazil was inaugurated.
- Decision was taken on restructuring measures in tissue production in France and Spain.
- The baby diaper business in Mexico was closed as part of the work to address weak market positions with inadequate profitability.
- Decision was taken to discontinue the hygiene business in India as a result of SCA's conclusion that profitability cannot be achieved within a reasonable time frame. Discontinuation of the hygiene business will take place in the first quarter of 2017.
- Launch of the "Hygiene Matters 2016–2017" report together with the UN Water Supply and Sanitation Collaborative Council (WSSCC). The report focuses on taboos and stigma surrounding incontinence and menstruation and has a close link to the UN's Sustainable Development Goals.
- Recognized by CDP, an international non-profit organization that works to promote sustainable economies, as a global leader for its strategies and actions in response to climate change. SCA was also awarded a position on the Climate A List by CDP.

⁵⁾ Estimated as of December 31, 2016.

Key figures	2016		2015	
	SEK	EUR ²⁾	SEK	EUR ²⁾
Net sales, SEKm/EURm	117,314	12,406	115,316	12,334
Operating profit, SEKm/EURm	11,279	1,193	10,947 ⁴⁾	1,171 ⁴⁾
Adjusted operating profit SEKm/EURm ¹⁾	13,989	1,480	13,014	1,392
Operating margin, %	9.6		8.7	
Adjusted operating margin, % ¹⁾	11.9		11.3	
Profit before tax, SEKm/EURm	10,360	1,096	9,992	1,069
Adjusted profit before tax, SEKm/EURm ¹⁾	13,070	1,383	12,059	1,290
Profit for the year, SEKm/EURm	6,012	636	7,452	797
Adjusted profit for the year, SEKm/EURm ¹⁾	8,295	877	8,753	936
Earnings per share, SEK	7.93		9.97	
Adjusted earnings per share, SEK ¹⁾	11.18		11.82	
Cash flow from current operations per share, SEK	14.78		14.08	
Equity per share, SEK	112.78		107.35	
Dividend per share, SEK	6.00 ³⁾		5.75	
Strategic capital expenditures, including acquisitions, SEKm/EURm	-10,862	-1,149	-3,218	-344
Divestments, SEKm/EURm	489	52	329	35
Equity, SEKm/EURm	79,519	8,319	75,691	8,290
Return on capital employed, %	10.1		10.1	
Adjusted return on capital employed, % ¹⁾	12.5		12.0	
Return on equity, %	7.9		9.9	
Adjusted return on equity, % ¹⁾	11.0		11.6	
Debt/equity ratio	0.44		0.39	
Debt/equity ratio, excluding pension liabilities	0.39		0.36	
Average number of employees	46,171		44,000	
No. of employees at Dec. 31	46,429		44,051	

¹⁾ Excluding items affecting comparability.

²⁾ See footnote ¹⁾ on page 84 and footnote ²⁾ on page 85 for exchange rates.

³⁾ Dividend proposed by the Board of Directors.

⁴⁾ Includes the sale of securities, SEK 970m, EUR 103.7m.

INITIATED WORK IN ORDER TO BE ABLE TO PROPOSE TO THE 2017 ANNUAL GENERAL MEETING TO DECIDE ON A SPLIT OF THE SCA GROUP INTO TWO LISTED COMPANIES: HYGIENE AND FOREST PRODUCTS

On August 24, 2016, SCA announced that the company would initiate work in order to be able to propose to the 2017 Annual General Meeting to decide on a split of the SCA Group into two listed companies; one for the hygiene business and one for the forest products business. A split of the Group and a distribution and listing of the shares in the subsidiary which today operates the hygiene business, is expected to increase focus, customer value, development opportunities and enables each company to successfully realize its strategies under the leadership of separate and dedicated management teams, two different boards of directors and independent access to capital. This is considered to increase value for SCA's shareholders in the long term. In addition, the synergies between the operations have diminished over time and are currently limited. An evaluation of various methods and structural alternatives to carry out a complete split of the business into two separate companies has been carried out. There-



fore, the Board of Directors has proposed to the 2017 AGM a distribution of all shares in and listing of the company's hygiene business. Distribution to shareholders is proposed in proportion to their holdings of

Class A and Class B shares. If shareholders approve the proposal, the new hygiene company is planned to be distributed and listed on Nasdaq Stockholm no later than in the second half of 2017.

SCA TO ACQUIRE BSN MEDICAL, A LEADING MEDICAL SOLUTIONS COMPANY

On December 19, 2016, SCA announced that it had entered into an agreement to acquire BSN medical, a leading medical solutions company. BSN medical develops, manufactures, markets and sells products within wound care, compression therapy and orthopedics. The purchase price for the shares amounts to EUR 1,400m and takeover of net debt to approximately EUR 1,340m¹⁾. The completion of the transaction is subject to customary regulatory approvals. Closing of the transaction is expected to take place during the second quarter of 2017.

BSN medical is an innovative medical solutions company with well-known brands such as Leukoplast, Cutimed, JOBST, Delta Cast, Delta Lite and Actimove. The company has a sales organization with sales in more than 140 countries and production in 11 countries as well as approximately 6,000 employees.

The BSN medical acquisition is an excellent strategic fit for SCA and supports the company's vision to improve well-being through leading hygiene and health solutions, two closely interlinked areas. BSN medical has leading market positions in several attractive medical product categories and provides a new growth platform with future industry consolidation opportunities. SCA's incontinence business, with the globally leading TENA



brand, shares similar positive market characteristics, customers and sales channels with BSN medical, which will provide opportunities for accelerated growth through cross-selling.

BSN medical reported net sales for 2015 of EUR 861m (SEK 8,050m), adjusted EBITDA²⁾ of EUR 201m (SEK 1,879m), an adjusted operating profit³⁾ of EUR 137m (SEK 1,281m), an adjusted operating margin³⁾ of 15.9%, and an adjusted return on capital employed³⁾ of 7.7%. BSN medical reported net sales of EUR 627m (SEK 5,872m) for the first nine months of 2016, adjusted EBITDA²⁾ of EUR 151m (SEK 1,414m), an adjusted operating profit³⁾ of EUR 103m (SEK 965m), and an adjusted operating margin³⁾ of 16.4%.

The acquisition is expected to be accretive to SCA's earnings per share from the first year. BSN medical has high cash conversion and an asset-light business model.

In relation to the acquisition, SCA expects to realize annual synergies of at least EUR 30m with full effect three years after closing. Restructuring costs are expected to amount to approximately EUR 10m and are expected to be incurred in the first three years following completion.

Transaction costs amount to approximately EUR 25m, of which approximately EUR 15m has been recognized as an item affecting comparability in the fourth quarter of 2016. The remaining costs will be recognized as an item affecting comparability in the second quarter of 2017. Intangibles related to the acquisition are expected to amount to approximately EUR 2.7bn. The acquisition will be fully debt funded and SCA has committed credit facilities in place. SCA remains fully committed to retaining a solid investment grade rating.

¹⁾ Estimated as of December 31, 2016.

²⁾ Excluding items affecting comparability.

³⁾ Excluding items affecting comparability and including BSN medical's purchase price allocation amortization.



Hygiene concerns us all

Poor hygiene and sanitation constitute a barrier to the health, well-being, livelihood and development of millions of people. SCA has gathered insights and ignited the conversation around the role and importance of hygiene over a period of many years and via its Hygiene Matters initiative since 2008. Through the Hygiene Matters initiative, SCA wants to increase awareness of the importance of hygiene and its link to health and well-being and break the taboos surrounding issues such as menstruation and hygiene.

SCA is contributing to raise hygiene standards worldwide through its business model and hygiene solutions. Two integral aspects of the Hygiene Matters initiative are a global consumer survey and the Hygiene Matters report. The 2016/2017 report looked at the economic value of investing in hygiene, breaking taboos and stigma surrounding menstruation and incontinence, as well as innovative solutions for the future. For the first time, the report was produced in

collaboration with the Water Supply and Sanitation Collaborative Council (WSSCC). The WSSCC is the only UN body that works solely with sanitation and hygiene issues.

The report was launched in conjunction with the UN General Assembly Session in New York at the end of September 2016. The main speaker was Amina Mohammed, chair of the WSSCC and Deputy Secretary-General of the UN, and Med. Dr. Sci. Ewa Björling, former trade minister in Sweden and member of the SCA Board. An interesting debate was held with leading representatives from the UN Sustainable Development Solutions Network and CEO Water Mandate, among others.

In October 2016, companies, authorities and NGOs gathered in New York to take part in the UN Foundation's dialog about the UN's global agenda for sustainable development. The UN Foundation acts as a link to the UN. The organization gathers the business community and civil society to help the UN tackle some of the world's most pressing issues, one of which is global health.

Amina Mohammed, Deputy Secretary-General of the UN and chair of the WSSCC, was one of the keynote speakers when the Hygiene Matters report was launched in New York in September 2016.

SCA's representatives at the meeting included President and CEO Magnus Groth, who also gave the opening speech. He spoke of the link between hygiene, health and well-being and emphasized that the business community has an important role to play in this context. He also highlighted that cooperation between the public and private sector is vital if the world is to succeed in reaching the UN's Sustainable Development Goals.

Several panel debates during the dialog meeting also discussed cooperation between sectors as a way to inspire decision-makers to move the world forward. SCA contributes through its considerable commitment to hygiene and health, and by sharing its insights with others.

SCA had also invited a number of customers and business partners to discuss how they can work to support the UN's Sustainable Development Goals and how the UN's goals will influence the business sector. This, in itself, can support customers and SCA's business partners in their work with sustainability.



In September 2016, SCA launched together with the UN body WSSCC the "Hygiene Matters 2016–2017" report.



The importance of hygiene

Every day, about 500 million people rely on SCA's hygiene products to live a healthy life. Since October 2016, SCA's President and CEO, Magnus Groth, has regularly contributed with editorials to the Huffington Post, as a HuffPo writer. His articles are about the importance of hygiene and highlight the link between hygiene, health and well-being.



Two strong businesses with attractive offerings

– exciting future for the hygiene and the forest products businesses

2016 was an eventful year for SCA. We initiated work in order to be able to propose to the 2017 Annual General Meeting to decide on a split of the SCA Group into two listed companies: a hygiene company and a forest products company. During the year, we enhanced our strategy and created a new vision. The acquisition of Wausau Paper Corp., a leading North American AfH tissue company, was completed and was integrated successfully. We strengthened our cooperation with Vinda to build a leading Asian hygiene business. Toward the end of the year, we entered into an agreement to acquire the medical solutions company BSN medical. The acquisition of BSN medical is an excellent strategic fit for SCA and supports our vision “Dedicated to improving well-being through leading hygiene and health solutions”. Through successful innovation work, we improved our customer and consumer offerings and strengthened our market positions in many product segments. We also continued to increase the efficiency of the value chain and address underperforming market positions.

Strong performance

Net sales and the adjusted operating profit¹⁾ increased by 2% and 7% respectively during the year. Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased by 2% in 2016 and were affected by a somewhat challenging market situation for hygiene products and by capacity reductions. The adjusted operating profit¹⁾, excluding currency translation effects, acquisitions and divestments, increased by 8% and the adjusted operating margin¹⁾ increased by 0.6 percentage points to 11.9%.

The adjusted return on capital employed¹⁾ was 12.5% and the operating cash flow increased by 16%. The Board of Directors proposes an increase in the dividend by 4.3% to SEK 6.00 per share.

Initiated work to split SCA

SCA has increased the share of Group sales attributable to its hygiene business over the past few decades. In 2016, the hygiene products business accounted for 86% of Group sales and the forest products business for 14%. Our hygiene and forest products

operations are two strong businesses with attractive offerings in their respective areas. Synergies between the operations have decreased over time and are currently limited. A split of the Group and a distribution and listing of shares in the subsidiary which today operates the hygiene business is expected to increase focus, customer value, development opportunities and enables each company to successfully realize its strategies under the leadership of separate and dedicated management teams, two different boards of directors and independent access

¹⁾ Excluding items affecting comparability.

to capital. It feels, therefore, like a natural step to propose to the 2017 Annual General Meeting to split the SCA Group into two listed companies; a hygiene company and a forest products company.

