

Stakeholder dialog

SCA's stakeholder dialog helps us understand the needs and expectations of stakeholders and to develop long-term relationships. It also provides valuable input for continuous improvements and ways of working.

We seek to actively engage with customers, consumers, suppliers, employees, investors, media, NGOs, governments, politicians, decision-makers, regulators and academics. An active stakeholder dialog is a means of ensuring that our priorities and methods are relevant in today's society.

Customers

SCA has a broad product portfolio and many different customers, both end-consumers and customers such as the retail trade, distributors, printing houses and health and medical care services. All SCA business units maintain a close dialog with their customers and follow up customer satisfaction through surveys, face-to-face meetings and third-party assessments.

In-depth consumer insights reveal areas of improvement. SCA conducts market and consumer surveys, visits consumers' homes to learn about their lives and interests, and arranges focus groups to gain insights into consumer preferences, behaviors and attitudes. Valuable insights are also gained through SCA's many help lines for consumer contact and through customer service's handling of queries and complaints. Read more on page 40.

Other

SCA regularly meets investors and analysts, including socially responsible investors (SRIs). It conducts employee surveys and employee performance management reviews. Moreover, SCA communicates with other groups and individuals in matters that have a major impact on society in general and local communities in particular. SCA regularly meets with NGOs, journalists and people living close to the Group's mills.

In Northern Sweden, there is an ongoing dialog in relation to SCA's wind power investments. SCA's wind farms are generally located

in sparsely populated areas, but there have still been local protests against some of the wind farms. SCA arranges regular information meetings, open to all stakeholders.

SCA is a member of several networks, including the UN Global Compact, the Consumer Goods Forum and a number of different national and regional industry organizations. SCA participates in the WWF Environmental Paper Company Index, and SCA Forest Products participates in the WWF Global Forest & Trade Network (GFTN). SCA has a partnership with the United Nations' Water Supply & Sanitation Collaborative Council (WSSCC). In 2016, SCA produced its fourth Hygiene Matters report in cooperation with WSSCC and the report was launched at a side event to the UN General Assembly in New York in September.

SCA works actively to build partnerships with policy-makers in countries where new healthcare systems are under development. In 2015, representatives from SCA, Vinda and the Chinese city of Jiangmen signed a memorandum of understanding (MoU) concerning the joint development of a pilot program for elderly care in Jiangmen. The MoU was renewed in September 2016 at a ceremony in Stockholm. In conjunction with the signing ceremony, SCA – together with the Sweden-China Trade Council – arranged a China seminar that was attended by 140 people.

SCA also works to raise awareness of incontinence as a medical condition, and to contribute to better conditions for people who suffer from incontinence within the scope of the health and medical care systems in various countries. One important platform for communication is through the Global Forum on Incontinence (GFI). GFI is a global platform for education and debate on incontinence for stakeholders, such as medical experts, politicians and payers. The

sixth GFI Conference took place in Berlin in 2016, see page 18.

In 2015, SCA organized a patient roundtable to discuss incontinence and the provision of better continence care at home and in the community. The roundtable was co-hosted by two leading pan-European civil society groups – AGE Platform Europe and Eurocarers – and resulted in a 2016 joint position statement, agreeing on a set of key policy recommendations and actions to improve the management of care for people with incontinence and their carers.

In 2016, the EU presented its new circular economy package, with a goal to make Europe more competitive and resource efficient. The action plan will affect several sectors, including waste, and SCA is aware of the need to pinpoint solutions in this area while working with others and in its operations to find ways to achieve a more circular society. Consequently, SCA joined the Circular Economy 100 (CE100), an Ellen MacArthur Foundation program established to enable organizations to develop new circular opportunities, see page 15.

At the end of 2016, the EU Commission presented its review of the EU ecolabel certification criteria, in which SCA had been actively involved. In April, a delegation from the EU Commission visited SCA's Ortmann site in Austria, Europe's largest tissue Ecolabel manufacturer in Europe, to study technical aspects of tissue making.

SCA encourages sustainable forest management and supports the two international certification schemes for forests and wood raw materials, the Forest Stewardship Council (FSC®) and the Programme for the Endorsement of Forest Certification (PEFC®). SCA also works to raise awareness of how active forest management and increasing the use of forest products can help to combat climate change.

Stakeholder group	Main areas	How we work with the issues/Activities in 2016 (page reference)
Customers	Environmental footprint Ecolabelling Working conditions Fiber sourcing Human rights compliance Customer insight Innovation	Customer surveys (40) People and nature innovations (40) Life cycle assessments (40) Hygiene solutions (41) Code of Conduct audits and Business Practice Audits (42, 44) Human rights assessments (43) Global supplier standard (44) Sourcing targets (44) CO ₂ targets (49) FSC® and PEFC™ certification (51)
Consumers	Impact of products on nature, for example, environmental footprint, ecolabelling Product safety Consumer insight Innovation	Consumer surveys and focus groups (40) People and nature innovations (40) Hygiene solutions (41) Life cycle assessments (41) Product safety (41) Eco Actions (www.tena.com/ecoactions)
Employees	Recruitment and succession planning Training Compensation and benefits Business ethics Health and Safety Working conditions	Code of Conduct training (42) Human rights assessments (43) OHSAS 18001 certification (46) Global Performance Management System (47) Global All-Employee Survey (47) Diversity survey (48)
Investors	ESG (Environment, Social, Governance) integration into business strategy Resource efficiency Risk management	Investor/analyst meetings (39) Conference participation (39) Inclusion in sustainability indexes and funds (39) ESAVE (49) Risk analysis (AR 76)
Suppliers	Supplier audits Raw material sourcing Human rights	Sedex reporting (42, 44) Sourcing targets (44) Global supplier standard (44) Ethical supplier audits (45)
Stakeholder organizations	Forest management CO ₂ emissions Energy utilization Water consumption Human rights	Stakeholder dialogs (35) Membership in industry initiatives and organizations such as Consumer Goods Forum, CEPI, FSC (www.sca.com)
Society	Health and hygiene Environmental issues Local issues Human rights Community relations	Public affairs (35) Hygiene solutions (41) Ongoing dialog with policymakers, authorities and local communities (35) Hundreds of community relations initiatives (48)

SCA's materiality analysis

The materiality analysis provides insight into the issues that are significant to SCA's stakeholders and forms the basis of the company's strategy and operations.

SCA conducts a materiality analysis biannually, with the most recent conducted in 2015. A total of 1,100 customers, consumers, suppliers, investors, representatives of the media and stakeholder organizations as well as SCA employees participated in the online survey that formed the basis of the materiality analysis.

SCA previously conducted materiality analyses in 2008, 2010, 2012 and 2013. While the analyses performed between 2008 and 2012 were focused on sustainability, the 2013 and 2015 analyses took a broader approach. Stakeholder opinions are highly significant to SCA's strategic priorities, which is why the scope has been broadened beyond environmental and social aspects, and now encompasses the entire operation. The results are also included on page 11 of the Annual Report.

The selection of subject areas to be included in the materiality analysis was guided by such governing documents as the Global Reporting Initiative, the UN Global Compact, SCA's Code of Conduct and on the basis of SCA's own assessment. The 2015 survey included 20 topics and all selected areas are material for SCA. Two topics – transparency and digital excellence – were new in the 2015 survey. Transparency is defined as open communication and accountability, and digital excellence as digital strategy and related activities to maximize business benefit. Financial risks was replaced with risk management. The respondents were able to select the ten areas they considered to be most important from the list of 20. The stakeholders' order of priority of the areas was combined with SCA's own assessment of how important the areas are to the company's business strategy and were placed in the materiality analysis as coordinates. The stakeholder groups' results were weighted to provide a balanced view of the results. SCA's own assessment was based on the evaluation of the top 150 senior executives.

There is a high degree of consensus between the views of stakeholders and those of SCA in terms of the material areas, with innovation, customer satisfaction and business ethics receiving a clear top ranking. The group that deviates somewhat comprises investors and analysts, who instead rank corporate governance in second place, while customer and consumer

satisfaction is ranked fifth. The results of the survey appear to be reasonable and relevant and provide us with a basis for our strategy and operations, and for the content of the Annual Report and Sustainability Report.

The factors considered most material to SCA's stakeholders

1	Innovation
2	Customer and consumer satisfaction
3	Business ethics
4	Transparency
5	Health and Safety
6	Human rights
7	Resource efficiency
8	Forest assets
9	Corporate governance
10	Product safety
11	Supply chain efficiency
12	Human capital
13	Carbon emissions
14	Brands
15	Market positions
16	Risk management
17	Water use and water purification
18	Distribution
19	Post-consumer waste
20	Digital excellence

1. Innovation is ranked number one by stakeholders and SCA, which confirms the relevance of the choice of innovation as one of SCA's strategic priorities. The aspect of sustainability is integrated in the innovation process, and we launched 23 innovations in 2016.

2. Customer and consumer satisfaction is assessed as the most important area by SCA's customers and consumers and as the second

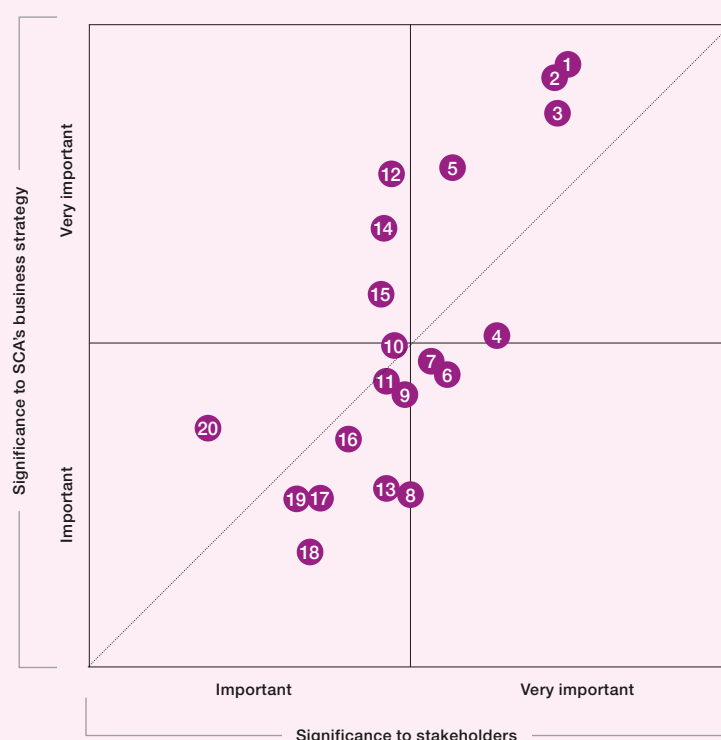
most important by other stakeholders and SCA. We conduct regular customer and consumer surveys and feedback opinions and complaints to the business as a basis for improvements.

4. Transparency is valued higher by stakeholders than by SCA. This may be because SCA already considers itself to be a transparent company, but could also be because stakeholders include product safety in transparency. Product safety fell from fourth to tenth place in the 2015 survey.

8. Forest assets are assigned greater importance by stakeholders than by SCA. One explanation for this may be that stakeholders see the forest from a global deforestation perspective, while we refer to our own, sustainably managed forest assets in Sweden.

12. Human capital is assigned less importance by stakeholders than by SCA. It appears reasonable that we have greater insight into how crucial employee attitudes and expertise are to the Group's success. Our All Employee Survey provides valuable knowledge about employee opinions and constitutes a tool for improvement activities.

13. Stakeholders assign greater importance to **CO₂ emissions** than SCA does. This may be because climate change is a global issue and involves the survival of our planet, while SCA views CO₂ from a corporate perspective. SCA has established ambitious CO₂ targets and owns a forest holding that net absorbed 4.1 million tons of CO₂ in 2016.



The materiality analysis is a tool used to understand the issues that are most important and relevant to SCA. The horizontal axis shows the degree of importance stakeholders attach to the various topics, while the vertical axis represents SCA's assessment of how important the topics are to our business strategy and operations. In most cases, the assessments of stakeholders and SCA coincide.

Economic value creation

Management approach

SCA's overall management approach to economic value creation is based on the premise that maintaining financially sound business operations is dependent on these operations being environmentally and socially sound. Economic strength and stability is a prerequisite for environmental investments and socially responsible decisions that generate long-term financial growth. SCA's aim is to achieve maximum value for its shareholders and other stakeholders, such as employees, customers and society, with minimum adverse effects. SCA has a number of policies and management systems in place to achieve and follow up its economic value creation. This chapter describes SCA's work related to its most important economic and financial aspects.

