

2017

SVENSKA CELLULOSA AKTIEBOLAGET SCA

Annual and
Sustainability Report



**A leading
industrial
ecosystem
driven by
the force of
the forest**

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SCA's Annual and Sustainability report 2017 is published in Swedish and this is an English translation. If there are differences between the Swedish and the English version, the Swedish version will prevail.



This is SCA

SCA is Europe's largest private forest owner with 2.6 million hectares of environmentally certified forest land in northern Sweden. Based on this unique resource, SCA has developed a resource-efficient industry to capture the greatest possible value from each tree, making use of every part. The company's products include wood, pulp, kraftliner, publication paper and renewable energy.



Forest

SCA's unique forest holding is a growing resource that provides access to high-quality forest raw materials. The Group owns a total of 2.6 million hectares of forest in northern Sweden (an area slightly smaller than Belgium). 2 million hectares of which is productive forestland.



Wood

SCA is one of Europe's leading suppliers of wood-based products for the industrial and building materials trade, with an annual production capacity of 2.2 million m³ of solid-wood products. SCA has five sawmills, wood processing units with planing mills in Sweden, the UK and France, as well as three pellets factories.



Pulp

In the pulp market, SCA has positioned itself in the high-strength segment based on its excellent access to the Nordic long-fiber. The ongoing investment in the Östrand pulp mill in Timrå will double production capacity from 530,000 tonnes to approximately 1,000,000 tonnes per year.



Paper

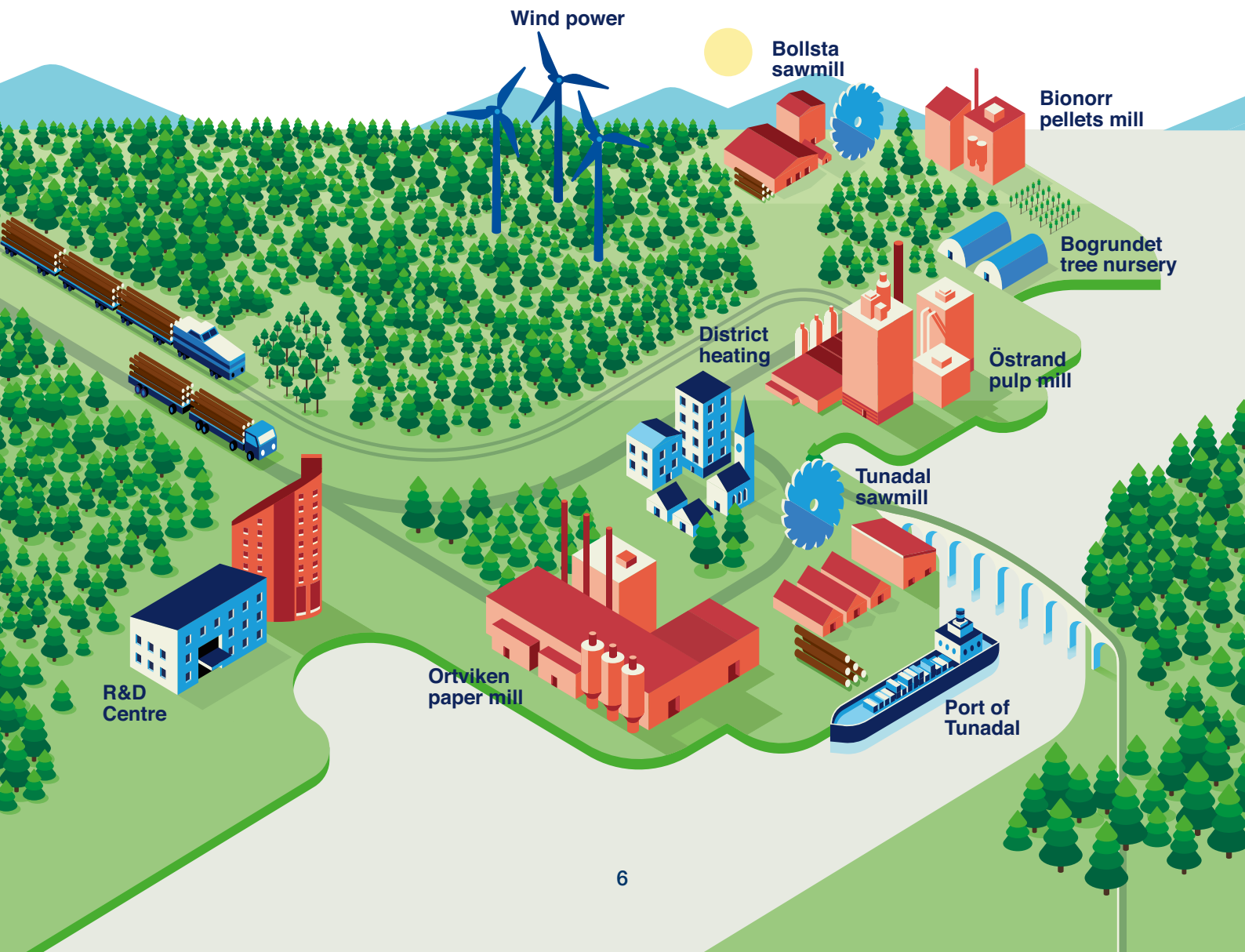
SCA produces kraftliner – paper for corrugated transport packaging – and publication paper for magazines, catalogues and commercial print. Kraftliner is produced by SCA's paper mills in Munksund, Piteå, and in Obbola, Umeå, with a combined capacity of 865,000 tonnes per year. Publication paper is produced at the Ortviken paper mill in Sundsvall, with a capacity of 775,000 tonnes per year.