Provisions for tax cases and antitrust cases

During the year, we reserved SEK 1,300m for ongoing tax cases in Sweden and Austria. The provision followed recently announced judgements in similar cases, which indicate a change in practice. We also reserved SEK 1,090m for ongoing antitrust cases in Chile, Colombia, Poland, Spain and Hungary. These cases essentially relate to the period between 2000 and 2013. We do not tolerate any form of collusion with competitors and we work intensively to minimize the risks for unethical behavior, for example through training employees in competition law.

Improve well-being in the world

SCA's vision is "Dedicated to improving well-being through leading hygiene and health solutions". Health, well-being and sanitation are some of the pillars in the United Nation's Sustainable Development Goals, goals that we actively support. The goals aim to contribute to making a better world but also create business opportunities in existing and new markets. We have the knowledge, experience, products, solutions and commitment to contribute to improving hygiene standards worldwide and to break taboos surrounding menstruation and incontinence. In September, we launched our fifth Hygiene Matters report, which aims to promote a global dialog concerning hygiene, health and well-being. The report is based on a global survey and was launched in conjunction with a session of the General Assembly of the United Nations in New York. We also collaborate with the United Nations Foundation, which aims to bring together businesses, authorities and NGO's to cooperate on the UN's goals for sustainable development.

Innovations strengthen our offering

We are a company close to customers and consumers, which enables us to convert customer and consumer insights into products and solutions that meet existing and new needs. Our focus on digitalization has continued in many areas, not least in e-commerce. Customers and consumers appreciate the opportunity to buy items online, such as our incontinence products, which is practical, convenient and discrete.

In 2016, we launched 23 innovations that have improved our offering and strengthened our market positions and brands. Innovations were launched in consumer tissue, under

the brands Lotus, Plenty, Regio, Tempo and Zewa, in feminine care products, such as the brands Bodyform, Libresse and Nosotras, in baby diapers under the brands Drypers and Libero and in AfH tissue and incontinence products under the two globally leading brands Tork and TENA. We want to contribute to a circular society where resource consumption and waste is minimized and closed or new ecocycles are created. To inspire new innovations and business solutions, we have joined the Circular Economy 100 (CE 100), an Ellen MacArthur Foundation program established to work toward a circular economy.



Through successful innovation work, we improved our customer and consumer offerings and strengthened our market positions in many product segments. We also continued to increase the efficiency of the value chain and address underperforming market positions."

Value-creating acquisitions and investments

Toward the end of the year, we signed an agreement to acquire the medical solutions company BSN medical. The purchase price for the shares amounts to EUR 1,400m and takeover of net debt to approximately EUR 1,340m²⁾. BSN medical has leading market positions in several attractive medical product categories and provides a new growth platform with future industry consolidation opportunities. The medical solutions company shares similar positive market characteristics, customers and sales channels as our incontinence business, with the globally leading brand TENA, which will provide opportunities for faster growth through cross-selling. The completion of the transaction is subject to regulatory approvals and closing is expected to take place during the second quarter of 2017.

The acquisition of Wausau Paper Corp., a North American AfH tissue company, was completed during the year and work to integrate operations is progressing according to plan. Following the acquisition, SCA is the second largest player in the AfH tissue segment in the North American market.

Our investment in doubling pulp production at the Östrand pulp mill in Sweden is progressing as planned. By the end of December 2016, we had invested SEK 2.6bn of the approximately SEK 7.8bn planned. Production is scheduled to commence in the second quarter of 2018. The investment will provide the mill with a world-class cost position and environmental performance.

Measures to improve profitability in emerging markets

At the end of the year, we decided to discontinue our hygiene business in India. Four years after entering the Indian market, our conclusion is unfortunately that profitability cannot be achieved within a reasonable time frame. We prioritize growth in selected emerging markets, such as China, Southeast Asia, Latin America, Eastern Europe and Russia, where we already hold strong market positions.

Our efforts to address weak market positions continued during the year. Our Mexican baby diaper business has had a weak market position and inadequate profitability for some time, which led to the decision to discontinue

operations. Mexico remains a high-priority market for the rest of our hygiene business.

The divestment of the hygiene products business in Southeast Asia, Taiwan and South Korea to Vinda was completed during the year. SCA is the majority

shareholder in Vinda, one of China's largest hygiene companies. The transaction strengthens the cooperation between SCA and Vinda and enables us to further leverage our shared strengths to build a leading Asian hygiene business.

In Brazil, our new production facility for incontinence products was inaugurated, which strengthens our competitiveness.

Continuing efficiency initiatives

Work with efficiency enhancements and cost savings continued during the year. We launched the Tissue Roadmap, which is a ten-year plan to streamline production and enhance capital efficiency to increase value creation in the Tissue business area. In line with the plan, we closed a plant in Spain and implemented restructuring measures at two plants in France during the year.

In conclusion

In 2017, our main priorities are to continue growing with good profitability and at the same time successfully implement initiatives started in recent years. I see an exciting future for both the hygiene and forest products businesses. A greater insight that the earth's resources are limited will benefit renewable products, such as pulp, solid-wood products and paper products. Increased awareness about how hygiene, health and well-being are linked, combined with a growing and aging population, will result in rising demand for hygiene products – products we all need every day.

Magnus Groth
President and CEO

²⁾ Estimated as of December 31, 2016.



A changing world

Global macro trends, from population increases and higher standards of living to resource shortages and climate change, rapidly alter the conditions for SCA's business operations. By analyzing the external environment and trends, and maintaining close customer and consumer dialogs, SCA can leverage these drivers, thus enabling the creation of long-term sustainable growth.

Growing and ageing population

The world's population is growing and living longer. The global population is today just over seven billion. The UN predicts that this figure will grow to more than nine billion by 2050. This growing population is resulting in an increased demand for hygiene products and thus creating favorable growth opportunities for SCA. The greatest population increase is expected to occur in Asia, Latin America and Africa, which means that having a presence in these markets and offering adapted products will be strategically important. SCA is prioritizing growth in selected emerging markets, such as China, Southeast Asia, Latin America, Eastern Europe and Russia.

An ageing population will put more pressure on the elderly care system and an increasing number of elderly people will require homecare. We are, at the same time, becoming healthier and continuing to lead active lives at an older age. More elderly people increases demand for incontinence products, both in mature and emerging markets, as the occurrence of incontinence among people over the age of 65 is expected 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. An increasing number of people earn more than USD 2 per day (the World Bank's definition of poverty) or have moved into the middle class. Once people's most basic needs for food and shelter are met, hygiene becomes a top priority. This creates favorable growth opportunities for SCA. In emerging markets, SCA sells hygiene products and solutions that are specially adapted to consumers with limited resources.

Global insight into health and hygiene

Limited or no access to hygiene and sanitation is one of the greatest global challenges to be resolved. The knowledge that good hygiene improves health and well-being is growing worldwide. SCA continuously develops new hygiene solutions and educates, for example, young women about menstruation and puberty, as well as teaching children about the importance of good hand hygiene. Incontinence products enable elderly people to live more active and dignified lives.

Growing economies and a changing world

Globalization, urbanization, political decisions, the global economy and cultural dynamics all impact SCA. By trying to anticipate structural changes in our external environment, SCA is ensuring that it will capitalize on the benefits and tackle the challenges that arise as a result of these changes. Economic power relationships are changing and emerging markets, such as China and Brazil, are becoming increasingly important.

Changing customer and consumer behavior

Trends, technological developments and prevailing values cause customer and consumer behavior to change. Accordingly, the ability to anticipate and exceed customer and consumer expectations is becoming increasingly important.

- Sustainable consumption: Limited resources, political prioritizations and knowledgeable, aware customers and consumers are increasing demand for sustainable products and services.
- Digitalization: Many purchases are now made online, which is changing the rules of the game, for example, when it comes to product development, marketing and distribution. Customers and consumers are showing greater demand for digital solutions.
- The company behind the brand: More than ever before, customers and consumers are paying attention to the companies behind the products and services they buy and

imposing greater demands on these companies in terms of corporate responsibility.

- **Innovation:** Innovative products, services and business models are required to respond to these changing behaviors.

Scarce resources

As a result of the growing global economy and world population, an increasing number of people are now sharing the planet's resources.

- **Energy:** The International Energy Agency (IEA) predicts that the global need for energy will increase by one-third by 2040, which will probably entail higher costs and, in some cases, an energy shortage. As a major energy consumer, this is an important issue for SCA and the Group continuously works to enhance its energy efficiency. New technology is not only resource-efficient, but usually also generates fewer emissions.
- **Water:** The UN predicts that two-thirds of the world's population may live in areas with water shortages by 2025. Access to water is critical for people, industry and agriculture. SCA's production operations are dependent on access to water and the Group is working to achieve its ambitious goals for efficient water usage.
- **Forest management:** Illegal felling and felling of forests with a high conservation value contribute to global deforestation and constitute a threat to biodiversity. SCA has a Group target for checking the origin of all wood raw material. Forests are a key component in SCA's value chain and provide it with access to forest raw materials.
- **Human capital:** The economic progress of the world's emerging markets and increasingly knowledge-intensive business is increasing the need for skilled labor and management. SCA is investing in the development and training of its employees and takes a strategic approach to meeting its future requirements for employees and expertise.

Climate change

Climate change is one of the most critical environmental and social issues facing the world today. Authorities are setting targets to reduce CO₂ emissions, and the private sector is expected to play its part. SCA is actively working to combat climate change by investing in new technology, efficiency enhancements and biofuel and wind power initiatives. SCA's forests have a net growth that gives rise to the net absorption of more CO₂ than emissions generated through the total use of fossil fuels in its own production operations.

Stakeholders influence SCA's choices

SCA's priorities are based on what is important for its stakeholders

THE MATERIALITY ANALYSIS highlights the issues that are significant to SCA and its stakeholders. It forms the basis of SCA's strategy and sustainability work. The analysis is based on a survey of 1,100 external and internal stakeholders. SCA has conducted materiality analyses in 2008, 2010, 2012, 2013 and 2015. The results of the 2015 materiality analysis show that our stakeholders consider the following areas most important:

1. Innovation
2. Customer and consumer satisfaction
3. Business ethics
4. Transparency
5. Health and safety



Innovation was ranked as the overall most important area by the Group's stakeholders. By maintaining close proximity to its customers and consumers, understanding their needs and transforming this knowledge into products and services, SCA makes a positive difference in people's everyday lives, which in turn strengthens the company's market positions and brands.



Customer and consumer satisfaction received the second highest ranking by the stakeholders. Customer understanding and consumer insight determine the innovations SCA develops and how finished products and services are delivered to the market. A dialog with consumers is conducted through focus groups, in-depth interviews and other alternatives. A great deal can be learned from SCA's sales representatives and SCA performs regular customer satisfaction surveys.



Business ethics were also considered highly important by the stakeholders. Free and fair competition is an important cornerstone in every society, and for every sustainable business operation. SCA has zero tolerance for all forms of corruption and unethical business practices and expects its suppliers to adhere to the same rules as SCA, in accordance with SCA's Global Supplier Standard. In 2016, SCA implemented an initiative on ethics and integrity in order to increase focus on these issues in daily work, and enhance awareness of the risks and importance of responsible leadership. A culture characterized by integrity begins with two key insights: that surroundings have a major impact on the actions of individuals and that it is necessary to handle ethical gray areas. The training initiative began with the Executive Management Team and was then taken to 150 of the company's top managers. About 1,000 employees will have taken part in the project by the beginning of 2017. It will then be incorporated into SCA's leadership development activities.