Strategic components

Policy	Sustainability Policy Code of Conduct
Targets and KPIs	Financial targets People and nature innovations Hygiene solutions
Data	See Annual Report See Life cycle assessment
Management systems, programs and certifications	IFRS Innovation processes Life cycle management
External charters or initiatives	UN SDGs UN Global Compact

Economic performance indicators

Net sales increased by 2% compared with the same period a year ago, to SEK 117,314m (115,316, 104,054). Emerging markets accounted for 32% of net sales (16% in 2007). Adjusted operating profit rose 7% to SEK 13,989m (13,014, 11,849). In Personal Care, net sales decreased by 2% and emerging markets accounted for 41% of sales. Net sales in Tissue increased by 5% and emerging markets accounted for 32% of sales. Net sales in Forest Products decreased by 4%.

Employees

SCA offers its employees development opportunities and remuneration based on market rates. Remuneration comprises salary, pensions and other benefits.

SCA's Remuneration Policy stipulates that the company is to offer competitive compensation. SCA follows local remuneration structures, provided they do not conflict with internationally established rules for minimum wages and reasonable compensation. In all the reporting countries, SCA pays above the legislated minimum salaries. France, Germany and Sweden are the wholly owned subsidiaries with most employees. In France, female managers' salaries ranged between 96% and 105% of men's. For women on non-managerial levels, the corresponding figures were 102–113%. In Germany, female managers' salaries ranged between 87% and 90% of men's. For women on non-managerial levels, the corresponding figures were 99% and 130%. In Sweden, female managers' salaries ranged between 87% and 94% of men's. For women on non-managerial levels, the corresponding figures were 97–104%.

In 2016, salaries totaled SEK 15,763m (14,880, 13,592), and social security costs, including pension costs, amounted to SEK 4,749m (3,246, 2,929). The Group's pension costs totaled SEK 1,392m (1,403, 1,179) and comprised costs for defined-benefit and defined-contribution pension plans. The defined-benefit plans are based on length of service and the employee's salary on the date of retirement and, in 2016, the net cost was SEK 612m (669, 541). The cost of defined-contribution plans amounted to SEK 780m (734, 638). More information is available in Note C1 and Note C5 in SCA's 2016 Annual Report.

Suppliers

SCA strives to promote long-term relationships characterized by transparency, high quality and financial stability. We support our suppliers and work together with them to improve their overall performance in areas such as quality, safety, the environment and social responsibility.

Global commodities, such as pulp, superabsorbents, electricity and chemicals, are purchased centrally while other input goods, such as wood, are procured locally and thus contribute to local suppliers and local industry. Almost all of the fresh fiber purchased for the Swedish mills is sourced locally.

In 2016, the cost of purchased raw materials and services totaled SEK 79,171m (74,832, 67,559), making sourcing SCA's single largest cost item, corresponding to 67% (65, 65) of sales, and a key investment in the value chain.

Society

SCA creates job opportunities and tax revenues in the local economies where the Group operates. In 2016, the tax expense, excluding items affecting comparability, was SEK 4,775m (3,306, 2,644). The reported tax expense corresponds to a tax rate of 36.5%. The tax rate, excluding items affecting comparability and a tax provision of approximately SEK 1.3bn related to ongoing tax cases in Sweden and Austria, was 26%. In addition, SCA's total tax contribution includes social security costs, property taxes and VAT. SCA assumes a long-term and responsible approach, voluntarily committing to promote and develop local communities through a number of community relations initiatives with a focus on health, hygiene and education, see pages 24–25.

Emerging markets

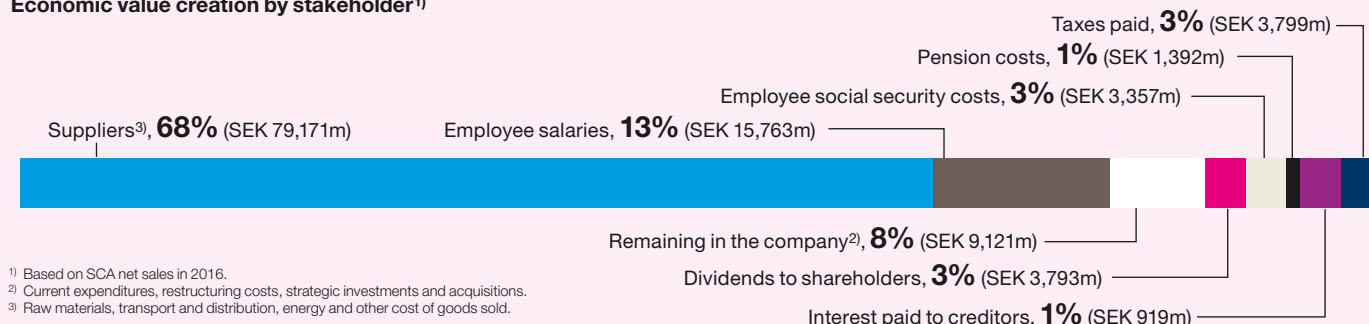
SCA's strategy is to maintain and grow its positions in core mature markets and to increase emerging markets' share of the hygiene business' net sales and profit. China, Southeast Asia, Latin America, Eastern Europe and Russia are prioritized markets.

Historically, SCA has entered new emerging markets through joint ventures. In recent years, SCA has also expanded through wholly owned companies and greenfields, of which the greenfield in Brazil is an example. The incontinence site in Brazil was inaugurated in 2016.

SCA has a "cure or kill" strategy for unprofitable markets or categories. The first choice is to establish a plan to achieve reasonable profitability. If this fails or is deemed impossible, SCA will exit the market. As a consequence of this strategy, SCA left the Mexican diaper market in 2016.

When SCA acquires companies, or enters into a joint venture in emerging markets, the company adopts an approach that involves great respect for the local management's in-depth knowledge of the market and prevailing conditions. Accordingly, to the greatest possible

Economic value creation by stakeholder¹⁾



¹⁾ Based on SCA net sales in 2016.

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

³⁾ Raw materials, transport and distribution, energy and other cost of goods sold.

extent, the management is retained while SCA adds knowledge about innovation, brands, technology and economies of scale. Local growth creates local jobs.

SCA actively strives to deliver product offerings in emerging markets that are adapted to the market conditions. This includes offering affordable value products as well as packages containing fewer products in order to give low-income consumers living on a day-to-day budget the opportunity to buy for example a single diaper. It also includes distribution to small, stores where many low-income consumers make their purchases. All of SCA's solutions, products and services are adapted to consumer and customer needs, whether they are economic, social or environmental.

Due diligence

Prior to initiating/establishing operations or acquiring a company, SCA conducts a feasibility study, including market and consumer studies, a review of the legal requirements in the market, including environmental legislation, and an assessment of the business climate and business practices. The recruitment of personnel with the appropriate values is crucial. SCA has well-defined procedures to ensure social, environmental and governance matters are part of the due-diligence process.

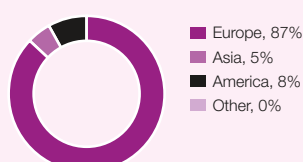
Our global tax principles

SCA strives to be a good corporate citizen and comply with the laws in all countries where we operate. Where laws need interpretation, and where appropriate interpretation so requires, we comply with the spirit of the law and not only to the letter of the law. The overall goal of our tax management is to provide SCA with the most favorable possible tax position, albeit risk-adjusted.

We acknowledge the legitimate interest of tax collection and believe taxation is important to advance economic development. We look to establish good working relationships with tax authorities in countries where we operate and never intentionally or knowingly take financial advantage of weaknesses in institutional structures or shortcomings in the tax collection process.

We comply with all statutory requirements in terms of reporting and disclosure of tax information without considering the balance between the burden on our business of doing so and the relevance of the required information. We understand the value of financial reporting to investors and society, and work to provide transparent and balanced disclosure in communicating our tax affairs.

Tax paid by region 2016



Our approach to risk requires that we consider the implications of our tax management on the Group's brand and reputation. We refrain from transactions unrelated to the context of our business and only take tax positions that can be sustained after full and correct disclosure. We utilize local tax incentives where this is not in conflict with our commitment to comply with local laws, but we do not use tax havens to gain tax advantages and we refrain from engaging in practices that would constitute prohibited state aid or other unlawful competition by governments. In our cross-border transactions, we aim to apply pricing and other conditions that are in compliance with both local laws and the OECD Transfer Pricing Guidelines for Multinational Enterprises.

Shareholders

Sustainability, with an emphasis on business value, is part of SCA's investor dialog. In 2016, SCA met with SRIs (Socially Responsible Investors) on several occasions, and participated in SRI conferences in Paris and Frankfurt.

Investors with sustainability criteria hold at least 13% (14, 14) of SCA's shares, according to a study conducted by the ESG (environment, social, governance) rating company Vigeo. This figure includes both investors with a best-in-class approach and investors who conduct some form of sustainability screening. The decrease in the percentage of capital held by SRIs is partly explained by the increase in SCA's total floating shares. At year-end 2015, floating shares accounted for 83.17%, while the figure was 88.34% at year-end 2016. The results for SCA's peers show a similar trend.

Vigeo also conducted a benchmark study in which SCA was compared with two key peer consumer products companies and one Swedish large-cap company recognized as a sustainability leader. SCA had a significantly higher share of investors with sustainability criteria than its peers and was on par with the sustainability

leader. SCA's share was included in 147 (131, 128) sustainability funds in 2016. Most of these are domiciled in the Netherlands, followed by Germany and the US. Of these, 12 had invested more than 2% of their assets in SCA shares.

Share performance

SCA generates shareholder value through dividends and share price appreciation. 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 has proposed a dividend of SEK 6.00 (5.75, 5.25) for 2016, an increase of 4.3%. In the past five-year period, the dividend has increased an average of 7.4% annually.

During the year, the SCA share price rose 4% to a closing price of SEK 257.30. In comparison, the OMX Stockholm 30 Index rose 5%.

At year-end 2016, SCA had 81,849 registered shareholders.

Indexes and funds

- The FTSE4Good Global index and FTSE-4Good Europe Index, which measure earnings and performance among companies that meet globally recognized norms for corporate responsibility. SCA has been included in the index since 2001.
- SCA is included in the CDP 2016 Climate A List for climate change leadership and recognition as a world leader for corporate action on climate change. SCA also qualified for a position on the CDP 2016 Forest A List and received an A– rating (leadership level) in CDP's 2016 Global Water Report.
- SCA was recognized at the WWF Environmental Paper Awards 2016 (Category "Transparency") for publishing the forest, climate and water footprint of more than 50% of its paper products. Ten SCA products were recognized at the WWF Environmental Paper Awards 2016 in the category "Best Environmental Performance Paper Brands".
- Vigeo assesses companies' environmental, social and governance (ESG) performance. SCA is included in the following sustainability funds of Vigeo: Ethibel Sustainability Excellence Europe and Ethibel Sustainability Excellence Global.
- EPCI Euro Ethical Equity and EPCI Global Ethical Equity.
- The OMX GES Sustainability Nordic and OMX GES Sustainability Sweden.

Satisfied customers and consumers

Customer understanding and consumer insight are at the core of determining which products and services SCA develops and how it delivers innovations to the market. Customer and consumer satisfaction is a measure of how well

Tax paid

Tax payments by SCA units in different countries

SEKm			
Country	2016	2015	2014
Sweden	-1,313	-79	-65
Germany	-516	-358	-271
Spain	-405	-90	-90
Netherlands	-215	-59	-191
China	-146	-236	-51
Belgium	-144	-80	-91
UK	-136	-115	-92
Austria	-94	-100	-60
Italy	-94	-87	-77
Mexico	-88	-121	-107
Columbia	-83	-72	-179
Ecuador	-67	-41	-21
Russia	-64	-59	-81
Slovakia	-61	-30	-39
Japan	-57	-35	-45
Denmark	-40	-26	-36
Finland	-37	-41	-34
Norway	-30	-48	-8
Costa Rica	-26	-14	-12
Poland	-26	-2	-26
Other countries	-157	-515	-525
	-3,799	-2,208	-2,101

these products and services meet or exceed customer and consumer expectations. SCA has different methods to gain customer understanding and consumer insight, such as monitoring macro trends to identify changes in behavior, home visits, focus group meetings, in-depth interviews, interviews with SCA sales representatives and monitoring activities on SCA's online and social media sites.

Customer surveys

Customer feedback enables SCA to offer better products and solutions. Every business unit has methods to investigate customer satisfaction.

The hygiene operations conduct a systematic customer follow-up. This includes both external reports, independent surveys and global systems for customer feedback.

SCA also offers expertise and support for the development of operations at such institutions as nursing homes, where SCA can make a difference and create value for its customers and users. SCA places high value on opportunities for direct customer contact.

The retail trade accounts for a significant part of SCA's sales. The Group uses external comparison reports in which the largest retail chains assess their suppliers based on customer service, logistics, sales support, marketing and product development. Consumers who purchase retail products are followed up through general brand and product recognition surveys.