Other key areas were **human rights, resource efficiency, forest assets, corporate governance** and **product safety**. A total of about 1,100 customers, consumers, suppliers, investors, analysts, journalists, NGO representatives and SCA employees participated in the analysis. The stakeholder groups' results have been weighted to provide a more balanced view of the results.

SCA's strategy

VISION

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

MISSION

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

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

STRATEGIES

Win in chosen **geographies** and **categories**

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

Innovate bigger **brands**

Drive **efficiency**

VISION

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

SCA's vision is "Dedicated to improving well-being through leading hygiene and health solutions". There is a growing awareness worldwide about how health, hygiene and well-being are linked, while at the same time limited or no access to hygiene and sanitation is one of the largest global challenges to be resolved. SCA wants to be a thought leader in hygiene matters. SCA has the knowledge, experience, products and solutions as well as the commitment to contribute to improving hygiene standards worldwide. SCA wants to initiate a global dialog about the link between hygiene and health through education, information and promoting awareness of the importance of good hygiene and breaking the taboos surrounding incontinence and menstruation. Approximately 500 million people use SCA's hygiene products every day. SCA makes a positive difference in people's everyday lives by maintaining close proximity to customers and consumers, understanding their needs and transforming this knowledge into leading solutions.

MISSION

The Group's mission is to sustainably develop, produce, market and sell value-added hygiene and forest products and services.



SCA's vision has been broken down into four measurable objectives and strategies with clear connections to stakeholder groups such as shareholders, customers and consumers, society and employees:

OBJECTIVES

Generate increased shareholder value through profitable growth

SCA's overall objective is to generate long-term value for its shareholders and that the SCA share will deliver a higher total shareholder return than competitors. In order to increase value creation and the total shareholder return, SCA is focusing on profitable growth. SCA is investing in future growth and working to increase profitability and grow where profitability is high. In each of the geographic markets and product categories where SCA is represented, the ambition is to generate a return that exceeds the cost of capital and improves cash flow.

Enable more people every day to enjoy a fuller life

What makes SCA successful is the understanding, 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. SCA strives to offer the best value for customers and consumers with affordable hygiene solutions to everyone and by adapting its offering to local and regional market conditions to increase hygiene standards worldwide. SCA wants to reach more people by promoting a global dialog concerning hygiene, health and well-being.

Contribute to a sustainable and circular society

The circular economy is a business model that involves minimizing resource consumption and waste, and creating a closed loop for reusing, recycling or composting. Work contributing to a sustainable and circular society requires new business solutions and innovations at the same time as new business opportunities are created. For SCA, this entails continuing its work with a business model and innovation process that takes into consideration the entire life cycle. SCA has a high level of ambition with regard to resource use and its goal is to recycle and reuse 100% of its production waste by 2030.

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

SCA's success depends upon having motivated, dedicated and performance-oriented employees. As a global employer, SCA strives to offer new opportunities for employees to develop and realize their full potential. The company values the experiences employees can obtain from work in different geographies, roles, functions or business areas. SCA is developing dedicated, responsible and inclusive leaders. The company believes differences contribute to success and strives to achieve diversity in terms of nationality and gender as well as capabilities and personality.

[READ MORE ON PAGES 14–22](#)

STRATEGIES

Win in chosen geographies and categories

SCA strives to hold a number one or two position in the geographies and categories where the company chooses to operate. The company compares itself with the best competitors in each product category in each geographic market and aims to perform better or in line with the best competitor. SCA has a clear priority for which geographic markets it wants to operate in, and which product categories it will offer in these markets.

Focus on customers and consumers

SCA is there for its customers and consumers. Important competitive advantages for SCA are the company's understanding, knowledge and insight into the needs and purchasing behavior of customers and consumers, global expertise, strong customer relations and knowledge about local and regional market conditions. To understand their needs and expectations, the company is engaged in a continuous dialog with customers and consumers. SCA uses various types of market and customer surveys to create customer understanding and consumer insight, which determine the innovations it develops and how the company formulates and implements its business strategy.

Innovate bigger brands

Successful innovations and strong brands go hand in hand. Innovative products and solutions simplify everyday life for people and strengthen SCA's brands and market positions. Strong brands mean the company can increase the impact of its innovations. SCA's innovation strategy is to increase the pace of innovation, capitalize on global economies of scale and ensure that all product segments have a competitive and balanced portfolio of innovations.

Drive efficiency

SCA is dedicated to improving productivity in the entire value chain. Central in this work is establishing the right structures and streamlining all parts of the business. A lasting positive impact on earnings can be achieved when all areas of SCA cooperate using an integrated and efficient approach. By improving efficiency and maximizing production, minimizing waste and continuously finding ways to reduce material and logistics costs, the company will strengthen its competitiveness, cut costs and improve profit while reducing its environmental impact. SCA is working to benefit from global economies of scale and expertise to streamline all parts of the business and establish a world-class supply chain.

[READ MORE ON PAGES 23–29](#)

Objective | Generate increased shareholder value through profitable growth

Work for long-term value creation

SCA's overall objective is to generate long-term value for its shareholders and that the SCA share will deliver a higher total shareholder return than competitors. SCA's strategic framework supports its overall objective. The company also has quantitative targets that govern operations and increase shareholder value; financial targets for organic sales growth, return on capital employed and capital structure as well as targets for people and nature.

Financial targets and dividend

The Group's overall profitability target is to achieve a return on capital employed of 13% over a business cycle. The target is 30% for Personal Care, 15% for Tissue and to be in the top quartile of the industry for Forest Products. In 2016, the Group's adjusted return on capital employed, excluding items affecting comparability, was 12.5%.

SCA's target for annual organic sales growth for Personal Care is 5–7%, while the target for Tissue is 3–4%. For Forest Products, the target is to grow in line with the market. In 2016, the Group's organic sales increased by 2%. Organic sales increased by 3% for Personal Care and 3% for Tissue. Organic sales in Forest Products decreased by 3%.

SCA aims to provide long-term stable and rising dividends to its shareholders. The Board of Directors proposes an increase in the dividend by 4.3% to SEK 6.00 (5.75) per share for the 2016 fiscal year. Accordingly,

dividend growth over the most recent five-year period amounted to 7.4%. The 2016 dividend represents a dividend yield of 2.3%, based on SCA's share price at the end of the year.

Investments in future growth

SCA is well positioned to leverage the growth potential existing in both mature markets and emerging markets. SCA's long-term goal is to be the leading company and strengthen its brand positions in the markets that it serves, for example, through active innovation work that improves SCA's customer and consumer offering and strengthens the SCA brands. SCA's ambition is to increase the emerging markets' share of net sales and profit. The company is prioritizing growth in selected emerging markets, such as China, Southeast Asia, Latin America, Eastern Europe and Russia, where the company holds strong market positions. Emerging markets accounted for 32% of SCA's net sales in 2016.

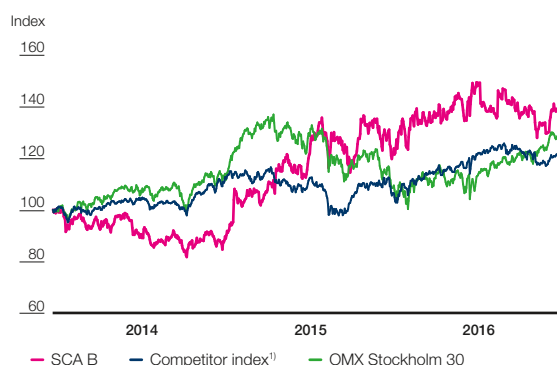
In addition to organic sales growth, SCA sees an opportunity to also grow through acquisitions. The acquisition of Wausau Paper Corp., a leading North American AfH tissue company, was completed in 2016 and was integrated successfully. Following the acquisition, SCA is the second largest player in the AfH tissue segment in the North American market. In December 2016, SCA entered into an agreement to acquire BSN medical, a leading medical solutions company. BSN medical has leading market positions in

several attractive medical product categories and provides a new growth platform with future industry consolidation opportunities. The completion of the transaction is subject to customary regulatory approvals and closing is expected to take place during the second quarter of 2017.

Increase profitability

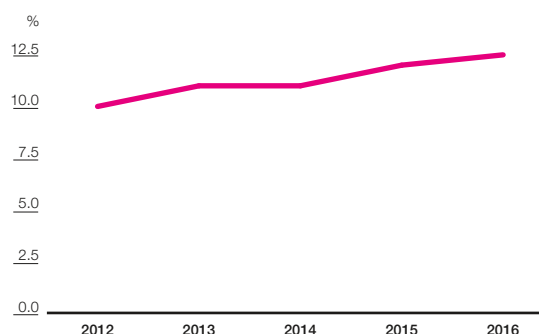
In each of the geographic markets and product categories where SCA is represented, the ambition is to generate a return that exceeds the cost of capital and improves cash flow. Where this is not the case, SCA focuses on improving profitability. SCA has taken the decision to discontinue operations in product categories and in markets where it concludes that necessary investments are not expected to create value and where profitability cannot be improved within a reasonable time frame. Investment in growth should only take place where the return on capital employed is higher than the cost of capital. In incontinence products in North America, SCA has successfully prioritized the achievement of satisfactory profitability ahead of sales growth. Actions have been taken to reduce costs, discontinue unprofitable product offerings and focus on fewer but more profitable products. In 2016, a new production facility for incontinence products was inaugurated in Brazil, which enables improved profitability in the business. During the year, SCA closed its baby diaper business

Total shareholder return 2014–2016



¹⁾ Weighted index of competitors' total shareholder return. Competitors are selected to reflect SCA's operations. The index is used when comparing the SCA share performance over a three-year term for the long-term portion (LT) of senior executives' variable remuneration.

Adjusted return on capital employed¹⁾



¹⁾ Excluding items affecting comparability.



in Mexico because of weak market position with inadequate profitability. Investments needed to improve its product offering and market position were not deemed to be value creating. SCA has also decided to discontinue its hygiene business in India as a result of its assessment that profitability cannot be achieved within a reasonable time frame.

For Forest Products, SCA is investing in doubling pulp production at the Östrand pulp mill. Production is expected to commence in the second quarter of 2018. At the end of 2016, SEK 2.6bn had been invested of the approximately SEK 7.8bn planned. Over time, the investment in Östrand is expected to increase sales and competitiveness and create a world-class cost position and higher margin.

Cost and capital efficiency has the highest priority to strengthen competitiveness and increase profitability and cash flow in the Group. SCA continuously strives for a more effective supply chain and for better leveraging economies of scale to achieve a more efficient value chain. 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 as well as enabling faster production adaptation in conjunction with innovations and product upgrades.

Growth where profitability is high

SCA prioritizes investments and growth in market positions where profitability is high. Investments could, for example, take the form of innovation initiatives, marketing activities and upgrading or replacing machines.

By focusing on innovation and improving and expanding its customer and consumer offering, SCA is working to strengthen its market positions and brands, improve pricing and product mix and increase sales. In 2016, SCA launched 23 innovations, including AfH tissue and incontinence products under the two globally leading brands Tork and TENA. For example, during the year SCA invested in growth in feminine care products in Europe and in Latin America in order to expand at a faster rate than the market, capture market shares and drive profitable growth. Investments were made in innovation work to improve and expand customer offerings and in marketing activities. These initiatives have resulted in stronger market positions and increased organic sales both in Europe and Latin America.

Incentive programs supporting long-term value creation

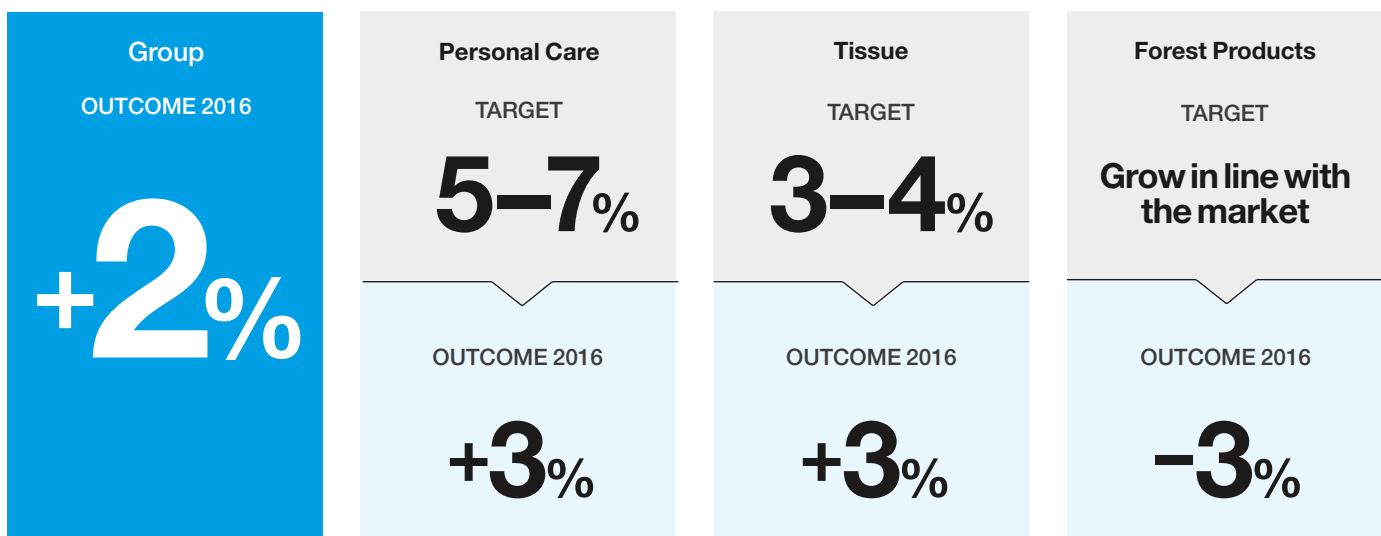
The variable remuneration of the CEO, Executive Vice Presidents and Business Unit Presidents and equivalents supports Group efforts for value creation and targets for organic sales growth and return on capital employed.

The program for variable remuneration is divided into a short and long-term portion. The long-term portion is based on the performance of the company's B share, measured as the Total Shareholder Return index, compared with a weighted index of competitors' and consumer companies' shares performance over a three-year period. The short-term portion is mainly focused on operating cash flow, cost control, operating profit and organic sales growth for each business unit. The targets are weighted differently depending on the type of business each executive is responsible for. For an executive in charge of a business with unsatisfactory profitability, a target such as operating profit is assigned a high weight while organic sales growth has a low weight. In a similar way, organic sales growth is assigned a high weight for an executive responsible for a business with good profitability.



Financial targets and outcomes

ORGANIC SALES GROWTH¹⁾



TARGET

SCA's target for annual organic sales growth for Personal Care is 5–7%, while the target for Tissue is 3–4%. For Forest Products, the target is to grow in line with the market.

In 2016, the Group's organic sales increased by 2%. Organic sales increased by 3% for Personal Care and 3% for Tissue. Organic sales in Forest Products decreased by 3%.

CAPITAL STRUCTURE

TARGET

SCA'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.

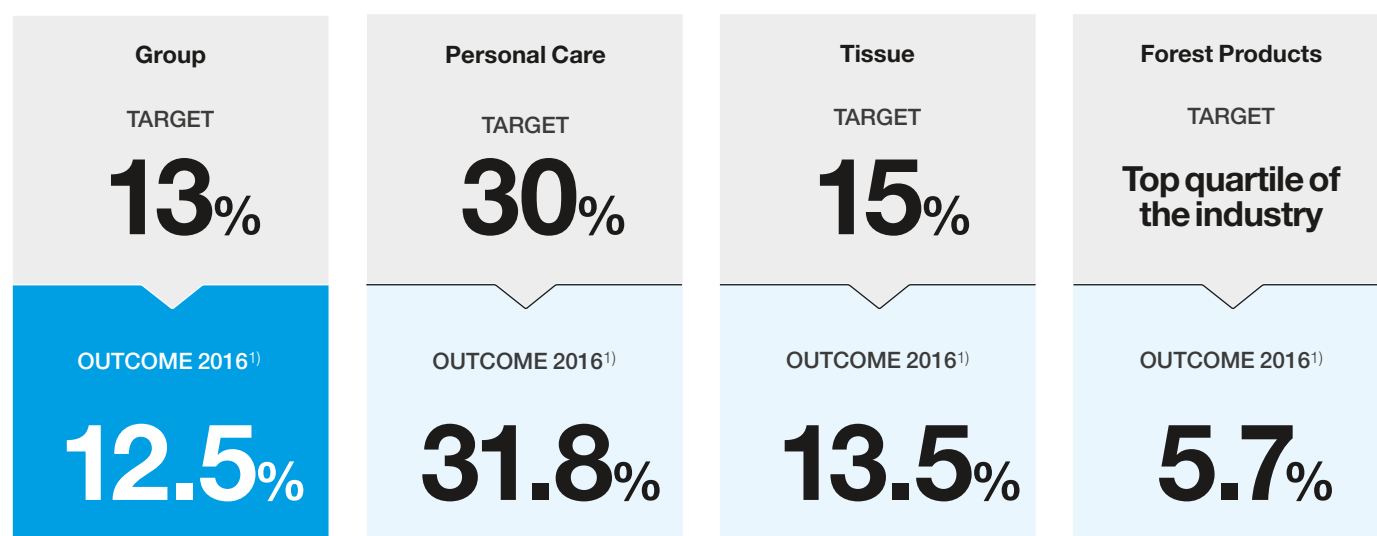
OUTCOME 2016

SCA had a solid investment grade rating

¹⁾ Excluding exchange rate effects, acquisitions and divestments.



RETURN ON CAPITAL EMPLOYED

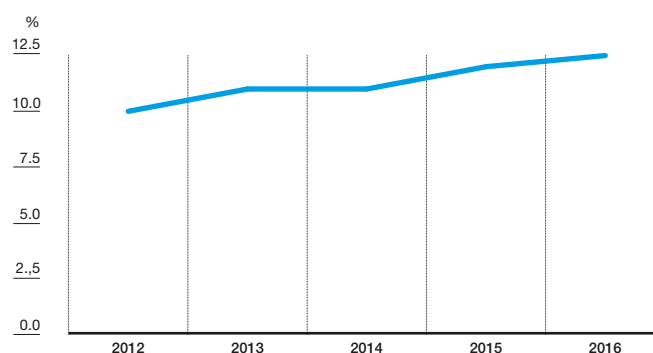


TARGET

The Group's overall profitability target is to achieve a return on capital employed of 13% over a business cycle. The target is 30% for Personal Care, 15% for Tissue and to be in the top quartile of the industry for Forest Products.

In 2016, the Group's adjusted return on capital employed¹⁾ was 12.5%. The adjusted return on capital employed¹⁾ was 31.8% for Personal Care and 13.5% for Tissue. The adjusted return on capital employed¹⁾ for Forest Products was 5.7%.

Adjusted return on capital employed¹⁾



¹⁾ Excluding items affecting comparability.

People and nature targets and outcomes

Measurable targets and follow-up are key drivers for SCA's sustainability work. Transparent targets also make it easier for internal and external stakeholders to monitor the progress of the company's sustainability efforts.

 = Not according to schedule
 = Not according to schedule, actions identified
 = According to schedule

 Employee Health & Safety	TARGET Our aim is zero workplace accidents, and we will decrease our accident frequency rate by 50% in the 2014–2020 period. OHSAS 18001 will be implemented at all main sites by 2016.	OUTCOME 2016¹⁾ The accident frequency rate was 4.6 per million hours worked, a decrease of 31%. Compared with 2015, the decline was 27%. A tragic fatality occurred at the Mannheim site in Germany. By the end of 2016, 87% of SCA's 63 main sites were certified according to OHSAS 18001. Reduction in accident frequency rate -31% Accident frequency rate  OHSAS 18001 
 People & nature innovations	TARGET We will deliver better, safe and environmentally sound solutions to our customers. We strive to continuously improve resource efficiency and environmental performance considering the whole life cycle for new innovations.	OUTCOME 2016¹⁾ 40% of SCA's innovations improved in terms of social and/or environmental criteria. Examples of SCA's people and nature innovations include TENA Lady Pants, Tork SmartOne and Okay Compressed. Share of people and nature innovations 40% 
 Hygiene solutions	TARGET We will make our knowledge about hygiene available to customers and consumers and ensure access to affordable, sustainable hygiene solutions to help them lead a healthy and dignified life. In markets in which we operate we will: • Provide information on hygiene matters around our products and services. • Strive to implement education programs for girls, women and caregivers. • Strive to offer the best value for consumers making hygiene solutions affordable to everyone.	OUTCOME 2016¹⁾ SCA held the number one or two position in at least one hygiene product segment in about 90 countries. Around 500 million people used SCA's products every day. The hygiene educational programs SCA conducts worldwide reached 2,000,000 people. We offered a broad portfolio of products, ranging from the premium segment to the economy segment. Millions of people who used SCA products every day 500 
 Code of Conduct	TARGET We will maintain compliance with our SCA Code of Conduct. All employees will receive regular training in the Code. We evaluate all of our supply streams from a total risk perspective. By 2020, we aim to source 100% of our procurement spend from suppliers committed to the criteria specified in our Global Supplier Standard.	OUTCOME 2016¹⁾ 91% of employees have received Code of Conduct training. At year-end, 46% of the hygiene operations' procurement spend was sourced from suppliers committed to the criteria specified in SCA's global supplier standard. Of Forest Products' 23 largest suppliers, 87% had signed the global supplier standard. Employees trained in the Code of Conduct 91% 

¹⁾ Excluding Vinda.

²⁾ Excluding the Munksund and Östrand sites.



Climate and energy

TARGET

We will reduce CO₂ emissions from fossil fuels and from purchased electricity and heating by 20% by 2020, with 2005 as reference year.

We will triple our production of biofuels from our forests by 2020, with 2010 as reference year.

The production of wind power on SCA forest land will increase to 5 TWh by 2020.

OUTCOME 2016¹⁾

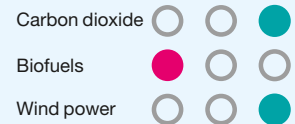
At year-end 2016, CO₂ emissions in relation to production level had declined by 18.4%.

SCA's production of biofuel from its own forests amounted to 740 GWh.

Wind energy from SCA forest land totaled 2.3 TWh.

Reduction in
CO₂ emissions

-18.4%



Fiber sourcing & Biodiversity

TARGET

All fresh wood fiber-based raw material in our products will be FSC® or PEFC™ certified, or fulfill the FSC's standard for controlled wood.

We will preserve the biodiversity of our forests. A minimum of 5% of our productive forest land will be set aside from forestry in our ecological landscape plans and a further 5% will be set aside as part of our consideration for nature in our managed forests.

OUTCOME 2016¹⁾

In 2016, 6.5 million tons of fresh fiber were delivered as timber, pulp, packaging, mother reels and products from a third party. 57% of fiber was FSC/PEFC certified, 42% fulfilled FSC criteria for controlled timber and 1% came from controlled suppliers.

7% of SCA's productive forest land has been set aside from forestry in the long term in our ecological landscape plans. In 2016, 13% of the area in planned harvesting sites was set aside for preservation.

Share of fiber that is FSC/PEFC certified or fulfills the FSC's standards for controlled wood

99%



Water

TARGET

Our plants will reduce suspended solids by 10%.