Complaints procedures

SCA has a global SAP-based complaint handling system that was introduced in 2011. The Group seeks to compensate 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. User complaints and opinions provide valuable consumer insight and it is important that the knowledge gathered is transferred to the organization.

Complaints have remained at a stable and low level in recent years. For Personal Care products, the complaint frequency is lower than one in a million supplied products. In the Tissue operations, the corresponding figure is 3.2 per thousand tons.

People and nature innovations

Innovations that improve social and environmental performance also make financial sense. For SCA, such innovations are linked to an in-depth understanding of customers and consumers.

SCA's innovation process

SCA's innovation process originates in an understanding of a customer or consumer need and is divided into four phases:

- **Feasibility:** Innovation concepts based on customer or consumer insight are elaborated and validated. The market situation and the global business potential are assessed, and high-level technological and commercial feasibility are evaluated.

- **Development:** A cross-functional project team is engaged in the development of a proposed solution, including a specific product, service or business model. Requirements of the product, packaging, service and technology are developed and verified with customers and consumers, and communication materials are prepared. Product safety assessments for materials, life cycle assessments (LCAs) and social assessments are performed by experts to ensure product safety and environmental and social performance.
- **Capacity:** The project works toward market launch and building the capability to deliver. Launch campaign materials are created, the production solution is verified against requirements, and all product and packaging specifications are finalized. The fulfilment of the regulatory requirements governing products in all markets is secured.
- **Launch:** The innovation is introduced to customers/consumers in the market. The intended benefits are weighed against market feedback; the supply chain is adjusted accordingly. Supply and demand balance is optimized in production to ensure efficiency and the feedback drives the roll-out plan.

In 2016, SCA invested SEK 1,258m (1,093, 1,050) in research and development. This corresponds to 1.1% of total sales.

Open innovation

SCA has a portal for open innovation. Inventors, entrepreneurs and small companies are invited to submit solutions in response to various challenges from SCA. The solutions should be patented so that there are no outstanding issues regarding intellectual property rights should the proposal result in a licensing agreement or other type of business arrangement. A number of proposals have been submitted this way and some of them have led to further collaboration or product launches.

SCA launched an internal innovation platform in 2013 called ICON (Idea Collaboration Online). ICON is not limited to product innovations. Proposals may include manufacturing, logistics or marketing solutions. ICON complements other platforms and initiatives to spur innovation and is frequently used in early phases of the innovation process to gather solutions and ideas from employees.

Life cycle management

Life cycle management is about effectively combining value, social and environmental aspects in every part of the life cycle. This enables SCA to deliver products and services that meet customers' needs and exceed their expectations. We promote life cycle thinking in our sourcing, production and development of innovations.

- **Responsible sourcing** involves seeking high-quality, safe, socially and environmentally sound raw materials. SCA's suppliers adhere to strict standards, including criteria for quality, product safety, environment, chemicals and business responsibility.

- **Resource-efficient production** focuses on an efficient use of resources and on reducing energy consumption, water and waste. The production units apply management systems such as ISO 9001, ISO 14001 and OHSAS 18001.
- **Sustainable** solutions are defined as innovative, socially and environmentally sound hygiene products and services. SCA's innovations are based on consumer and customer insight with a focus on meeting needs in daily life. It is essential to optimize products and services during use to control consumption and reduce waste.
- **After-use** management of products is a common responsibility with consumers and customers. Energy recovery through incineration of hygiene products is a good alternative to landfill. SCA is actively exploring waste treatment methodologies, such as recycling of materials, composting and anaerobic digestion.

Life cycle assessments

SCA has used life cycle assessments (LCAs) since the early 1990s. An LCA illustrates the complete environmental impact of a product based on the ISO 14040 and 14044 standards. It is a standardized measurement of environmental impact in every phase of the product, from raw materials, product development, production and use to disposal of waste.

For each activity in the life cycle, an LCA calculates the input of resources, energy and transportation and the output of, for example, emissions to air and water.

The result of an LCA is expressed in environmental impact categories. The LCAs conducted by SCA cover the main impact categories that describe the potential impact on global warming/climate change, meaning the product's carbon footprint, acidification of rivers and lakes, and eutrophication of land or water systems.

Product	Carbon footprint reduction 2008–2015, %
TENA Flex	–13
TENA Lady	–15
TENA Men	–2
TENA Pants	–23
TENA Slip	–15
TENA Comfort	–19
TENA Bed	5
Libero open diaper	–25
Libero pants	–15
Feminine Ultra towels	–20
Feminine Maxi towels	–2
Feminine Absorbent liners	–7
Feminine Light liners	–10
Tork hand towels*	–11

* 2011–2014

LCAs are used both to calculate the environmental performance of new innovations and to measure the gradual improvements over time for product assortments. The carbon footprint calculations above cover the majority of sales for all assortments in Europe and are third-party verified by the Swedish Environmental Research Institute (IVL) or Swerea. Assortment LCAs are calculated biannually.

In addition, an assortment LCA has been calculated for Tork excelCLEAN, a cleaning cloth for which the carbon footprint was reduced by 14%

in Europe and North America between 2012 and 2016.

Definition of People and nature innovations

SCA's People and nature innovations are defined as inventions that lead to social or environmental improvements. The social assessment criteria include health, hygiene, working conditions, ergonomic improvements, as well as dignity and confidence in social situations. With respect to the environmental assessment, performance and resource efficiency are measured using life cycle assessments and/or third-party labels are taken into account.

People and nature innovations 2016

In 2016, SCA launched 23 innovations. People and nature innovations accounted for 40% of total innovation sales. Read about some of these on pages 14–15.

Product safety

SCA follows strict requirements and procedures to ensure that all materials in the company's products are safe for consumers, employees and the environment. SCA has a global product safety position in place for all products to ensure that they are safe for their intended purpose. SCA's Global Supplier Standard (GSS) includes responsible business operations, quality, product safety, environmental and social requirements, and SCA works closely with its suppliers to ensure that its high standards are met.

In recent years, there has been an increased focus on issues related to product safety, a trend that continued in 2016.

The food industry is an influential customer for SCA's kraftliner business (packaging papers) and imposes stringent requirements on product safety. SCA ensures that all fibers in its packaging materials meet these requirements, regardless of whether they are fresh or recovered fibers.

The chemicals used in the production process are managed under strict controls, and potential exposure to employees, customers and the environment is evaluated. Only chemicals that meet SCA's stringent safety requirements are chosen.

The regulations most relevant to SCA concern product safety, medical devices, materials for food contact, chemical substances, cosmetics, biocide products and electronics. SCA monitors the development of all relevant regulations and ensures the environmental and human safety of all its products.

Animal testing

SCA has a restrictive view on the use of animal testing and is committed to reducing animal testing to the very minimum. SCA does not test its products or materials on animals unless required by law, which for SCA is relevant in Brazil and China. SCA actively supports development of alternative testing methods and is an

industry partner of the European Partnership for Alternative Approaches to Animal Testing (EPAA).

Palm oil

SCA's tissue, baby, feminine and incontinence care products do not intentionally contain palm oil or palm oil derivatives. A small share of the Group's products, including wet wipes and cosmetic products such as soaps, lotion or creams, may contain palm oil or palm oil derivatives.

SCA frequently reviews its product portfolio and its supply chain in relation to palm oil usage. The company is a member of the Roundtable on Sustainable Palm Oil (RSPO) and actively supports the development of sustainability criteria. SCA plants and suppliers that use palm oil and/or palm oil derivatives are requested to achieve RSPO certification. SCA strives to have only certified palm oil and palm oil derivatives in its supply chain.

In 2016, most of the palm oil used in SCA's cosmetic products was derived from certified sources. The work to ensure that all palm oil and palm oil derivatives in cosmetic products come from certified sources is continuing.

GMO

SCA recognizes the existing long-term uncertainties regarding environmental and health risks in relation to the use of genetically modified organisms (GMOs) and takes a precautionary approach to using materials derived from GMOs.

SCA actively monitors ongoing research and an alternative GMO-free material should always be considered.

SCA does not use GMOs in its forest management practices and does not use wood fibers derived from GMO trees. SCA's forest land is FSC® certified, and the Forest Stewardship Council Standards do not currently permit use of GMOs in forestry.

SCA uses recycled fiber in its cotton products which could potentially contain GMOs. SCA is redirecting its cotton sourcing to Turkey where GMO cotton is not permitted. At year-end 2016, about 80% of SCA's cotton usage was sourced from Turkey.

Triclosan

Triclosan is commonly and globally used as an antibacterial ingredient or preservative in many consumer products such as soaps, detergents, toothpaste and medical devices. It is a chlorinated organic compound and has been safely and effectively used for over 30 years.

In recent years, questions have been raised concerning the potential environmental impact of Triclosan and whether there is a relationship between Triclosan and the development of bacterial resistance. To address customer and consumer concerns, together with our commitment to support safe and environmentally sound products, SCA has decided to not include Triclosan in any new products and has phased out Triclosan in basically all SCA products.

Some SCA joint ventures use Triclosan in a small number of products.

Hygiene solutions

SCA offers hygiene solutions for all phases and aspects of life across markets all over the world. Our products are available in about 100 countries and we adapt our practices to meet specific market needs. We share our knowledge of hygiene and emphasize the link between hygiene, health and well-being. We educate about two million people in hygiene annually. SCA's offerings include:

TENA Solutions: An integrated offering including innovative products, best-practice care routines, tools, training and expert support. Together, with individualized care at heart, SCA and the care homes improve and document resident well-being, working atmosphere, budget and the environmental footprint. The advantages include improved well-being for the residents, better working environments, a reduction in resource consumption and lower overall costs. Looking at the nursing homes that have implemented TENA Solutions around the world, the results show clear care improvements in 95% of care homes*.

- 81% of staff agree that recommended TENA continence care routines improve residents' overall well-being compared with their previous practices**.
- 77% of staff agree that recommended TENA continence care routines give residents a better night's sleep compared with their previous practices**.
- 79% of staff agree that recommended TENA continence care routines result in better care routines compared with their previous practices**.

Tork Solutions: A new, connected way to improve efficiency, hospitality and communications through intelligent washrooms, using the Internet of Things. Washroom solutions that provide real-time data on paper and soap consumption via a mobile or tablet give facility managers an overview of when toilets need to be cleaned or dispensers need to be refilled. The end result is increased quality and user satisfaction, improved efficiency of washroom management and improved cost control.

* Statistics based on 181 TENA Solutions case studies around the world, mainly in Europe but also in the US, Canada and China, 2011–2013.

** Statistics based on results from 85–105 TENA Solutions case studies around the world, mainly in Europe but also in the US and Canada 2012–2014.

Value creation for people

Management approach

SCA's overall social management approach is to assess how the company impacts and interacts with people where it operates, and to develop strategies for establishing good relations with key stakeholders everywhere. SCA's main steering document in social responsibility, the SCA Code of Conduct, defines relevant areas for the company to manage and excel in, thereby contributing to social sustainability in the Group's operations, and for various stakeholders along our value chain. This chapter describes SCA's work related to its most important social aspects.

Strategic components

Policies	Sustainability Policy Code of Conduct Global Supplier Standard Group Health and Safety Instruction Community Relations' instruction
Targets and KPIs	Code of Conduct Employee Health and Safety
Data	See Supply chain management See Employee relations See Community relations See Social data
Management systems, programs and certifications	Sedex OHSAS 18001 Global System for Performance Review and Development Planning SCA Leadership Platform
External charters or initiatives	UN SDGs UN Guiding Principles on Business and Human Rights UN Global Compact European Works Council Industri ALL OECD Guidelines for Multina- tional Enterprises ILO Core Conventions

Code of Conduct

The SCA Code of Conduct is the Group's key social management policy. A number of systematic activities, such as risk analyses, training, audits and monitoring processes, are closely aligned with the Code of Conduct to ensure compliance. The implementation of the Code is a continuous process.

SCA's Code of Conduct

SCA's Code of Conduct was first introduced in 2004, and most recently updated in 2015. The Code is a tool to transform SCA's core values of respect, responsibility and excellence into action. SCA's Code of Conduct applies to all employees within the Group.

SCA's Code of Conduct is based on international standards, including the UN Declaration of Human Rights, the ILO Core Conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact Principles and related legislation. All employees are provided with the necessary knowledge and other prerequisites to comply with SCA's values and Code of Conduct.

Code of Conduct training

SCA implements its Code of Conduct and verifies compliance through training, Code of Conduct audits and business practice audits. All employees are regularly trained in Code of Conduct compliance, including guidelines on business practices, human rights, anti-corruption, unethical behavior and how to deal with ethical dilemmas that may arise. In 2014, SCA launched a Group-wide training initiative aimed at all employees. Employees were able to participate either online or via face-to-face training. At year-end 2014, 91% of employees had undergone training in SCA's Code of Conduct.