Our tissue operations will reduce the water usage by 10% and organic content (BOD) by 10%.

Our forest products operations will reduce phosphorous emissions by 10%.

All targets will be achieved by 2020 (reference year 2014).

OUTCOME 2016^{1) 2)}

Our plants reduced suspended solids by 12.5%.

Our tissue operations reduced the water usage by 1.5% and organic content (BOD) by 3.3%.

Our forest products operations increased phosphorous emissions by 35.6%.

Reduction in
suspended solids

-12.5%



The Sustainability Report and the Annual Report should be viewed as a single unit in which information may be provided in either report or, where appropriate, in both. Read more at www.sca.com or in SCA's Sustainability Report 2016.



Objective | Enable more people every day to enjoy a fuller life

Investing in knowledge to increase quality of life

SCA has the knowledge, experience, products and solutions as well as the commitment to contribute to improving hygiene standards worldwide. The company shares its expertise in hygiene through training programs, through which 2,000,000 people were educated in 2016. For example, SCA educates children about the importance of washing their hands, girls about menstruation and puberty and nurses about incontinence care.

What makes SCA successful is its understanding, knowledge and insight about the needs of customers and consumers and its ability to transform this into innovative offerings that increase quality of life and make everyday life easier for people. SCA strives to offer the best value for customers and consumers with affordable hygiene solutions to everyone and by adapting its offering to local and regional market conditions to increase hygiene standards worldwide.

SCA continues to develop its product categories and brands to offer innovative solutions, maintain and strengthen relations with customers and to break taboos in order to achieve positive changes and effects in people's lives. The company has several strategies that contribute to achieving the objective of enabling more people to enjoy a fuller life. From winning in chosen geographies and categories – which helps SCA to focus on the regions and product categories where the company can have the most profound impact – to focusing on customers and consumers, where SCA's close dialog with customers and consumers helps the company to understand and gather information about needs and purchasing behavior and, through innovation, build bigger brands.

Investing in knowledge

SCA invests in knowledge to improve hygiene standards in the world and at the same time create business opportunities. SCA shares its hygiene expertise with children, women and men, parents, family members and care providers worldwide and works to break the taboos surrounding, for example, menstruation and incontinence.



2 million
people were educated through
SCA's hygiene training program
worldwide

Examples of SCA's hygiene training courses in 2016:

1,485,400 young women were educated about menstruation and puberty, mainly in Latin America and Asia. The courses in schools are intended to teach girls about what happens to their bodies, to break the silence and taboo surrounding menstruation and to build a market for SCA's brands.

95,500 nurses and other caregivers were trained in incontinence, individualized incontinence care, skincare and dementia across the globe.

34,900 people were educated in hand washing. Using the cartoon characters Max and Ella, children carried out experiments, solved problems and learned practical tips about hand hygiene in a fun and inspiring way. "Ella's hand washing adventure" is available as a smartphone app for the iPad and Android.

Hygiene Matters – an initiative to promote a global dialog concerning hygiene, health and well-being

All too often, hygiene issues, which affect millions of people worldwide, are pushed aside as if they did not exist.

The aim of SCA's Hygiene Matters initiative is to promote a global dialog concerning hygiene, health and well-being and to improve hygiene standards in the world. Many of the activities can also be linked to the UN's Sustainable Development Goals. Focus for the initiative includes breaking the taboos surrounding menstruation and incontinence, highlighting the economic impact of hygiene and promoting innovation in the hygiene sector to support the sustainable development of the sector.

SCA has gathered insights and ignited the conversation around the role and importance of hygiene over a period of many years and via its Hygiene Matters initiative since 2008. An important part of the initiative is the Hygiene Matters report. One aim of the 2016–2017 Hygiene Matters report is to raise awareness among stakeholders of necessary measures. The report is based on a global survey of 12,000 people from 12 countries, gathering their perspectives on hygiene, health and well-being. SCA is proud that the report was produced in collaboration with the UN body the Water Supply and Sanitation Collaborative Council for the first time.

In October 2016, SCA and the United Nations (UN) Foundation convened the fourth annual dialog on the UN Global Agenda with the aim to contribute to better hygiene standards around the world and support the UN Sustainable Development Goals.

SCA is ready to start a global conversation. Follow the dialog on www.HygieneMatters.com

Circular economy both a challenge and an opportunity



Some examples of how SCA contributes to a circular economy (from the left): Manufacturing bio-fuel from by-products, Tork Xpressnap dispensers designed to reduce consumption and Okay Compressed, where innovative compression technology reduces climate impact by 8% over the life cycle of the household towel.

The circular economy is a business model that involves minimizing resource consumption and waste, and creating a closed loop or new ecosystem for reusing, recycling or composting. Work contributing to a sustainable and circular society requires new business solutions and innovations at the same time as new business opportunities are created. SCA works systematically using a holistic approach to achieve this long-term objective.

An increasing number of people are now sharing the planet's resources. This requires society and businesses to abandon the linear economy, where products are manufactured and thrown away, and instead switch to a circular economy.

Since the beginning of the 1990s, SCA has worked with life cycle assessments, which involve a complete environmental analysis of a product's value chain, from raw material, production and transport to use and waste management. SCA's hygiene products have reduced their carbon footprint in recent years (see pages 14, 15 and 40 of the SCA Sustainability Report) and SCA continues to work with resource-efficient products and new services for customers. SCA has worked for

some time with solutions for paper dispensers that reduce consumption by consumers. Tork Xpressnap is one example where SCA guarantees customers a 25% reduction in napkin consumption and Tork SmartOne is another, offering a reduction in toilet paper consumption of up to 40%.

SCA continuously works to improve resource efficiency, for example through the Energy Savings and Efficiency (ESAVE) program, which since 2010 has resulted in a 9% reduction in energy used per ton of product produced, equivalent to a reduction in energy consumption of 1.8 TWh. In 2016, 101 projects were implemented, resulting in a 0.9% reduction in energy use. SCA has also started a corresponding program for raw materials, MSAVE, which aims to optimize costs while minimizing environmental impact and waste from the raw materials. SCA has a goal to recycle and reuse 100% of its production waste and by-products from production. 65% is currently recycled.

SCA's ambition is to design products for a circular economy so an increasing share can be efficiently reused or recycled. This is why a reduction in post-consumer waste is another focus area. SCA has, for example, developed a service where used paper towels from Tork

are collected from customers and sent to a local SCA mill to produce new paper products (see also page 29 of the SCA Sustainability Report). SCA's hygiene product portfolio primarily comprises disposable products and in order to contribute to a sustainable and circular society SCA is now working to find business models that include the efficient collection of used products and a technology that separates the different materials used in the products in a way that creates new, attractive, recycled materials.

In order to create new business models and innovations, SCA needs to find new partnerships and collaborations. In 2016, the company joined the Circular Economy 100 (CE100), an Ellen MacArthur Foundation program, which aims to accelerate the transition to a circular economy. Membership in CE100 will also strengthen SCA's ability to contribute to the UN's Sustainable Development Goals, in particular Goal 12, Sustainable Consumption and Production, and Goal 13, Climate Action.

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

Winning corporate culture with a focus on value creation



SCA's success depends upon having motivated, dedicated and performance-oriented employees. In turn, SCA offers an opportunity for a career in a global company with a vision of improving well-being through leading hygiene and health solutions.

Talent and capabilities are crucial to SCA's success

As a global employer, SCA strives to offer new opportunities for employees to develop and realize their full potential. A career with the company can have several dimensions. Regardless of whether an employee wants to develop within his or her current role, change job on the same level or take greater responsibility within the organization, SCA wants to help employees achieve their ambitions in harmony with the company's business needs. The company values the experiences employees can obtain from work in different geographies, roles, functions or business areas and is positive to both continuity and variation in tasks.

Within SCA, everyone is responsible for their own development. All employees are to have an individual development plan where the plans are a combination of business needs and the ambitions of each individual. In order to guarantee the long-term need for employees and capabilities, SCA uses a strategic workforce plan that defines the needs for future talents and expertise in order to successfully deliver the company's strategy. The company believes in an open and active labor market in order to promote mobility. Vacant positions are published on SCA's job portal: sca.com/en/Career/job-opportunities/.

SCA has Group-wide development programs for various functions, such as leadership, sales, marketing and production. Training in SCA's Code of Conduct and IT

security are part of the company's introduction process for new employees.

Attractive employer

SCA's ambition is to be perceived as an attractive employer by both current and potential employees. The "Life Inspiring Careers" concept increases awareness of SCA as an employer and highlights the uniqueness of working for SCA. Work focuses on markets where SCA, through its strategic staff planning, defines a need to attract and recruit competent employees for the future. In order to recruit recent graduates in areas such as sales, marketing, IT, research and development and production, SCA launched the third round of the "GO! Program" in 2016. The program offers recent graduates a first job in the labor market. During the two years of the program, these employees have specific development targets.

Strong leaders – prerequisite for success

SCA's leadership platform is the foundation for the company's talent and leadership development. The company believes development is best when it takes place as a combination of new challenges at work, learning through others and training. Responsive and dedicated leaders are very important if employees are to successfully implement SCA's strategy. SCA's ambition is therefore to have strong leaders who can involve and strengthen their colleagues, push performance and provide and receive continuous feedback.

Winning corporate culture with a focus on employees

Commitment and winning teamwork characterize SCA's corporate culture. Dedicated employees are required to create a dynamic culture where you enjoy your work, feel a sense of ownership and work together to successfully achieve business targets. Employee views are important for the success of SCA. Knowing what employees think about a number of areas that concern the company – such as leadership, commitment of employees, innovation culture and customer orientation – are used as a basis to identify both the company's strong areas and those areas that need to be improved. This is measured through regular employee surveys. 88% of employees took part in the latest survey. SCA

received particularly high results in such areas as commitment, company image and culture, and goal-orientation. The result of the survey has gradually risen over the years it has been held. It indicates a positive, inclusive and result-focused corporate culture that encourages commitment and loyalty over time.

Healthy and safe workplace

SCA's aim is zero workplace accidents. Regrettably, a tragic fatal accident occurred at SCA in 2016. SCA works actively with measures to ensure that similar accidents are not repeated.

During 2016, SCA held its second global safety week to raise awareness and improve knowledge about safe working methods for the entire business.

SCA is focusing on health-promoting measures for employees in production with work involving heavy lifts and repetitive strain. A preventative action program has been drawn up.

During 2016, the accident frequency rate decreased by 27% and in 2014–2016 it fell by 31%. The target is to reduce the accident frequency rate by 50% between 2014 and 2020.

Ethics – from compliance to leadership

In 2016, SCA implemented an initiative on ethics and integrity in order to increase focus on these issues in daily work and the importance of responsible leadership. A culture characterized by integrity begins with two key insights: that surroundings have a major impact on the actions of individuals and that it is necessary to understand and handle ethical gray areas.

The training initiative began with the Executive Management Team and was then taken to 150 of the company's top managers. About 1,000 managers will have taken part in the project by the beginning of 2017. It will then be incorporated into SCA's ordinary leadership development activities.

With the ambition to be better than competitors



SCA strives to hold a number one or two position in the geographies and categories where the company chooses to operate. The company compares itself with the best competitors in each product category in each geographic market and aims to perform better or in line with the best competitor.

Prioritized markets

SCA has a clear priority for which geographic markets it wants to operate in, and which categories it will offer in these markets. Sales are conducted in approximately 100 countries. In around 90 of these, SCA holds the number one or two position in at least one hygiene product segment. SCA's focus is to grow the profitable market positions and increase market shares. SCA's ambition is to increase the emerging markets' share of net sales and profit. The company is prioritizing growth in selected emerging markets, such as China, Southeast Asia, Latin America, Eastern Europe and Russia, where the company holds strong market positions. Emerging markets accounted for 32% of the company's net sales in 2016.

SCA is the global market leader in incontinence products under the TENA brand and in the AfH tissue segment under the Tork brand. Moreover, SCA has strong regional brands and market positions in baby diapers, feminine care and consumer tissue under brands such as Libero, Libresse, Nosotras, Regio, Saba, Tempo, Vinda and Zewa.

The divestment of the hygiene business in Southeast Asia, Taiwan and South Korea to Vinda, a company in which SCA is the majority shareholder, was completed in 2016. The transaction strengthened SCA's cooperation with Vinda to build a leading Asian hygiene business.

Addressing weak market positions

During 2016, SCA continued work to address weak market positions with inadequate profitability. SCA prioritizes a presence in geographies and in product categories where the company has a leading market position with healthy gross margins and where investments in growth generate a favorable return. SCA has taken the decision to discontinue operations in product categories and in geographies where it concludes that necessary investments are not expected to create value and where profitability cannot be improved within a reasonable time frame. In 2016, this resulted in the company closing its baby diaper business in Mexico and deciding to discontinue its hygiene business in India.

Expanding the customer offering

In order to broaden its product categories and strengthen its market positions, SCA is working continuously to improve and expand its customer and consumer offering. SCA offers, for example, wet wipes in all product categories of its hygiene business. Skincare products and soap are also a good fit. SCA offers soap in the product categories AfH

tissue, baby diapers, incontinence products and feminine care products. Expanding the customer offering is also about providing service and solutions to customers and consumers. In the AfH tissue segment, for example, SCA focuses on helping its customers by providing service and solutions to help customers be more efficient and achieve better results at the same time as improving customers' sustainability profile.

Acquisition of BSN medical

SCA is also reviewing opportunities to add new product categories in its hygiene business in markets where the company has a strong position and sales organization. In 2016, SCA entered an agreement to acquire BSN medical, a leading medical solutions company that develops, manufactures, markets and sells products in wound care, compression therapy and orthopedics. BSN medical has leading market positions in several attractive medical product categories and provides a new growth platform with future industry consolidation opportunities. SCA's incontinence business, with the globally leading TENA brand, shares similar positive market characteristics, customers and sales channels with BSN medical, which will provide opportunities for accelerated growth through cross-selling. The completion of the transaction is subject to customary regulatory approvals and closing is expected to take place during the second quarter of 2017.

Strategy | Focus on customers and consumers

Offerings that simplify everyday life

SCA is there for its customers and consumers. To understand their needs and expectations and how SCA best can meet these, the company is engaged in a continuous dialog with customers and consumers. During 2016, SCA's products and solutions have, for example, simplified cleaning public restrooms and enabled people with incontinence to continue with an active lifestyle.



TORK SMARTONE® – THE SMART CHOICE

Sheffield Teaching Hospitals NHS Foundation Trust (STHFT) delivers quality healthcare throughout the South Yorkshire region in the UK. It operates across five different sites throughout Sheffield city center. With more than 13,000 staff, it is crucial that washrooms are clean, tidy and fully stocked for both patients and visitors.

Hygiene is a top priority for STHFT. Large hospitals with many patients need effective hygiene products that perform well when they are busy. Hospitals also recognize the need to reduce waste and make cleaning work more cost-effective. STHFT was concerned by the amount of paper that seemed to be wasted with paper being left on the floor in their washrooms. This made the routine task of cleaning the facilities more difficult and time consuming for the domestic service employees. This issue led to increased costs and made the washrooms less sanitary, as the excess paper strewn on the floor meant poorer hygiene. STHFT needed a new washroom product that would solve the issues of increased work load and hygiene concerns which would ultimately make

Tork SmartOne® is designed for use in demanding environments, such as hospitals, schools, 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.

washroom maintenance easier and less time consuming. They chose Tork SmartOne® from SCA.

Both practical and decorative

STHFT chose Tork SmartOne® because it provided a practical solution to the hygiene and cost issues they faced. Jackie Morris, Head of Domestic Services and Residences, explained: "We already used Tork in a select few of our washrooms and were pleased with how reliable the products were. Following a visit to the NHS Infection Control Conference, we were really impressed with Tork

SmartOne®; how it looked, its controlled dispensing and that it is a fully enclosed system. We have now installed 2,400 Tork SmartOne® dispensers in our hospitals and are planning to fit more in the future."





FEELING CONFIDENT WITH TENA

“Living with incontinence does not need to be taboo. Instead we should learn to talk about it and not be afraid to seek treatment.” So says Edwina White, a woman who has lived with incontinence for almost ten years.

Edwina White is a retired psychotherapist living in the UK. She became incontinent at the age of 67. However, she admits that, for a while, instead of seeking treatment, she ignored it and hoped it would go away. “Eventually, I found the courage to go and see a specialist and that meant owning up to the problem,” she says.

Today, Edwina is a very active 77-year old. She attends a local choir and a book club, enjoys the theatre and pays regular visits to her son in Hong Kong and her sister in Australia. She also likes to take holidays with friends in Cornwall and France. “Being incontinent affects my life every single day,” admits Edwina. “It’s miserable. I feel it’s something well out of my control.”

“My advice to someone with incontinence is that you should take it seriously, go and see a specialist about it. But also talk about it with friends and family. Try the medicine, the interventions and the exercises. And in the meantime, you can feel confident that you’re not going to be caught out, simply by using TENA pads. TENA’s products provide comfort, discretion and reliability. With the help of TENA, I feel confident and can continue to do everything I like to do,” says Edwina.



CUSTOMER SURVEYS AS A TOOL FOR IMPROVEMENT

Customer feedback is important to be able to offer better products and solutions and the SCA business units have methods to investigate customer satisfaction. User complaints and opinions provide valuable consumer insight and it is important to SCA that the knowledge gathered is transferred to the organization.

The hygiene operations conduct a systematic customer follow-up, which includes both external reports and SCA’s own surveys. For example, SCA has a global system of customer follow-up in the incontinence products and tissue operations. These reports are important as decision support for SCA and provide an indication of customer satisfaction and improvement potential. In addition to products, SCA delivers crucial knowledge and support in the development of operations at such institutions as nursing homes and, accordingly, highly values opportunities for direct customer contact.

The retail trade accounts for a significant part of SCA’s sales. SCA uses external comparison reports where the largest retail chains assess their suppliers based on such criteria as customer service, logistics, sales support, marketing and product development. Consumers who purchase retail products are studied through general brand and product recognition surveys.

Customer feedback

SCA has procedures for managing customer complaints. All information received by SCA’s customer service team is entered into a global business system. SCA seeks to contact unsatisfied customers directly and determine whether a need exists for further measures beyond the individual case. For example, production personnel receive feedback to determine whether a production fault was the underlying cause.

Customer and consumer insights, creativity and courage drive innovation and bigger brands

Successful innovations and strong brands go hand in hand. Innovative products and solutions simplify everyday life for people and strengthen SCA's brands and market positions. Strong brands mean the company can increase the impact of its innovations.

SCA is very proud of the 23 innovations that were brought to market during 2016. They are the result of an innovation process deeply embedded in the company's strategy and business model. SCA's innovation work is supported by the company's innovation teams across the globe and an established innovation culture as well as the will to continuously increase customer and consumer value. Every day, numerous employees are involved in innovations at the company. Their work requires insight, inspiration, discipline, creativity and courage.

Increased customer and consumer value

Innovation is key to satisfying new or evolving needs in a fast-moving world. The focus is always on customer and consumer value. All SCA's innovation work starts with an insight about a customer or consumer need. The company's yearly market insights include

interaction with over 150,000 people to ensure that the company truly understands customer and consumer needs. The company's innovation activities also consider market trends, new technology and new business models. SCA takes sustainability aspects and product safety into consideration throughout the process. The company's innovation strategy is to increase the pace of innovation, capitalize on global economies of scale and ensure that all product segments have a competitive and balanced portfolio of innovations. SCA has a particular focus on exploring opportunities to broaden its existing product portfolio and to expand its offering of products and solutions to further increase customer and consumer value. All of this guides innovation work and how to improve existing products, to satisfy new needs and build bigger brands.

Innovative marketing

A large part of SCA's innovations is focused on products and solutions, but realizing success in today's digital landscape requires more than just good products. It requires creative forward-looking strategies that embrace new channels and technology to deliver bold and consumer-friendly campaigns that get

messages across. This underlines the importance of being innovative in how to engage and socially interact with customers and consumers in order to build bigger brands and customer loyalty. One example of a campaign that received positive attention and won prestigious awards, including the Cannes Gold Lion, is the 'Red.fit' campaign for one of SCA's feminine care brands, Libresse. The 'Red.fit' campaign challenges the taboos that surround menstruation in the world of sport and is evidence that SCA is also innovative in its marketing.

Resource-efficient production

Equally important are the innovations that facilitate and increase efficiency in SCA's supply chain. The company strives continuously to find the best way to streamline and maximize production, minimize waste and reduce material and logistics costs by developing the right technology in close cooperation with suppliers, by rebuilding machines and by launching innovations in time with the right quality. SCA aims to improve resource efficiency and reduce environmental impact. All parts of the value chain need to cooperate and interact to achieve the best results.





The 'Red.fit' campaign challenges the taboos that surround menstruation in the world of sport. You can watch the film on www.libresse.se.



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.



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.



Efficiency – a prerequisite for success

SCA is dedicated to improving efficiency in the entire value chain. Central to this work is establishing the right structures and streamlining all parts of the business. A lasting positive impact on earnings can be achieved when all areas of SCA cooperate using an integrated and efficient approach. By improving efficiency and maximizing production, minimizing waste and continuously finding ways to reduce material and logistics costs, the company will strengthen its competitiveness, cut costs and improve profit while reducing its environmental impact.

SCA is working to benefit from global economies of scale and expertise to streamline all parts of the business and establish a world-class supply chain. Within SCA, two global units are responsible for sourcing, production, logistics and technology: Global Hygiene Supply Personal Care and Global Hygiene Supply Tissue.

Safety in everything we do

SCA's aim is zero workplace accidents. Regrettably, a tragic fatal accident occurred at SCA in 2016. SCA works actively with measures to ensure that similar accidents are not repeated.

During 2016, SCA held its second global safety week to raise awareness and improve knowledge about safe working methods for

The target is to halve the accident frequency rate between 2014 and 2020

the entire business. SCA workplaces conducted activities around the theme "Friends at work – together we are safer", to remind employees that "we are safer when we take care of each other and look after each other every day".

During 2016, the accident frequency rate decreased by 27% and in 2014–2016 it fell by 31%. The target is to reduce the accident frequency rate by 50% between 2014 and 2020.

World-class supply chain

There are many elements that signify a world-class supply chain; safety, cost efficiency, resource efficiency, quality, flexibility, excellent service level and capital efficiency. It is critical for the business to have an efficient supply chain, with cost-competitive product specifications as well as efficient procurement, production and logistics to optimize profitability and return on capital employed in all parts of the company. One example of this is in the production of feminine care products in Europe, where asset utilization has increased

substantially by speeding up machines and improving machine efficiency. This has enabled SCA to absorb the sales growth in feminine care with existing production lines, pushing forward investments in new lines.

Tissue Roadmap

To further improve efficiency and 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, secure capacity for future growth and enable faster production adaption 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.

Smarter utilization of materials

Cost of goods sold (COGS) is a major part of net sales. SCA drives efficiency improvement and cost savings in all areas to reduce COGS as a percentage of net sales. Raw material is the major part of COGS. Significant savings



have been reached through smarter utilization of materials, reducing waste in production, material optimization and the use of new materials at a lower cost. These actions also resulted in reduced environmental impact through improved resource efficiency.