In addition, we are also making sure that the Code of Conduct is included in all on-boarding programs across the company. By year-end 2016, 93% of all new employees had completed the training.

To further develop and deepen the understanding and importance of the Code of Conduct, SCA launched a new training concept in 2016. The purpose of the training is to make compliance and integrity a leadership and company culture topic. More about the initiative can be found on page 20.

Sedex

The database provided by Sedex (The Supplier Ethical Data Exchange) has been central to SCA's internal risk management and Code of Conduct monitoring since 2011. SCA and other Sedex members use the database to store, share and report on information pertaining to working conditions, health and safety, the environment and business ethics. Thanks to SCA and other companies sharing information with each other, efforts related to workplace inspections and audits are made more efficient, at the same time as transparency increases.

The Sedex system includes an extensive self-assessment questionnaire (SAQ) and a risk assessment tool. The tool has been developed by Maplecroft and is based on a balance between risk data at the country level and in the relevant industry, and on responses to the SAQ.

SCA's facilities perform the self-evaluation in Sedex. The answers are then used for the purpose of risk classification of the units. In the 2016 Sedex assessment, all of SCA's main facilities received a low to medium risk classification and no facility was classified as high risk. The Sedex system has enabled SCA to assess its own operations, and the results help determine the focus of the company's audits and other initiatives aimed at improving conditions at our facilities. Many customers also request information about SCA's supply chain via the Sedex system and this enables them to compare SCA with other companies in the industry.

65 SCA facilities and one joint-venture facility in Tunisia and Algeria, respectively, use the Sedex system to report information.

Complaint procedure

SCA offers its employees a number of channels for reporting breaches of the Code of Conduct, such as through their line manager, HR Director, legal counsel or union representative. There is also a dedicated e-mail address managed by the Group's corporate sustainability function. In 2016, SCA decided to further expand the availability of third-party-operated reporting hotlines, where employees can file anonymous reports through a confidential channel outside SCA. Hotline services are being made available in many locations such as the Nordic and Baltic countries, Russia, the UK, several countries in Central and Eastern Europe and Latin America. The aim is to successively expand its availability to all SCA employees.

Reported breaches in 2016

In 2016, there were a total of 82 reported cases of potential breaches of the Code of Conduct, of which 16 were still under investigation at year-end. Among the reported complaints, the most common types were alleged discrimination and harassment (37), corruption (12) and misuse of assets (11). The remainder of the complaints involved anti-trust, management practice grievances, conflicts of interest, health and safety and various other company policies (22). Approximately 70% of complaints came from identified company employees, 20% from external stakeholders, such as a customer, supplier or contractor and 10% were made anonymously.

Following review and investigation, a total of 66 cases were closed and a total of 28 cases were defined as a breach of SCA's Code of Conduct or company regulations. Of the confirmed violations, 15 cases related to harassment and discrimination, ten cases related to corruption and misuse of company assets, two cases related to labor practices and the remaining case related to other SCA policies. Disciplinary action was taken in all cases of verified violations. A total of 12 employees were dismissed. SCA takes all complaints seriously, which is why preventive measures are taken in most cases even when a breach cannot be proven. In the event of allegations that employees have been subject to harassment in the company, training initiatives are often arranged to raise awareness of personal behavior and the behavior of others.

Code of Conduct audits

SCA uses audits to monitor compliance with the Code of Conduct. Audits are carried out to satisfy customer requests, as well as to improve SCA's operations.

The facilities to be audited are determined by such factors as the social and environmental risks in the country of operation, whether the facility is a recent acquisition or if there are any indications of non-compliance with SCA's policies.

The content of the audits emanates from SCA's Code of Conduct, while the approach and methods are based on the SA8000 standard.

The audits are conducted by cross-disciplinary teams from SCA, and include representatives from the internal audit, human resources and sourcing functions. The audits involve a review of documentation, inspection of the facility with a focus on health and safety, and interviews with managers, employees and union representatives. SCA dedicates a great deal of time to interviewing employees, since these conversations are highly relevant to understanding how SCA's policies are perceived and put into practice.

Every audit results in a report and action plan for the audited unit, which are followed up. In the event that deviations are identified, these are to be corrected immediately and measures taken to prevent future deviations. The results of the audits are reported to SCA's Board via the Audit Committee.

Results 2016

In 2016, Code of Conduct audits were conducted at one site in each of the following countries: Spain, Mexico, Germany and India. In Spain, the site was instructed to make improvements with respect to overtime and improve the frequency of fire drills. In Mexico, employment forms contained information that was deemed discriminatory, aspects that were immediately removed from the recruitment form. Documentation and implementation of fire drills was lacking and the site needs to improve its handling of overtime and conflicts of interest. The German site showed deficiencies in worker safety adherence and needs to improve its process for monitoring Code of Conduct training. The site in India complied with the SA 8000 standard with only minor changes.

Joint ventures

SCA encourages its joint-venture companies to adopt a code of conduct and policies that are in line with the principles stated in the SCA Code of Conduct. SCA's largest joint-venture company, Familia in Colombia, updated and adopted its code of conduct in 2015. In 2016, all employees received training in the Code.

In 2015, SCA joint-venture partner Sancella in Tunisia adopted a new code of conduct. A comprehensive training program has been launched to raise awareness about the code of conduct and by year-end 2016, about 80% of Sancella's employees had received training. The remainder will be trained in 2017.

In addition, Vinda, in which SCA is a majority shareholder, has adopted a new Code of Conduct with the support of SCA. Vinda's new Code of Conduct is similar to SCA's Code and was adopted by the Board of Directors in April 2016. A majority of Vinda's employees were trained in

2016 and the Code has become a central tool within the Vinda policy framework.

Risk management

SCA assesses and manages its operations to address social, environmental and other operational risks. SCA monitors the Code of Conduct through reporting systems and auditing of specific operations.

SCA's human rights and corruption risk analysis is based on assessments carried out by Amnesty, Sedex and Transparency International. Approximately 11% (11, 12) of SCA's revenues are generated in countries with a relatively high risk of human rights violations. About 30% (28, 27) derive from countries with a relatively high risk of corruption.

SCA's risk assessments are also included in the Group's audits in connection with acquisitions.

SCA regularly revises its business practices in various parts of the organization and these reviews contribute to SCA's risk control.

Human rights

SCA's approach to human rights is based on the United Nation's Guiding Principles on Business and Human Rights (UNGP). The UNGP stipulates that as part of their commitment to respect human rights, companies must exercise due diligence in understanding and managing the actual and potential negative impact on human rights of their various stakeholders. In 2014, SCA, together with the non-profit organization BSR, mapped and identified its human rights risks through a Group-wide human rights impact assessment process. The risks were graded not by the impact on business but the impact on the rights holder. The assessment revealed three salient issues:

- Labor-related risks, including occupational health and safety, discrimination, forced labor and right to equal work for equal pay in SCA's direct and indirect operation (supply chain).
- Land rights risks associated with the sourcing of timber, fiber, and pulp – especially where indigenous communities are present.
- Risks related to water use by SCA operations located in water-stressed regions that may infringe on the rights of local communities to water and sanitation.

In 2016, an operational human rights risk mapping methodology was developed and piloted in Latin America, see page 21. All forms of violations of human rights are taken very seriously. These are reported and managed in the same way as other breaches of the company Code of Conduct, see page 42.

Committed to supporting and advancing children's rights, SCA has also joined the Global Child Forum, a multi-stakeholder platform for leaders from business, governments, academia

and civil society in a joint effort to implement children's rights.

Anti-corruption

Anti-corruption is included in SCA's Code of Conduct. In 2013, SCA introduced a new Anti-corruption Policy, aligned with legislation such as the UK Bribery Act, for increased focus and transparency. SCA must conduct all activities in accordance with applicable laws and regulations, and all corrupt activity is strictly prohibited.

SCA conducts regular corruption risk assessments. This includes due diligence audits of suppliers and other business partners.

SCA has developed an anti-corruption e-learning course translated into 21 languages which has been implemented in onboarding programs. In 2016, about 700 new employees completed the training program.

Anti-trust

SCA is committed to full compliance with competition laws (also called "anti-trust" laws) as set out in the SCA Code of Conduct. These laws generally prohibit agreements or understandings between competitors that undermine competition, including price fixing, allocation of customers or geographic markets, bid rigging or abuse of a dominant position.

SCA has anti-trust programs in place and, in 2015, the Group launched an anti-trust e-learning training course with the aim of improving employees' understanding of competition laws and how these impact their daily work. It is mandatory for specified groups of employees to complete the training, such as employees with an interface toward trade associations, customers and competitors. In 2016, about 900 employees completed the EU competition e-learning course and 800 completed the US anti-trust e-learning course.

Ongoing anti-trust cases

During 2016, the Colombian competition authority (SIC) issued its final decisions concluding that Productos Familia S.A., the joint venture in which SCA owns a 50% equity stake, was involved in cartel activities related to tissue products and baby diapers. SIC fined Familia approximately SEK 170m in the tissue products investigation and SEK 100m in the baby products investigation. Familia has appealed both decisions to the courts.

The competition authority of the Andean Community of Nations (CAN) has launched its own independent investigation into the tissue products market in Ecuador and Colombia. Familia is actively cooperating with CAN in that investigation.

At present, competition authorities are reviewing SCA's wholly owned businesses in Chile and Hungary. In all instances, SCA is

cooperating with the authorities and providing requested information.

The Spanish National Commission for Markets and Competition (CNMC) issued a decision and fined a number of companies, including SCA, for alleged improper market conduct between 1996 and 2014. The fine imposed on SCA amounts to approximately SEK 325m. SCA does not agree with the CNMC's decision and has submitted an appeal to the Spanish courts.

SCA has also been part of an investigation by the Polish Anti-Trust Authority. The authority issued its decision in December 2016 and imposed a fine of approximately EUR 700,000 for alleged improper market conduct. SCA intends to appeal the decision.

Business practice audits

SCA's business practice audits (BPA) are conducted by the internal audit unit. The audits focus on business ethics and SCA's relationships with customers, suppliers and authorities. In 2015, the audit process was updated and the scope was extended. Additional interviews are performed to ensure the effectiveness of the control environment and greater consideration is given to challenges in the local environment.

Since the beginning of 2008, 24 audits have been performed in 16 countries. In the past five years, 77% (41, 40) of SCA's operations in risk countries have been investigated. The countries are selected on the basis of Transparency International's corruption index in combination with SCA's net sales in the country.

Results 2016

In 2016, BPAs were conducted in Greece, Romania, Germany, Costa Rica/Nicaragua and Italy. The BPAs in Greece and Romania showed a need for improvement with respect to performance reviews with employees. The German business needs to improve its process concerning customer events and Code of Conduct training monitoring. Costa Rica/Nicaragua needs further refresher training on Group policies. The Italian operation needs to improve its risk assessment of third parties. Management in all countries agreed upon action plans to be completed in 2017. Additionally, the internal audit unit reviewed payments to suppliers in tax havens. The outcome was that SCA has relatively few suppliers active in tax havens, they involve only minor amounts and none of them, after controls by SCA's global or business units, required further investigations.

Supply chain management

SCA's ambition is to promote sustainable and responsible business practices in its supply chain by choosing and rewarding partners who share the same values as SCA and comply with SCA's Code of Conduct and Global Supplier Standard. SCA wants to ensure safe and high-quality goods and services for its customers and consumers delivered with respect for people and nature.

New supply-chain target

To strengthen SCA's commitment to responsible and sustainable sourcing, a new supply-chain target was launched in 2016. While the former target was limited to global and strategic suppliers, the new target aims to cover all suppliers of raw materials, services and non-production material on a global, regional and local level. It also includes a stricter risk assessment procedure.

The new target is defined as:

"We will 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."

Based on risk assessment, the focus areas for 2016 and 2017 have been identified as suppliers located in Eastern Europe and Latin America, and in particular suppliers of recycled fibers, cotton and logistic services.

In 2016, 16 of 19 global hygiene sourcing teams received social ethical training. More about the new supply-chain target and training is available on page 21.

SCA's supplier base

In its previous target, SCA focused on global, regional and strategically important suppliers, which accounted for about 70% of its purchasing costs. The risk analysis mainly looked at the country of purchase.

In its new target, SCA will include all purchases, even in other categories, such as local sourcing, services and logistics. The risk analysis includes more risk parameters and has a stronger link to current sourcing work. As a consequence, about 28,000 suppliers of goods and services, accounting for more than 80% of SCA's procurement spend, will gradually be included in SCA's risk analysis and supplier assessment compared with 600 to 700 in the previous target.

All suppliers are required to sign the Global Supplier Standard, to report on working conditions, health and safety and business ethics through Sedex, and, depending on the outcome of the risk review, potentially be subject to an ethical audit.

Results 2016

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 (29, 30) largest suppliers, 87% (86, 83) had signed the Global Supplier Standard.

Supply chain management tools

SCA measures its progress in terms of securing social and ethical compliance throughout its supply chain using four KPIs:

1. Global Supplier Standard: All suppliers to the hygiene and forest products operations undertake to comply with SCA's policies by signing the Group's Global Supplier Standard (GSS).

2. Risk assessment: To secure a continuous and proactive approach to identifying and managing any critical social/ethical issue in the supply chain, an enhanced approach to risk assessment has been implemented.

3. Sedex database: Selected suppliers are required to register in Sedex for risk assessment.

4. Ethical audits: Suppliers who receive a high-risk rating in SCA's risk assessment might be subject to social audits.

Global Supplier Standard

SCA has applied a Global Supplier Standard (GSS) for many years. The hygiene and forest products operations have previously applied individual versions of the GSS. In 2016, the two versions were consolidated into a single version valid for the entire SCA business and, in addition, the GSS was updated to reinforce sustainability criteria and to secure global coverage. The standard includes requirements governing quality, product safety, the environment, energy and chemicals. The GSS also includes a section entitled "Responsible business operations". This section includes SCA's expectations of its suppliers with regard to human rights, business practices, employee relations and health and safety.

As a consequence of the extended supplier scope, SCA's Global Supplier Standard was translated into 10 languages in 2016 and compliance-demand documents have been designed to be applicable for certain suppliers, such as service providers.

Approximately 83% of the hygiene operations' supplier base is located in Europe, 17% in the Americas and 0.6% in Asia/Middle East. Many of the global, strategic suppliers' production facilities located in Asia and Latin America belong to large multinational corporations based in Europe and the US, a conscious choice by SCA to reduce ethical risks within our supply chain.

Of the wood raw materials purchased by SCA, 88% is from Sweden (of which half from the company's own forests), 9% from central Europe and 3% from the Baltic countries and Finland. SCA strives to further integrate procurement practices with the requirements of the SCA Global Supplier Standard.

Reporting in Sedex

Sedex is an online database that enables suppliers to share information with their customers on their trading practices (health and safety, labor standards, the environment and business ethics) in order to promote ethical and responsible practices in the supply chains. SCA requires selected suppliers to perform a self-evaluation in Sedex and share their status. The answers are used for risk assessments (see below).

Improved processes for supplier risks

During the year, SCA developed its supplier risk assessment to include sustainability criteria. From a focus on political, financial and legal risks, the scope has been broadened to provide a more nuanced risk assessment. The aim was

not to create new structures but rather to incorporate sustainability criteria, such as respect for human rights and working conditions, into existing processes. Sustainability issues are taken into consideration both when evaluating potential suppliers and in the continuous risk assessment of suppliers and purchased materials, products and services. One source of input is the supplier data registered in Sedex, but other risk-related input is also considered.

Ethical supplier audits

Global and regional suppliers of raw materials and merchandise represent about 50% of the hygiene operations' procurement spend, of which 21% (12) are located in high-risk countries according to the Maplecroft Human Rights Index. These suppliers are in scope for ethical audits with a focus on health and safety, human rights, employee relations and corruption. An ethical audit of a supplier can also be triggered by other indicators, such as a low rating in Sedex, a low health and safety score in SCA's supplier qualification audit or the outcome from SCA's risk assessments. The goal is to audit all high-risk suppliers, based on SCA's risk assessment procedure. SCA has engaged a Swiss-based external partner, SGS, to perform the audits. The method used to evaluate suppliers is the same as SCA uses to monitor its own production units and is based on the SA8000 standard. SCA also accepts independent audits or audits performed on behalf of other clients if the topics covered match the SCA audit protocol and information about corrective and preventive action (CAPA) closing is shared. At the end of 2016, about 150 ethical supplier audits had been conducted since 2013.

The Group evaluates potential suppliers prior to contracting and continues to review suppliers at regular intervals. All new suppliers must sign the GSS and preferably also register in Sedex prior to any business activities. SCA also conducts chain of custody audits of fiber suppliers, see page 52.

Some of SCA's customers with high ethical standards require SCA's suppliers (their sub-suppliers) to register in Sedex or conduct on-site ethical audits. SCA supports these customers in their ambitions.

Ethical audit results 2016

During the year, SCA evaluated the outcome from 17 ethical supplier audits, of which 13 were carried out by SGS on SCA's behalf in India, Saudi Arabia, Brazil, Russia and Mexico. In addition, four ethical audits performed by another customer of the supplier were approved by SCA.

Suppliers and SCA receive feedback in connection with the audits. Depending on the outcome of the audit, an improvement plan may be established involving SGS and the supplier. In most cases, the findings involve minor health and safety issues.

If critical findings are identified, SCA is informed within 24 hours. To date, findings triggering this kind of reaction have consisted of rare cases of excessive overtime, overtime

not being paid at a premium, no evidence of fire drills being conducted in the last 12 months or insufficient or non-existing procedures for verifying workers' age upon recruitment. Two agreements with global suppliers were terminated on the grounds of sustainability-related non-compliance in 2016.

Control of cotton providers

Some of SCA's hygiene products contain cotton fibers. The volumes are exceedingly small but since cotton agriculture is associated with social and environmental risks, SCA pays particular attention to cotton farming. If there is an intent to use cotton fibers in any product, the fibers must be sourced in a responsible manner to reduce the environmental and social impact.

SCA is shifting its sourcing from potential high-risk areas to suppliers with greater transparency and lower risks. This is because SCA's purchasing levels do not provide the company with sufficient influence further down the supply chain. At the end of 2016, SCA had shifted approximately 80% of its volumes to areas with a lower risk level, i.e. Turkey.

To further promote improvements in the cotton industry, SCA has decided that any cotton sourced must be part of a recognized certification scheme. BCI (Better Cotton Initiative), Fair Trade and GOTS (Global Organic Textile Standard) are certification schemes recognized by SCA, with BCI as the preferred option. At the end of 2016, SCA decided to become a member of BCI, a non-profit organization stewarding the global standards for better cotton. The transition to certified volumes will take place in stages.

Conflict minerals

There has been a significantly increased focus on conflict minerals in recent years due to the introduction of the US Dodd-Frank Act and the EU regulation on conflict minerals. SCA markets a very limited range of products that are likely to contain conflict minerals, mainly electronic dispensers for the AfH tissue business and some articles within the Tena Identifi range. SCA is in close contact with the suppliers and has shared its expectations of them. If SCA deems that a supplier's due diligence does not fulfill the regulatory requirements, a corrective action plan is established or the supplier is phased out. SCA has also adopted a position paper on conflict minerals and both supplier qualification and product innovation processes have been updated to include conflict minerals in the normal risk assessment.

Recovered fiber risk assessment

SCA is aware of the risks related to occupational health, forced labor, child labor and human rights in general that may occur in connection with recovered fiber sourcing in potential high-risk regions. A report from the risk strategy consultant Maplecroft identified Latin America as a high-risk area and SCA has initially chosen to focus on risk management in its Mexican operations since these are conducted by a wholly-owned company with substantial sales.

In 2015, SCA developed a voluntary Supplier Recognition Program that was rolled out in Mexico in 2016. The program includes a supplier commitment to SCA's Global Supplier Standard, health and safety requirements, hygiene requirements and recovered fiber criteria. For example, SCA does not approve fiber materials from landfill. Nine suppliers have joined the program, corresponding to 63% of volumes. The program is appreciated by suppliers, thus not only mitigating risk but also increasing supplier loyalty and securing supplies.

Control of forest contractors

SCA's forest operations almost exclusively use contractors for harvesting and silviculture. Contractors hired by SCA undertake to comply with applicable laws and regulations, including collective agreements and SCA's Supplier Standard. In recent years, SCA has significantly strengthened the requirements imposed on contractors. Among other stipulations, the following are included in agreements with contractors:

- The contractor must be a member of an employers' organization or have a local collective agreement in place with the GS union (the Swedish union of forestry, wood and graphical workers).
- The contractor must adhere to the rules under the forest worker agreement relating to work environment, working hours and pay.
- The contractor must comply with the guidelines relating to employees' rights as stipulated in the FSC® (Forest Stewardship Council) and PEFC™ (Programme of the Endorsement of Forest Certification) forest standards.
- The contractor must practice a systematic health and safety program and must have carried out at least one follow-up during the past year.

SCA has also further developed and simplified its assessment methods for health and safety and employment terms.

Monitoring in 2016

SCA follows up compliance with the above standards together with its contractors. In addition, field spot checks are performed by both the GS union and SCA.

In summer 2016, SCA carried out extensive controls of its silviculture contractors with regard to working conditions, work permits, salaries, and so forth. Visits were made to 25 teams with a total of 120 employees. 70% of the employees were from another EU/EES country than Sweden, and 1% came from countries outside the EU/EES. All work conditions were compliant with SCA's requirements, as well as applicable laws. In one case, a contractor has used employees through a subsidiary in Lithuania that did not have Swedish collective agreements. The case is subject to proceedings between the contractor and the GS trade union. SCA has demanded corrective actions.

Health and safety

Health and safety is fundamental to SCA's operations. SCA has a zero-accident vision and safety in the workplace is highly prioritized. In addition to promoting health and safety at its sites, SCA checks suppliers' practices and collaborates with them to improve safety performance.

Health and safety target

SCA has established a health and safety target to reduce the accident frequency rate by 50% in the 2014–2020 period.

We are sad to report one fatality in Mannheim, Germany, reinforcing the need for consistent focus on safety improvements. In addition, one contractor lost his life in connection with elevator maintenance in the office building in Mannheim.

In 2016, the accident frequency rate declined by 27% year-on-year to 4.6 (6.3, 6.7) and 31% compared with the base year of 2014. In particular, statistics improved for the forest products business, which reduced its frequency rate by 29%. The forest products' business has intensified its occupational safety efforts under its zero-accident program, see page 23.

OHSAS 18001 certification

SCA implements the international OHSAS 18001 (Occupational Health and Safety Assessment Series) standard to ensure that uniform processes are deployed across the Group, and that SCA units continuously improve their workplace health and safety. OHSAS specifies requirements for an organization's occupational health and safety management systems.

SCA has established a target that all wholly-owned and joint-venture operations will be OHSAS 18001 certified by 2020. At the end of 2016, 87% (68, 52) of SCA's 63 main sites were certified.

Safety policy and governance

SCA has a Group Health and Safety Instruction and the Group's governance system encompasses risk assessment, training, targets and monitoring in the safety sphere. There are health

and safety committees on which representatives of about 96% (94, 96) of the production workforce serve. 76% (78, 74) of employees are covered by formal trade union agreements in which health and safety issues are addressed on a regular basis. In addition, a reference team has been in place since 2009 with responsibility for coordinating Group health and safety matters. All SCA facilities have procedures in place to increase workplace safety.

Group-wide key performance indicators (KPIs)

In recent years, SCA has worked intensively to systematize and improve its safety work. SCA uses the following Group-wide KPIs:

- Number of Lost Time Accidents (LTA): accidents that result in an employee missing the next regularly scheduled work day or shift.
- Days Lost due to Accidents (DLA): number of work-days lost due to an LTA.
- Accident Severity Rate (ASR): The DLA / LTA.
- Frequency Rate (FR): LTA / 1,000,000 hours worked.
- Incident Rate (IR): LTA / 200,000 hours worked.

Safety statistics

	2016	2015
Average headcount	29,408	28,001
Lost Time Accidents, LTA	265	360
Contractor Lost Time Accidents, CLTA	71	76
Days Lost due to Accidents, DLA	6,204	7,545
Accident Severity Rate, ASR	23.4	21.0
Frequency Rate, FR (LTA / 1,000,000 WH)	4.6	6.3
Incident Rate, IR (LTA/200,000 WH)	0.9	1.3
Fatalities	1	0
Main sites certified according to OHSAS 18001, %	87	68
Number of zero-accident sites	23	19

During the year, 68 accidents (76, 51) were reported among contractors.

Near miss/risk reporting

Reliable near miss and accident reporting is key; it is vital to analyze both serious and less serious occurrences to ensure that they are not repeated.

SCA has a reporting system for accidents and risk observation in place. Employees use it to report accidents and close calls, meaning events that could have led to an accident. The system significantly improves SCA's ability to

perform risk assessments, analyze and improve working methods, and continuously monitor performance.

In the event of a critical incident, information is communicated to the entire Group, enabling all units to gain access to the recommendations and learn from the occurrence. Another part of the unit procedures involves gathering data from the reporting system on a weekly basis so that safety can be addressed at staff meetings. The system also allows for best practices to be disseminated throughout the Group.