Global energy-saving program reduces climate impact

Energy is a prioritized area for continuous improvement at SCA. In 2003, the Energy Savings and Efficiency (ESAVE) program was started, which is a structured program to reduce energy consumption by production

units. ESAVE has contributed to improved efficiency, energy savings, cost savings and reduced climate impact. In 2016, 101 ESAVE projects were implemented, resulting in a 0.9% reduction in energy used per ton of product produced.

Speed to market with innovations

Establishing more efficient production and processes enables a higher speed to market of innovations and faster customer adaptations. This in turn improves customer service and satisfaction. For SCA, this is about developing the right technologies in close cooper-

ation with suppliers, rebuilding machines and launching innovations at the right time. The key to success is enabling both faster innovation launches and improved performance. An increased cooperation along the full value chain is contributing to value creation in both production and sales.

Successful efficiency programs in SCA's forest products business

SCA's forest products business is active in an international market. Both customers and competitors are present all around the world. Competitiveness is impacted by factors such as product quality, sustainability and service level, but also by external factors such as access to raw materials and the cost of raw materials, wage levels and other local costs, the distance to customers and not least currency.

When competitiveness and profitability are strongly impacted by external factors, it

becomes even more important to focus on the competitive factors that a company can influence. One such factor, perhaps the most important, is production efficiency.

The forest products business has a long tradition of working with developing and improving production efficiency. Even if efficiency work is a continuous process, that is never complete, you can make substantial advances by focusing on the different components in this work.

Since the turn of the millennium, the forest products business has run four focused general earnings improvement programs.

A few of these focused on reducing direct or indirect costs. Others have had a broader impact and also focused on increasing revenues. A common feature for these programs was clear targets broken down to the different production units. The programs have tried to mobilize many employees both in conceptual work and implementation and there has been a careful follow up.

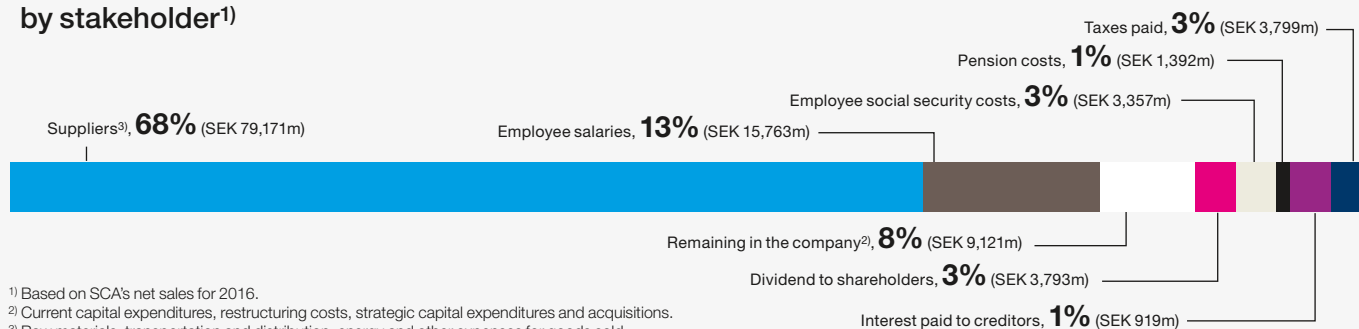
This successful working method is now continuing in the systematic and long-term work to improve profitability.

Value creation for SCA's stakeholders

SCA's vision and strategic framework have clear connections to SCA's stakeholder groups and aims to deliver maximum long-term value creation. SCA sustainably develops, produces, markets and sells value-added hygiene and forest products, thereby creating value for shareholders, customers and consumers, suppliers, employees and society. Operations are based on a sustainable business model with a focus on value creation for people and nature.



Economic value creation by stakeholder¹⁾



¹⁾ Based on SCA's net sales for 2016.

²⁾ Current capital expenditures, restructuring costs, strategic capital expenditures and acquisitions.

³⁾ Raw materials, transportation and distribution, energy and other expenses for goods sold.



SHARE-HOLDERS

SCA's overall objective is to generate long-term value for the company's shareholders and that the SCA share will deliver a higher total shareholder return than competitors. This is achieved through a positive share price trend and through dividends. SCA 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.

Outcome 2016

- SCA's share price rose 4% in 2016. The Board of Directors proposes an increase in the dividend by 4.3% to SEK 6.00 per share for the 2016 fiscal year. Accordingly, dividend growth in the most recent five-year period amounted to 7.4%.

CUSTOMERS AND CONSUMERS

SCA wants to reach more people by promoting a global dialog about hygiene, health and well-being that contributes to improved knowledge and quality of life, in connection to SCA's products and solutions. What makes SCA successful is the understanding, 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 life easier for people. SCA strives to offer the best value for customers and consumers with affordable hygiene solutions to everyone and by adapting its offering to local and regional market conditions to increase hygiene standards worldwide.

Outcome 2016

- SCA held the number one or two position in at least one hygiene product segment in some 90 countries and offered a broad portfolio of products ranging from the premium segment to the economy segment. SCA introduced 23 innovations during the year. SCA continued to educate young women about menstruation and puberty, as well as educating children about the importance of hand hygiene and providing training for nurses in the field of incontinence care.

SUPPLIERS

SCA strives to have transparent, long-term relationships with its suppliers to guarantee both high quality and financial stability for both parties. Purchasing accounts for SCA's single largest expense. To achieve economies of scale, input goods, such as pulp, electricity and chemicals, are purchased centrally. SCA's goals in the area of responsible sourcing encompass all suppliers. The SCA Global Supplier Standard serves as a basis for ensuring that the company's suppliers meet the highest standards in terms of social and environmental responsibility and product safety.

Outcome 2016

- SCA paid approximately SEK 79.2bn to its suppliers during 2016. At the end of 2016, 46% of the sourcing costs for the hygiene operations were from suppliers, that had undertaken to comply with the criteria in SCA's Global Supplier Standard. Of Forest Products' 23 largest suppliers, 87% had signed the supplier standard.

EMPLOYEES

SCA's success depends upon having motivated, dedicated and performance-driven employees. As a global employer, SCA aims to offer new opportunities for employees to develop and realize their full potential. The company values the experiences employees can obtain from work in different geographies, roles, functions or business areas. Value is created for employees by offering professional development opportunities and a stimulating, safe and healthy work environment. SCA offers employment terms and benefits that are in line with prevailing market terms.

Outcome 2016

- During the year, SCA paid approximately SEK 15.8bn in salaries to its employees.

SOCIETY

SCA contributes to the local economy as a major employer in many regions and through its community involvement. Aside from income tax, SCA also pays customs duties, property taxes, payroll taxes, pension taxes, and energy taxes. Social challenges can serve as a source of innovation and development for companies' business models and product offerings. SCA's operations related to health and hygiene provide excellent solutions to some of the challenges faced by society in both mature and emerging markets. SCA also participates in the community through projects with a clear link to the company's values, expertise, operations and geographic presence. The focus of these projects is on hygiene and health, often related to women and children.

Outcome 2016

- SCA paid approximately SEK 3.8bn in income tax in 2016. Payroll taxes for the year amounted to approximately SEK 3.4bn. SCA invested approximately SEK 32m in 400 local community involvement projects during the year. During 2016, two million people worldwide were given hygiene training by SCA.

The SCA share

SCA shares are quoted and traded on Nasdaq Stockholm, and as American Depositary Receipts (ADR level 1) in the US through Deutsche Bank. The final 2016 closing price on Nasdaq Stockholm for SCA's B share was SEK 257.30 (246.50). SCA's market capitalization was SEK 181bn (173) at December 31, 2016. In 2016, the price of SCA's B share rose 4%. During the same period, the OMX Stockholm 30 Index rose 5%. The highest closing price for SCA's B share during the year was SEK 274.70, which was noted on July 11. The lowest price was SEK 225.10 on January 8. The proposed dividend is SEK 6.00 (5.75) per share. For more information, refer to the section Dividend and dividend policy on page 34.

Index

On Nasdaq Stockholm, SCA is included in the OMX Stockholm 30 Index, OMX Nordic 40 and in the Personal & Household Goods sector within Consumer Goods. In addition to the indexes directly linked to Nasdaq Stockholm, SCA is included in other indexes, such as the FTSE Eurofirst Index and FTSE Global Equity Index. Within MSCI, SCA is included in Household Products within Consumer Staples. SCA is also included in a number of sustainability indexes, including the FTSE4Good index series, OMX GES Sustainability Sweden PI and OMX GES Sustainability Nordic PI.

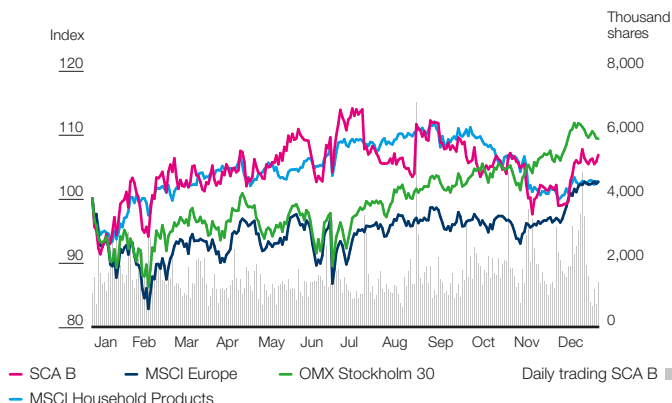
Liquidity

In 2016, the volume of SCA shares traded on Nasdaq Stockholm was about 415 million (540), corresponding to a value of approximately SEK 105bn (119). Average daily trading for SCA on Nasdaq Stockholm amounted to approximately 1.6 million shares, corresponding to a value of approximately SEK 415m (474). During the year, trading on BATS Chi-X amounted to approximately 227 million SCA shares, trading on Turquoise to about 87 million SCA shares and trading on other marketplaces to approximately 17 million SCA shares.

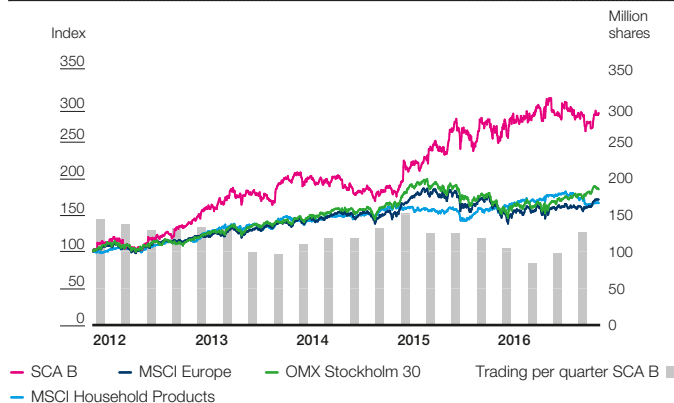
Ownership

Some 42% (36) of the share capital is owned by investors registered in Sweden and 58% (64) by foreign investors. The US and the UK account for the highest percentage of shareholders registered outside Sweden. Of SCA's shareholders, at least 13% perform sustainability assessments.

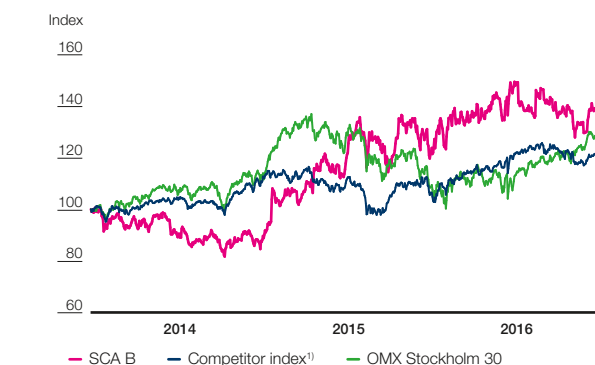
Total shareholder return 2016



Total shareholder return 2012–2016



Total shareholder return 2014–2016



¹⁾ Weighted index of competitors' total shareholder return. Competitors are selected to reflect SCA's operations. The index is used when comparing the SCA share performance over a three-year term for the long-term portion (LTI) of senior executives' variable remuneration.