Since the introduction of the system several years ago, it has been noted that, to all appearances, many LTAs are the result of trivial causes. For example, accidents may be caused by slips, trips and falls of a less serious nature, which should be preventable. It was also observed that some units need to increase their focus on manual work and ergonomics.

Joint industry action

Health and safety risks in the forest products industry tend to be higher than those in the engineering industry. Therefore, SCA's forest industry operations participate in several industry collaboration projects to promote safety.

A working group focusing on occupational health and safety has been formed within the Swedish Forest Industries Federation. The objective is to support the safety programs of member companies by offering various resources for raising awareness and sharing knowledge.

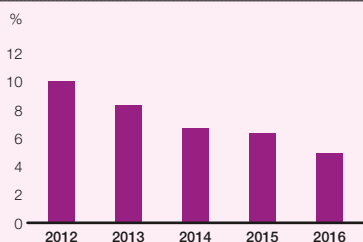
Another valuable contribution is being made by the SSG (Standard Solutions Group) safety committee, through which companies in the pulp industry come together to learn from one another. SSG sets technical standards and recommendations and provides information and advice.

SCA's forest products business area has initiated a program to improve health and safety for its employees, read more on page 23.

Employees

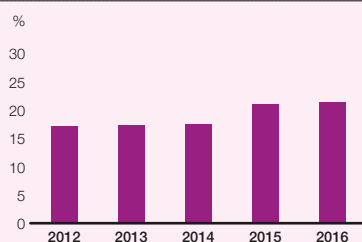
SCA's global human resource strategy aims to secure long-term capabilities and ensure that SCA is a safe and healthy workplace based on

Accident Frequency Rate (FR)



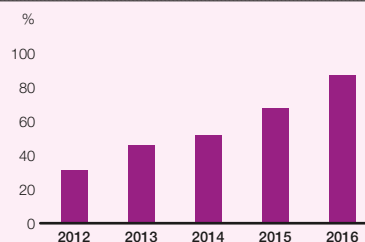
The accident frequency rate declined by 27% in 2016. Compared with 2012, the decline was 54%.

Accident Severity Rate (ASR)



The accident severity rate rose in 2016, a common consequence when the frequency rate declines.

OHSAS 18001 certified sites



12 main sites were certified under OHSAS during 2016. A main site is defined as a production site wholly owned by SCA with 100 or more employees.

ethical business practices and perceived as a great place to work.

SCA comprises on average 46,171 (44,000, 44,247) employees in some 60 countries, of whom 31% (31, 32) are women. The employee turnover rate is 12% (11, 16).

Secure access to the right people and capabilities

SCA recruits and develops employees in line with its strategic workforce plan. This plan is based on future capability needs and demographics, and defines the strategic areas and activities SCA will focus on from an employer branding perspective.

Individual development

SCA strives to ensure that all employees have an individual development plan that is defined and followed up during annual performance reviews. The reviews identify the capabilities necessary for employees to achieve stated targets. The employees and managers agree on the manner in which these skills should be secured, primarily through internal development opportunities. The objective is to follow up the performance of every employee twice a year. In 2016, 89% (96, 89) of white-collar employees participated in performance management reviews. The corresponding number for blue-collar employees is 86% (86, 75). The performance reviews are sometimes conducted individually and sometimes in teams.

Training

In 2016, 418 people participated in the mandatory one-day onboarding program for all newly appointed leaders. 440 participated in Core 1, a six-day program to develop leaders that have been in their role for six to 12 months. 35 leaders participated in Core 2, a leadership program to develop people's capabilities to lead in a complex environment, engage people and drive change. Creating Value and Driving Business Performance are two programs with the aim to further strengthen participants' capabilities in strategic leadership areas. In 2016, 44 and 37 people, respectively, participated in these programs.

Other programs include the Hygiene Academy, which offers branding training, and the Dig-

ital Academy. In total, 2,464 people participated in the two programs. SCA also has sustainability training programs in place that focus on innovations, claims and communication with the aim of improving the understanding of sustainability's impact on product and services, customers and consumers.

The average number of training hours per employee was 19 (25).

A safe and healthy workplace based on ethical business practices

SCA works proactively with employee health and well-being. Each business unit is responsible for formulating a structure for health that suits their own operations. SCA's efforts encompass measures such as better ergonomics, quit-smoking campaigns, dietary training, support in work-life balance and advice in handling difficult illnesses.

Since 2008, SCA's North American operation has had a health program that includes encouraging a healthy lifestyle and regular, voluntary health check-ups, as well as early identification of health risks. The European hygiene operations prioritize efforts to improve employee lifestyle and health, particularly when older employees are concerned. The goal is good health, fewer sick days and higher productivity.

Workplaces for all ages

With an ageing workforce in some markets, SCA will face new challenges since absence related to musculoskeletal problems increases with age. This insight resulted in a workplace program where technical, behavioral and organizational improvements were made to create a more ergonomic work environment and production lines. In 2015 and 2016, pilot studies were implemented at the sites in Hoogezaand in the Netherlands and Neuss in Germany, including awareness training, training in ergonomics and new technical solutions. Based on the lessons learned during the pilots, a program was developed and rolled out in Germany, Sweden and the US in 2016. A global rollout for all sites will be launched in 2017.

WASH pledge

As a hygiene company, SCA wants its employees to enjoy first-class standards when it comes

to workplace hygiene. To this end, SCA signed the WASH (Water, Sanitation and Hygiene) pledge in 2015. The pledge is an initiative linked to the World Business Council for Sustainable Development (WBCSD). By signing the pledge, SCA undertakes to comply with a prescribed workplace WASH standard for its wholly owned units within three years. This includes areas such as workplace sanitation and health issues, as well as training to improve employees' awareness. By the end of 2016, 61% of SCA's wholly owned hygiene products' production sites complied with the standard.

Leveraging a strong winning culture

SCA carries out an All-Employee Survey every second year for employees at wholly owned companies. The latest survey was conducted in 2015, and received a response rate of 88.3% (86.3) of the workforce.

The survey covers a total of 47 aspects in nine dimensions. The results are expressed as indexes for leadership, innovation, customer orientation and engagement, as well as an overall SCA index. The SCA index for 2015 was 72 (70, 69) on a scale 0–100.

All managers are expected to prepare action plans together with their employees based on the outcome of the survey. The next employee survey will be carried out in 2018.

Diversity

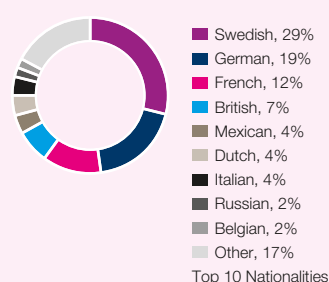
Diversity is part of a winning culture. For SCA, diversity extends beyond typical attributes, such as gender and ethnicity, and we value a mix of diverse personalities, experiences and knowledge.

SCA strives for a higher proportion of women in management positions and has started several initiatives to address this. One example is "Women in IT services", a program aimed at understanding mechanisms standing in the way of women's career development.

In 2016, the proportion of women among SCA's senior management* was 25% (24, 28) and 27% (29, 29) among senior/middle management*. Since 2007, the share of female managers has increased by almost 70%.

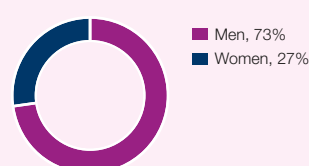
Senior management comprised 21 (28, 25) different nationalities and the corresponding figure was 32 (42, 42) for senior/middle management.

SCA's senior and middle management* by nationality 2016

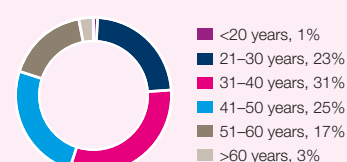


* Senior management comprises the highest level of management group below the Executive Management Team. The number varies over time due to organizational changes and consists of 110–150 managers. Middle management consists of 750–1,000 managers.

SCA's senior and middle management* by gender 2016



Employee age distribution SCA Group 2016



Encouraging greater diversity is part of SCA's leadership platform and succession planning.

Recognized as a great place to work

The competition for talent is intense in many key markets. SCA is working on employer branding to attract, engage and retain the best talents and to deliver needed human capital to support its strategy. SCA uses research to understand its target groups' preferences and is active on selected social media channels to reach them.

SCA has identified six "critical" and seven "challenging" markets with regards to demographics and/or competences. In every critical and challenging market, SCA has partnered with selected universities to strengthen its employer branding through focused activities. The business school ESSEC and the engineering school ENSAM in France are examples of this.

Employee relations

Transparent communication is fundamental to the trust between SCA and its employees, as well as their representatives. Employees are encouraged to raise issues relating to employment and health and safety with their line manager. SCA recognizes the right of all employees to join unions and to partake in union activities. Union involvement varies among SCA's countries of operation, but on average 62% (64, 65) of SCA's employees are covered by collective agreements.

The European Works Council (EWC)

The European Works Council (EWC) represents about 20,000 of SCA's employees. SCA meets the EWC and other employee representatives on a regular basis to inform them of and discuss matters such as the Group's performance and earnings, as well as health and safety and employment terms and conditions. The aim is to communicate changes well ahead of time.

Since 2013, SCA has also had an agreement with IndustriALL Global Union. IndustriALL represents 50 million employees in 140 countries in the mining, energy and manufacturing sectors. The organization was formed in 2012, combining several union organizations, including the

International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), which previously represented SCA employees. The content of the agreement with IndustriALL largely coincides with the previous arrangement with ICEM. The Swedish Paper Workers Union is also encompassed by the agreement with EWC and IndustriALL.

Alternative forms of dialog

In parallel with SCA's expansion, the Group encounters new circumstances and challenges, including challenges pertaining to its employee dialog. When there is no union representation, SCA establishes other channels where possible, such as workers' councils.

In companies where SCA is not the sole or majority owner, efforts are made to exert an influence through the Board. The aim is to ensure that these companies also apply the principles of SCA's Code of Conduct and thus respect each employee's entitlement to freedom of association.

Organizational changes

The notice period in connection with organizational changes in the Group varies, but averages about five weeks. In connection with organizational changes, SCA works to support the employees affected. This is done through discussions with labor unions at an early stage and by preparing a social action plan that is adjusted to local conditions. The action plan normally includes assistance in seeking employment and/or education. Other tools include severance pay, early retirement and financial incentives for those who find new jobs before the end of the period of notice. Support services may comprise individual career counseling or administrative support.

In 2016, 669 people were affected by restructuring measures in Mexico, Brazil, Chile, France, Sweden and Spain. Out of these, 360 people were redeployed to other sites or lines, retired early or left the company voluntarily.

The closure of the baby diaper business in Mexico affected 79 people, the closure of the Osasco site in Brazil (due to a transfer to a

greenfield site) affected 310 people, restructuring of the St Etienne du Rouvray and Hondouville sites in France affected 157 people and the closure of the Mediona mill in Spain affected 67 employees.

All affected employees received severance pay in line with or exceeding legal requirements.

Community relations

SCA strives to be a dedicated partner in the local communities in which it operates.

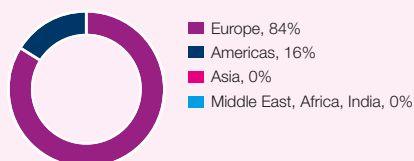
In accordance with SCA's guidelines for community relations, the company prioritizes initiatives with a clear link to SCA's values, expertise, operations and geographic presence. Much of SCA's efforts are related to hygiene and health, and are often directed at women and children.

SCA's initiatives include both large-scale investments and small projects with a local focus. Apart from adding valuable experience and knowledge to SCA, the company's community efforts add value by boosting employee pride in the Group and strengthening customer loyalty.

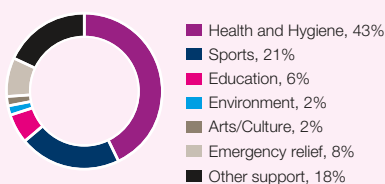
In 2016, SCA invested approximately SEK 32m (37, 24) in about 400 projects, corresponding to 0.2% of operating profit. Most of the projects were related to hygiene and health. Read more on pages 24–25.

Its Community Relations instruction states that SCA will remain politically and religiously neutral and will not make payments or donations in kind to political parties or candidates, or their institutions, agencies or representatives, or religious institutions/organization or their representatives. SCA did not support any political or religious organizations or projects in 2016.

Community relations by region



Community relations by focus area



Value creation for nature

Management approach

SCA's overall environmental management approach is to enhance the operations' positive environmental contributions, while minimizing their negative environmental impact. This chapter describes SCA's work related to its most important environmental aspects.

Strategic components	
Policy	Sustainability Policy Code of Conduct
Targets and KPI	Climate and energy Fiber sourcing and Biodiversity Water Production waste
Data	See Resource Management System (RMS) See Environmental Data
Management systems, programs and certifications	ISO 9000 ISO 14001 Resource Management System (RMS) ESAVE (Energy) MSAVE (Raw materials) Chain of Custody – FSC® and PEFC™ Life cycle assessments (LCAs)
External charters or initiatives	UN SDGs UN Global Compact

Climate and energy

SCA's efforts to reduce its climate impact and energy use are manifested through numerous projects, investments and modifications of processes, all of which contribute individually to the target of reducing CO₂ emissions.

Results 2016

At year-end 2016, CO₂ emissions in relation to the production level had declined 18.4%, compared with the reference year of 2005.

Science-based carbon target

SCA has committed to a science-based target for the reduction of greenhouse gas emissions in its hygiene operations. This will be established in 2017 and SCA expects that extensive investments and action will be required to achieve the target.

Reduction targets are considered science-based if they are in line with what is needed in order to keep the global temperature

rise below 2 degrees Celsius, as agreed by world leaders at the UN climate change conference (COP 21) in Paris in 2015. The Science Based Targets initiative is a partnership between CDP (formerly known as the Carbon Disclosure Project), the UN Global Compact, the WRI (World Resources Institute) and the WWF (World Wide Fund for Nature). Science Based Targets help companies determine which emission reductions they need to achieve in order to prevent the worst impact of climate change. Read more at sciencebasedtargets.org.

Investments

Investments in new technologies and upgrades to existing solutions play a significant role in SCA's ability to achieve its CO₂ target.

In cooperation with local partners, SCA has invested in a new biofuel power plant that provides SCA's tissue plant in Nokia, Finland, with a low-cost, renewable and reliable energy supply. The investment has reduced annual carbon emissions by 29%, equivalent to 7,000 tons. The biofuel plant meets most of the paper mill's steam requirements.

Together with external partners in the Netherlands, SCA is pioneering the use of pyrolysis technology to extract energy from sludge in its tissue plants. The technology has huge potential to reduce waste and carbon emissions. SCA will also reduce cost by converting waste into a carbon-neutral energy and minerals that can be sold as raw material. In December, a mobile pilot unit, which will be used for testing in the European and US mills, was finalized.

The company's investments in a biofuel plant in Mannheim, Germany and in pulp production in Östrand, Sweden are described on page 27.

ESAVE

Since 2003, SCA's ESAVE energy-efficiency program has contributed to energy savings and improved efficiency in all operative business units. In 2010, SCA adopted a target for ESAVE: to reduce energy consumption per ton of product produced by 14% by 2020. In 2016, 101 ESAVE projects were implemented, resulting in a 0.9% (0.5) year-on-year reduction in energy

used per ton of product produced. The accumulated energy savings in the 2010–2016 period amounted to 9.0%, corresponding to a 1.8 TWh reduction in energy consumption.

Energy-efficiency improvement is an integral part of daily life at SCA and ESAVE is a process, not a project. It encompasses investments in energyefficient technical solutions, the involvement of employees in daily improvement activities and a general change in attitude toward the use of energy at SCA. Knowledge sharing is leveraged across the company through training and network events and ESAVE is part of several onboarding programs for young engineers. Best practices are shared online, in real time, to achieve energy-efficiency excellence by learning from others. SCA also cooperates with external stakeholders, such as machinery suppliers, to ensure continued leadership in energy efficiency and continuous improvements. All new equipment is energy efficient by design and ESAVE is part of the planning criteria.

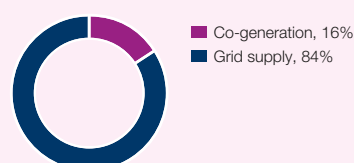
A typical ESAVE project could involve reducing electricity consumption by improving or replacing pumps, compressors, fans or lighting, or by optimizing thermal drying processes. Experiences are documented and provide effective support for future improvement efforts.

MSAVE

SCA has also introduced a material savings program, MSAVE, using the same philosophy and methodology as in ESAVE. The program aims to achieve the best overall cost and minimize the environmental impact from raw materials and waste. Best practice is shared across the sites worldwide.

Examples of MSAVE initiatives include optimizing the tissue machine fiber mix and chemical dosage scheme, reducing the amount of packaging materials used in our products, re-using the tissue waste in our processes as well as converting waste into by-products to be used as raw materials in other industries and partnering with local industries.

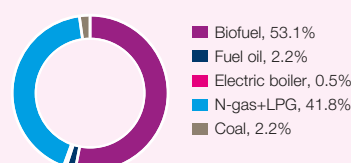
Electricity consumption 2016



Electricity consumption 2016: 7,850 GWh

The majority of SCA's electricity, 84%, comes from national grids, while 16% derives from electricity produced in the Group's co-generation plants.

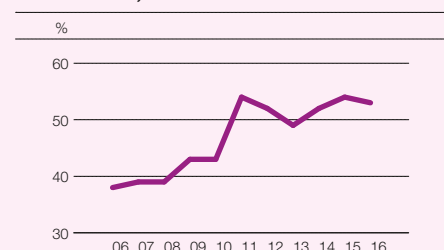
Fuel consumption 2016



Fuel consumption 2016: 61,322 TJ

A total of 42% of SCA's fuel consumption comes from natural gas and 53% from biofuel. Oil and coal account for 5% all together.

Use of biofuel, 2006–2016



SCA is working systematically to replace oil and coal with biofuel and natural gas, which has substantially increased biofuel's share of the energy supply.

Transport

SCA monitors the environmental impact of its transport activities and is working on a broad front to reduce emissions. These efforts include increasing the fill ratio, applying various techniques to reduce fuel consumption, prioritizing transport means with less environmental impact, reducing distances travelled and strengthening purchasing procedures. The Group's total carbon emissions from transport activities in 2016 amounted to 0.87 million tons (0.87, 0.87).

Shipping

Shipping accounted for 69% of SCA's total transport activities. The Group owns three roll-on roll-off (RoRo) vessels which operate in Northern Europe between Sweden, Germany, the UK and the Netherlands. Other shipping services are mainly carried out with container vessels, but also with other cargo ships. European traffic was reorganized mid-2016, which means a larger share of transport is carried out with container vessels. The changes have cut costs, increased energy efficiency and reduced environmental impact. RoRo vessels account for about 9% of SCA's transport usage by ship, with a total capacity to transport about 1,300,000 tons.

Road transport

25% of SCA's freight is transported by road. SCA engages in a number of collaboration projects to cut transport emissions, including tests of vehicles using biomass-based fuels.

SCA was one of initially ten companies in France that signed a charter called FREIGHT21 with the Ministry of Sustainable Development in 2015 with the aim to reduce its CO₂ emissions from (mainly road) transportation by 5% by 2018, corresponding to 1,500 tons. Half-way through, SCA in France has already fulfilled over 80% of its objective and reduced CO₂ by about 1,300 tons. A cross-functional team, including logistics, CSR and communications, has focused on key aspects such as (1) drop-size and truck-fill rates, (2) multimodal transportation (use of rail transportation for deliveries from Sweden or the Netherlands to Spain), (3) distance and product flow optimization, and (4) product specifications (launch of compressed household towels).

Rail transport

Rail transport accounts for 6% of SCA's total freight – this small share is partially due to restrictions in the rail network. Because rail transport is a carbon-efficient alternative, it is a prioritized transport means. SCA uses multimodal transport for distances exceeding 1,000 km. If there is no direct rail connection, SCA requests that its suppliers use rail to the greatest extent possible, supplemented by truck transport. If there is no, or a very small, price difference between alternatives, SCA will choose the solution with the least impact on the environment.

The EU Emissions Trading Scheme (ETS)

SCA had 31 mills and plants included under the ETS in 2016. SCA's operations in the Nordic region will continue to produce a surplus, while its operations in the rest of Europe will have a certain deficit during the third phase of ETS (2013–2020). This balance provides an estimated total surplus of almost 2 million tons of carbon dioxide equivalents. The surplus is the result of the measures implemented by SCA over an extended period in the form of energy-saving activities, process optimization, choice of fuel and major investments. The average market price for emission rights in 2016 was about EUR 5.35 per ton and SCA sold 405,000 emission rights.

Wind power

SCA's forest land in Sweden is well suited for wind power ventures. Energy and green certificate prices remained at a low level in 2016, resulting in few investment decisions for new wind power projects.

Results 2016

A total of 768 MW of wind power is installed on SCA's forest land, corresponding to 12% of the total installed wind power in Sweden. In 2016, 2.3 TWh (1.9, 1.1) was produced on SCA's forest land.

Wind power strategy

SCA's wind power strategy is based on three main pillars.

- **Joint venture with energy producers:** SCA can be a co-owner in a wind power project, which is the case in the collaboration with the Norwegian companies Statkraft and Fred. Olsen Renewables. Statkraft and Fred. Olsen Renewables are funding the projects and SCA is providing the land.
- **SCA independently develops wind power projects:** In certain cases, SCA is the initiator of wind power projects that may be divested, form part of a future collaboration or be operated independently by SCA.
- **SCA leases land to energy producers:** This could involve leasing sites for smaller wind farms or cases in which a larger wind farm uses a small part of SCA's land, but could also involve larger projects.

Joint ventures

Statkraft SCA Vind AB, SCA's joint venture with Statkraft, operates 186 wind turbines, of which 163 are located on SCA land. The production capacity at the end of 2016 was 1.6 TWh (of which 1.4 TWh on SCA land). Wind power production at the four wind parks accounts for 1% of Sweden's total energy consumption – equivalent to the electricity use of 300,000 homes. See also page 28.

In July 2016, SCA's joint venture with Fred. Olsen Renewables, FORSCA, was granted an

initial permit to build 98 turbines. Another 50 turbines were granted a final permit in January 2017.

Other wind power projects

SCA has a collaboration with E.ON Wind according to which E.ON Wind is developing two wind power projects together with SCA. A total of 92 turbines were granted a permit in late 2014 and another 50 turbines are expected to be granted a final permit in 2017.

A wind project independently developed by SCA was granted a permit for the construction of 20 wind turbines. The project has been prepared for due diligence with possible realization in 2019. Permit applications for another project, comprising 130 turbines, were submitted for assessment.

Leasing land for wind power

SCA has leased land to various energy producers for more than 1,000 planned wind turbines. 134 turbines are already in operation with a total annual production of 0.89 TWh.

Biofuels

Developing and producing biofuels is both an efficient use of resources and beneficial for a low-carbon economy.

Results 2016

In 2016, SCA produced approximately 2.85 TWh (2.69, 2.75) of biofuel-based energy, of which the production of forest-based biofuels accounted for approximately 740 GWh (610, 687). The market situation, with a plentiful supply of competing fuels and low energy prices, held back deliveries.

The forest-based biofuels comprise felling residue such as branches, tops and stumps as well as fuel from peatland. Other biofuels are produced from the by-products of the mills, mainly sawdust, for pellet production.

Fuel pellets

SCA produces fuel pellets at its pellet plants in Härnösand and Stugun in Sweden using sawdust from its own mills. SCA sources electricity for the two pellet plants from its Björkhöjden wind farm. In 2016, SCA produced 231,000 tons of pellets of which 53% was sold to customers outside the Group. Fuel pellets are used in boilers of varying sizes, ranging from industrial scale to those used in private homes. The market is currently characterized by narrow margins due to overcapacity. As a result of this situation, SCA is focusing on improving quality and increasing the internal use of pellets as a substitute for fossil fuels. SCA BioNorr also produces stall bedding pellets manufactured from sawdust.

Waste management

SCA takes a life cycle approach and promotes resource efficiency in relation to its production, products, services and innovations. SCA initiates partnerships and evaluates solutions to minimize waste, find alternative uses and/or create new resources – from raw materials to end-consumer.

A new production waste target

SCA has adopted a new production waste target stating that “all solid production waste will be recovered by 2030.”

In 2016, SCA's production waste amounted to a total of 1.87 Mtons. In SCA's production process, waste is generated in the form of ash, sludge, organic waste and/or plastic. The production sites proactively work to reduce waste and to find alternative solutions for their waste. In 2016, a significant part (1.2 million tons or 65%) was recovered as raw materials in other industries, such as the construction industry, or as an energy source. The remainder was sent to landfill or classified as hazardous waste (0.4%).

SCA's tissue plant in Barton in the US turns production waste into a soil additive for local farmers. The product is spread over agricultural land to adjust the pH level in the soil. Since the start of the initiative in April 2016, 40 farmers have started using the land application and there are 15 more farmers on a waiting list.

Products and services

SCA uses life cycle assessments (LCAs) to minimize waste, all the way from the product design stage to manufacturing and after-use. Reducing the environmental impact of products throughout the product cycle, including the post-user phase, is part of SCA's innovation process. Compared with 2008, Libero diapers weigh on average 20% less, TENA products on average 12% less and feminine ultra towels 9% less.