SCA's ten largest shareholders

At December 31, 2016, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights:

Shareholders	No. of A shares	Number of B shares	Votes (%)	Capital (%)
AB Industrivärden	35,000,000	31,800,000	29.7%	9.5%
Norges Bank Investment Management	8,066,000	31,220,168	8.7%	5.6%
SHB Oktogonen Foundation	3,150,000	—	2.4%	0.4%
Swedbank Robur Funds	—	27,442,314	2.1%	3.9%
Skandia	2,038,110	908,021	1.7%	0.4%
AMF Insurance and Funds	—	18,859,380	1.5%	2.7%
SHB Pension Fund	1,303,000	—	1.0%	0.2%
SCA Employee Foundation	982,845	74,406	0.8%	0.1%
SEB Funds	—	8,366,603	0.7%	1.2%
First Swedish Pension Insurance Fund	—	8,209,809	0.6%	1.2%

Source: Euroclear

Data per share

All earnings figures include items affecting comparability unless otherwise indicated.

SEK per share unless otherwise indicated	2016	2015	2014	2013	2012
Earnings per share after full tax:					
After dilution	7.93	9.97	9.40	7.90	7.06
After dilution, excluding items affecting comparability ⁷⁾	11.18	11.82	11.07	9.07	10.25
Before dilution	7.93	9.97	9.40	7.90	7.06
Market price for B share:					
Average price during the year	253.73	222.03	178.87	168.27	116.77
Closing price, December 31	257.30	246.50	168.90	198.00	141.00
Cash flow from current operations ^{1) 7)}	14.78	14.08	11.60	8.90	10.59
Cash flow from operating activities	22.15	19.92	16.92	13.43	15.95
Dividend	6.00 ²⁾	5.75	5.25	4.75	4.50
Dividend growth, % ³⁾	7	8	7	6	0
Dividend yield, %	2.3	2.3	3.1	2.4	3.2
P/E ratio ⁴⁾	32	25	18	25	20
P/E ratio, excluding items affecting comparability ^{4) 7)}	23	21	15	22	14
Price/EBIT ^{5) 7)}	19	19	15	19	21
Price/EBIT, excluding items affecting comparability ^{5) 7)}	15	16	14	17	15
Beta coefficient ⁶⁾	0.70	0.70	0.77	0.62	0.86
Pay-out ratio (before dilution), %	76	58	56	60	64
Equity, after dilution ⁷⁾	113	107	103	96	88
Equity, before dilution ⁷⁾	113	107	103	96	88
Number of registered shares December 31 (millions)	705.1	705.1	705.1	705.1	705.1
of which treasury shares (millions)	2.8	2.8	2.8	2.8	2.8

¹⁾ See definitions of key figures on page 144.²⁾ Board proposal.³⁾ Rolling five-year data.⁴⁾ Share price at year-end divided by earnings per share after full tax and dilution.⁵⁾ Market capitalization plus net debt plus non-controlling interests divided by operating profit. (EBIT = earnings before interest and taxes).⁶⁾ Share price volatility compared with the entire stock exchange (measured for rolling 48 months).⁷⁾ 2012 and 2013 restated in accordance with IFRS 10 and 11.Earnings per share,
2016

7.93

SEK

Proposed dividend
per share, 2016

6.00

SEK

Shareholder structure, as of December 31, 2016

Holding	No. of share-holders	No. of shares	Holding (%)	Votes (%)
1–500	53,287	8,731,480	1.2	1.5
501–1,000	11,937	9,165,432	1.3	1.5
1,001–5,000	12,839	27,788,369	3.9	4.7
5,001–10,000	1,741	12,497,397	1.8	2.0
10,001–20,000	769	11,009,058	1.6	1.5
20,001–	1,276	635,918,358	90.2	88.8
Total	81,849	705,110,094	100.0	100.0

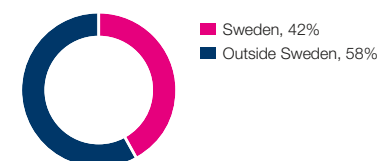
Source: Euroclear

Share distribution, as of December 31, 2016

	Class A	Class B	Total
Number of registered shares	64,594,572	640,515,522	705,110,094
– of which treasury shares		2,767,605	2,767,605

Ticker names

Nasdaq Stockholm	SCA A, SCA B
New York (ADR level 1)	SVCBY

Percentage of foreign ownership, capital
as of December 31, 2016

Source: Euroclear

Share issues, etc. 1993–2016

Since the beginning of 1993, the share capital and the number of shares have increased due to issues of new shares, conversions and splits, as detailed below:

	No. of shares	Increase in share capital, SEKm	Cash payment, SEKm	Class A	Class B	Total
1993 Conversion of debentures and new subscription through Series 1 warrants	4,030,286	40.3	119.1			
New share issue 1:10, issue price SEK 80	17,633,412	176.3	1,410.7	62,145,880	131,821,657	193,967,537
1994 Conversion of debentures	16,285	0.2	–	62,145,880	131,837,942	193,983,822
1995 Conversion of debentures	3,416,113	34.2	–	62,145,880	135,254,055	197,399,935
1999 New share issue 1:6, issue price SEK 140	32,899,989	329.0	4,579.0	62,133,909	168,166,015	230,299,924
2000 Conversion of debentures	101,631	1.0	15.0	61,626,133	168,775,422	230,401,555
2001 New issue, private placement	1,800,000	18.0	18.0	45,787,127	186,414,428	232,201,555
2002 New subscription through IIB warrants	513	0	0.1	41,701,362	190,500,706	232,202,068
2003 Conversion of debentures and subscriptions through IIB warrants	2,825,475	28.3	722.9	40,437,203	194,590,340	235,027,543
2004 Conversion of debentures	9,155	0.1	1.1	40,427,857	194,608,841	235,036,698
2007 Split 3:1	470,073,396	–	–	112,905,207	592,204,887	705,110,094

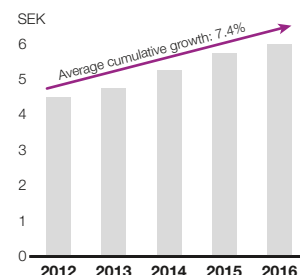
Dividend and dividend policy

SCA 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 an increase in the dividend by 4.3% to SEK 6.00 (5.75) per share for the 2016 fiscal year. Accordingly, dividend growth in the most recent five-year period amounted to 7.4%. The 2016 dividend represents a dividend yield of 2.3%, based on SCA's share price at the end of the year.

Incentive program

SCA's incentive program is designed to contribute to the creation of shareholder value. The program for senior executives consists of two components, one of which is tied to the total shareholder return on the SCA share compared with an index consisting of SCA's largest global competitors. For more information about the structure of the program, see Note C3 (Remuneration of senior executives) on pages 102–103.

Dividend per share



Information to shareholders

INITIATED WORK IN ORDER TO BE ABLE TO PROPOSE TO THE 2017 ANNUAL GENERAL MEETING TO DECIDE ON A SPLIT OF THE SCA GROUP INTO TWO LISTED COMPANIES: HYGIENE AND FOREST PRODUCTS

On August 24, 2016, SCA announced that the company would initiate work in order to be able to propose to the 2017 Annual General Meeting to decide on a split of the SCA Group into two listed companies; one for the hygiene business and one for the forest products business. A split of the Group and a distribution and listing of the shares in the subsidiary which today operates the hygiene business, is expected to increase focus, customer value, development opportunities and enables each company to successfully realize its strategies under the leadership of separate and dedicated management teams, two different boards of directors and independent access to capital. This is considered to increase value for SCA's shareholders in the long term. In addition, the synergies between the operations have diminished over time and are currently limited. An evaluation of various methods and structural alternatives to carry out a complete split of the business into two separate companies has been carried out. Therefore, the Board of Directors has proposed



to the 2017 AGM a distribution of all shares in and listing of the company's hygiene business. Distribution to shareholders is proposed in proportion to their holdings of Class A and Class B shares. If sharehold-

ers approve the proposal, the new hygiene company is planned to be distributed and listed on Nasdaq Stockholm no later than in the second half of 2017.

ANNUAL GENERAL MEETING

The Annual General Meeting of Svenska Cellulosa Aktiebolaget SCA will be held on Wednesday, April 5, 2017 at 3:00 p.m. in **Stockholm Waterfront Congress Centre, Nils Ericsons Plan 4, Stockholm**. Registration for the Annual General Meeting will start at 1:30 p.m.

Notification of attendance

Shareholders who wish to attend the Annual General Meeting must be listed in the shareholders' register maintained by Euroclear Sweden AB on Thursday, March 30, 2017, and give notice of their intention to attend the meeting no later than Thursday, March 30, 2017.

Notification may be given in any of the following manners:

- by telephone at +46 8 402 90 59, weekdays between 8:00 a.m. and 5.00 p.m.
- on the internet at www.sca.com
- by mail to Svenska Cellulosa Aktiebolaget SCA, Group Function Legal Affairs, P.O. Box 200, SE-101 23 Stockholm, Sweden

To be entitled to participate in the Annual General Meeting, the following applies for shareholders whose shares are registered through a bank or other nominee: In addition to giving notification, shareholders must request that their shares be registered in the shareholders' register under their own names by Thursday, March 30, 2017 at the latest in order to be entitled to attend the meeting. In such cases, the shareholders in question should instruct the bank or nominee of this well in advance of Thursday, March 30, 2017. Such registration may be temporary.

The shareholder's name, personal identity number/corporate registration number, address and telephone number, and number of accompanying persons, if any, should be stated when notification is given. Shareholders represented by proxy should deliver a proxy in the original to the company prior to the Annual General Meeting. Proxy forms are available upon request and on the company website www.sca.com. Anyone representing a corporate entity must present a copy of the registration certificate, not older than one year, or equivalent authorization document, listing the authorized signatories.

The Notice convening the Annual General Meeting can be found on the company website www.sca.com.

[READ MORE AT SCA.COM](http://www.sca.com) 

NOMINATION COMMITTEE

- **Helena Stjernholm**, AB Industrivärden,
- **Petter Johnsen**, Norges Bank Investment Management
- **Håkan Sandberg**, Handelsbanken Pension Fund and others
- **Hans Sterte**, Skandia
- **Pär Boman**, Chairman of the Board of SCA

The Nomination Committee prepares, among other things, the proposal for election of Board members.

DIVIDEND

The Board of Directors proposes a dividend of SEK 6.00 per share and that the record date for the dividend be Friday, April 7, 2017. Payment through Euroclear Sweden AB is expected to be made on Wednesday, April 12, 2017.

The Board of Directors also proposes that all shares in the wholly owned subsidiary SCA Hygiene AB be distributed to shareholders in Svenska Cellulosa Aktiebolaget SCA. For further information see page 34.

Proposed
dividend per share
6.00
SEK

FINANCIAL INFORMATION 2017 – 2018

Interim report (Jan 1–Mar 31, 2017)	April 27, 2017
Interim report (Jan 1–Jun 30, 2017)	July 18, 2017
Interim report (Jan 1–Sep 30, 2017)	October 26, 2017
Year-end report 2017	January 26, 2018
Annual Report 2017	March 2018

Annual Reports, year-end reports and interim reports are published in Swedish and English (in the event of differences between the English translation and the Swedish original, the Swedish text shall prevail) and can be downloaded from SCA's website www.sca.com. Annual Reports can also be ordered from:

Svenska Cellulosa Aktiebolaget SCA
Group Function Communications
P.O. Box 200
SE-101 23 Stockholm, Sweden
Tel +46 8 788 51 00

Subscriptions to publications

Subscription to SCA's press releases, interim reports and year-end reports can be arranged by registering an e-mail address on the SCA website.