TENA Solutions is an example of how a holistic perspective in relation to incontinence care has resulted in 31% less waste.

SCA's tissue and forest products consist of wood fibers that, in addition to being renewable, can also be recycled. Recycling of materials from personal care products, such as baby diapers, is currently limited by the available technology, hygiene requirements and a lack of viable business models. Energy recovery through incineration of hygiene products is a good alternative to landfill, since 23–86% of the material in personal care products and up to 100% in tissue products is renewable.

Another solution for tissue products is composting and SCA has several products in the US market that are certified as compostable, such as Tork Advance and Tork Universal.

An efficient way to reduce tissue waste is to focus on the user perspective. SCA develops dispensers that reduce consumption during use, such as Tork Xpressnap, which reduces consumption by at least 25% compared with a traditional dispenser.

The packaging component normally accounts for 3–7% in a product life cycle. SCA has achieved a substantial packaging reduction in some of its products. Between 2008 and 2015, changes in packaging weight varied between +10% and -26% for TENA products. The increase was due to assortment changes. Packaging for feminine hygiene products was reduced by 1-14% and for open diapers by 12%. It increased 8% for pant diapers, due to quality problems which required packaging to be increased.

Post-consumer waste

SCA recognizes the need for solutions to address post-consumer waste and the materials we use should be compatible with current and future waste management systems.

In Europe, SCA has initiated a service where used paper handtowels are collected at customer facilities and turned into new products, see page 29.

In North America, SCA educates and partners with customers to reduce waste. Many large cities have ambitious zero-waste-to-landfill goals since this not only reduces their negative environmental impact on climate change, but also has financial benefits. SCA supports these zero-waste efforts with closed loop recycling in proximity to SCA's six North American plants. Used office paper and corrugated paperboard are collected from customers such as universities, healthcare facilities and corporations, and used as raw material for the production of new products in SCA's plants. This process reduces the customer's cost, since recycling rates are often lower than solid waste collection and disposal fees, supports the local economy and jobs and contributes to a circular economy.

Additionally, a majority of the Tork products in North America are verified as compostable in commercial systems. Compostable paper hygiene products can be composted with food waste. SCA helps large customers to further divert waste from landfill by educating them on how to separate and collect used paper towels in restrooms, napkins and paper towels in break rooms and cafeterias.

Fiber sourcing

Responsible sourcing is key for SCA and includes ensuring the Group's fiber comes from responsible sources.

New fiber sourcing target

SCA has introduced a new target for controlling the use of fresh fiber in its products. The new target states that “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.” The target includes all deliveries of fresh wood fiber (timber, pulp, packaging, mother reels and articles supplied by third parties) to SCA's production sites.

Results 2016

In 2016, 6.5 million tons of fresh fiber were delivered to SCA as wood, pulp, packaging, mother reels and third party supplied articles. 57% of the fiber was FSC/PEFC certified, 42% fulfilled the FSC standard for controlled wood, and 1% originated from controlled suppliers.

Wood (67%) and pulp (32%) were the two dominating fresh fiber sources, while packaging, externally supplied mother reels and third party supplied articles accounted for 1%.

Wood: 10.8 Mm³ was delivered to SCA, of which 50.7% was FSC or PEFC certified and the remaining share fulfilled the FSC Controlled Wood standard.

Pulp: 70% of the global pulp deliveries was FSC or PEFC certified and the remaining 30% fulfilled the FSC Controlled Wood standard.

Packaging: Approximately 0.25 Mtons of packaging material was delivered to SCA, of which 75% consisted of recycled fibers. A minor share of the virgin fiber (<15%) was purchased as FSC certified (Mix) while the majority came from FSC Controlled Wood sources or other controlled sources.

Mother reels: SCA purchased approximately 12,000 tons of which 2,000 tons were FSC certified and 7,000 tons fulfilled the FSC Controlled Wood standard or came from controlled suppliers. The remaining volumes were of known origin, through a non-chain of custody certified supply chain.

Third-party supplied articles: More than one-third of SCA-branded wet wipes were FSC-certified. The fresh fiber in the remaining two-thirds came from FSC Controlled Wood sources or other controlled sources. 100% of the fiber in other outsourced products is controlled and 90% of the total value is supplied directly from FSC or PEFC chain of custody certified suppliers.

Site certifications

SCA prioritizes the FSC certification system and encourages all suppliers to work toward certification. We recognize several systems for forestry management, including the PEFC, SFI (Sustainable Forestry Initiative) and CSA (Canadian Standards Association). Other certification systems may be considered on a case-by-case basis. SCA continued to roll out FSC® and PEFC™ chain of custody in manufacturing sites, adding a further eight sites to the list of chain of custody sites. In total, 46 of the 56 sites within the scope of the roll-out have been chain of custody certified. SCA's intention is to roll out the chain of custody to all remaining wholly owned manufacturing sites during 2017.

A global fiber database

SCA has a Global Fiber Sourcing Policy in place and a shared business system – the Global Fiber Database – for the assessment and purchase of fiber in compliance with SCA's forest management policies. The database includes all of the Group's pulp, recovered fiber and alternative fiber suppliers. It provides the purchasing function, environmental department, R&D department and production facilities with fast and easy access to important information about suppliers, region of supply, wood species, pulp specifications, bleaching methods and life cycle assessment data.

The information also includes the suppliers' product certification status: FSC® (Forest Stewardship Council), PEFC™ (Programme for the Endorsement of Forest Certification), Controlled Wood, ecolabels, ISO 9000, etc. As a result, SCA can ensure traceability, the R&D department can check the availability of a certain raw material and the mills can show customers exactly what has been purchased. The database is continually updated to support SCA's global operations.

Supplier verification

SCA requires pulp suppliers to guarantee that they have robust systems and documented procedures in place to ensure traceability and compliance throughout the supply chain. In 2016, SCA had 31 (38, 33) pulp suppliers, of which the ten largest accounted for 83 % (83, 72) of purchases.

All pulp suppliers are Chain of Custody (CoC) certified according to the FSC and/or PEFC. SCA's Fiber Sourcing Policy includes a step-by-step process to support suppliers in their transition to third-party certification.

Supplier audit results 2016

SCA audits its suppliers to verify their compliance with the Fiber Sourcing Policy and supplier requirements. All suppliers were assessed to ensure continued compliance with the chain of custody certification. In addition, all suppliers received questionnaires in order to update fiber and ecolabel information. Visits were also made to nine sites in 2016. All suppliers demonstrated

continued compliance with SCA's sourcing policies and were retained for continued supply. In addition to the pulp supplier audits, support has been provided to some raw material suppliers where fiber may be part of the raw material (i.e. non-wovens) to help them achieve FSC chain of custody certification.

Recovered fiber

SCA uses 42% fresh fiber and 58% recovered fiber in its operations. For a further breakdown at the product level, see "Distribution of raw materials" on page 57. The proportion varies between regions due to differences in consumer preferences and fiber supply and demand. The North American operations use almost 100% recovered fiber, while the proportion of recovered fiber is 79% in Latin America and 44% in Europe.

The declining use of publication papers in North America and Europe has led to limited supplies of recovered fiber. SCA partners with trade organizations and recycled paper operators to expand and improve the collection of recycled paper and board, thereby increasing the availability of recovered fiber. SCA is part owner in several paper-recycling companies, such as Bunzl & Biach in Austria, Paperinkerays in Finland and AFS in the US.

Forest management

As Europe's largest private forest owner, SCA takes a long-term approach to its responsible forest management.

Biodiversity

Around 2 million of SCA's 2.6 million hectares of forest land are managed for timber production. The remaining 600,000 hectares of less productive forest, such as bogs, are still valuable as a living environment for flora and fauna.

Areas that provide vital habitats for sensitive fauna and flora are exempted from forest management or are managed with the aim of enhancing the existing environmental values and biodiversity. Approximately 200 species in SCA's forests – over 100 species of insects, nearly 50 types of fungi and about 50 different

kinds of mosses and lichens – are disadvantaged by forest management and require special consideration.

SCA has set aside nearly 7% of its managed forests to benefit biodiversity in its ecological landscape plans. SCA also takes extensive conservation measures in managing forest areas that do not contain any particular conservation value. During felling operations, individual trees, groups of trees and buffer zones are set aside to ensure that the conservation values inherent in older forests are preserved and become an integrated part of the new growing forest. In 2016, 13% of the 19,000 hectares planned for harvesting were preserved for nature consideration.

Seedlings

In 2016, SCA's forest-tree nursery delivered 77 million seedlings, of which 48% were planted in SCA's own forest land. The remainder of the seedlings was sold to other forest owners.

Conservation parks

Biodiversity is a key environmental consideration for SCA's forest operations. SCA has established a total of five conservation parks, comprising a total of more than 10,000 hectares of forest land. At least half of the forest land must be earmarked for or managed in a manner that promotes biodiversity and cultural heritage. The parks are often located near other nature reserves in order to create large areas of protected forest. SCA uses the knowledge it gains in these parks in its other forest operations.

Forest management and certifications

The management of SCA's forest land is certified in accordance with FSC's and PEFC's forest management standards and ISO 14001.

The 2016 FSC audit showed one minor deviation and three observations and the PEFC audit showed two minor deviations and two observations.

The minor deviation from the FSC standard was for the control of natural regeneration of lodgepole pine, which had previously been conducted in conjunction with surveying for thinning. As thinning of lodgepole pine has become less extensive, the control of natural

regeneration has also decreased and must be replaced with another control method.

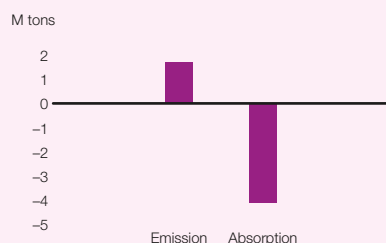
The auditors received one complaint ahead of the audit. A private individual had questioned whether SCA's use of the Canadian tree species lodgepole pine complies with FSC standards. The audit firm has concluded that SCA complies with the requirements imposed by the FSC standard on the use of foreign tree species.

In summary, the audit firm concluded that all business operations at SCA Skog comply to a great extent with the requirements of ISO 14001 for the environmental management system and working methods, as well as the FSC's and PEFC's standards for responsible and sustainable forest management.

Forest as carbon sinks

SCA's 2.6 million hectares of actively and responsibly managed forests provide an impressive carbon sink. Young, growing trees need 1.375 tons of carbon dioxide to produce each cubic meter of wood, making them one of the most effective means to reduce carbon dioxide levels in the atmosphere. SCA forests have a net growth of 1.4%, resulting in a net carbon sequestration of SCA's forests equivalent to 4.1 million tons in 2016. If half of the world's forests were managed like SCA's and deforestation was stopped, much of the climate change problem would be solved.

SCA's carbon dioxide emissions from own production and absorption in SCA's forests



The 2016 net uptake of carbon dioxide in SCA's forests was about 4.1 million tons, exceeding the carbon dioxide emissions from fossil fuel of 1.7 million tons generated by all of the Group's production.

Water

New water targets

In 2015, SCA adopted new water targets with a focus on both effluent water volume and quality. The new targets take a more holistic view on water, targeting the areas most material for the different business units:

"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%. The target will be achieved by 2020 (base year 2014)".

Results 2016

In 2016, 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%. The increase was due to technical problems at the Obbola mill in Sweden. The mills in Munksund and Östrand were not included in the target follow-up.

Approach to water usage

The issue of water is being dealt with systematically – SCA monitors the volume and origin of the water it uses, as well as the quality of its effluent water. Most SCA mills, accounting for 97% of the Group's water usage, are located in areas of water abundance. About 60% of the Group's water usage is used to transport fibers during production processes and the remainder is mainly used as cooling water. 84% of the water used is drawn from surface sources.

SCA's reporting encompasses all production sites (excluding Vinda) and, in 2016, the Group used 216 million cubic meters of water (206) in pulp and paper production.

Effluent water treatment

SCA works continuously to enhance its effluent treatment and thus the quality of the effluent water discharged from its plants. Mechanical treatment removes suspended solids, sand and particles, while biological treatment extracts dissolved solids and organic impurities that affect biological oxygen demand (BOD) and chemical oxygen demand (COD).

Environmental complaints

A few of SCA's production facilities are located in residential areas where it is important to engage in active dialog with the surrounding community. For example, this dialog may be conducted in the form of large meetings or by providing information on how complaints can be made. All environmental complaints are investigated and measures are taken where necessary. In 2016, 101 (104, 125) cases were reported to the plants. Complaints usually relate to noise, bad smells or vibrations. In a small number of cases, reports were received regarding exceedance of effluent limit values. Local authorities are always involved in such instances.