Well-invested industry close to the forest and customers



Integrated value chain maximizes value creation

SCA has an effective and integrated value chain with environmentally certified forest operations and modern production facilities located close to its forest holdings. SCA's rapidly growing forest captures and binds CO₂, the company's products contribute toward a more sustainable society and the renewable fiber can replace products based on fossil raw materials.



The forest

SCA's forests are responsibly managed. The forest is managed so that it will be as rich in timber, biodiversity and nature experience in the future as today.

Bollsta sawmill

The large logs from a pine tree are sent to the Bollsta sawmill, where they are turned into high-quality wood products. The bark is used for energy production, chips are used as a pulp raw material and sawdust is processed into pellets.

Östrand pulp mill

Smaller pine logs are delivered to Östrand pulp mill in Timrå, where, together with sawmill chips, it is used as raw material in the production of kraft pulp.

Tunadal sawmill

The large spruce logs are delivered to Tunadal sawmill. The bark is used for energy production in the nearby Ortviken paper mill. Chips are used at the Östrand pulp mill. Sawdust is converted into pellets. All parts of the tree are used.

Ortviken paper mill

The smaller logs from spruce trees are delivered to the Ortviken paper mill where they are used to manufacture mechanical pulp, which together with kraft pulp from Östrand is converted into high-quality publication paper for magazines, catalogues and commercial print.

Bionorr pellets

The pellets mill in Härnösand uses sawdust to produce pellets used for heating in private homes or for fuelling large boilers, such as the chemical recovery system at the Östrand pulp mill.

District heating Sundsvall-Timrå

In addition to forest products, the Ortviken paper mill and Östrand pulp mill also supply heating to the local communities. The district heating grids in Sundsvall and Timrå are both supplied with energy from SCA.

Wind power

SCA's forests contain numerous areas with good conditions for wind power. 301 wind turbines produce 2.3 TWh of green electricity per year on SCA land and there is potential for many more.

R&D Centre (and Mid Sweden University)

SCA's research and development center is located at the university campus in Sundsvall and collaborates in the development of new products and businesses.

Port of Tunadal

SCA's forest land and mills are located in northern Sweden, but the company's customers are all over the world. Efficient logistic solutions are needed and the entire world can be reached from Tunadal.

Norrbotten and Västerbotten

The image shows SCA's well-developed value chain in Väster-norrland. In the Norrbotten and Västerbotten areas, SCA has a similar value chain with the Munksund and Rundvik sawmills, the Munksund and Obbola paper mills and pellets production at the co-owned Bioenergi site in Luleå.

The year at a glance

2017 was a strong year for SCA, with a generally healthy demand and price trend within all segments and geographies. Sales increased by 8 percent and adjusted EBITDA grew by 15 percent. The main contribution toward the improvement was from kraftliner and wood products.

Net sales

16,664 SEKm

Adjusted EBITDA

3,761 SEKm

Adjusted EBITDA margin

22.6%

Net debt / EBITDA

1.6x

Adjusted industrial return on capital employed, excluding the ongoing investment at Östrand

13.1%

Earnings per share

2.67 SEK

Proposed dividend per share

1.50 SEK

Key events in 2017

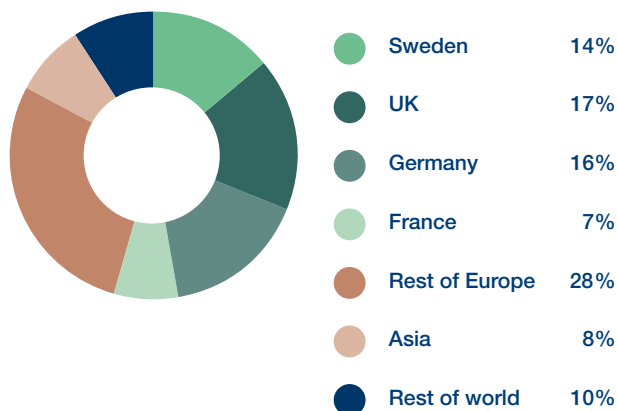
- Investments undertaken in Östrand (throughout 2017)
- Pilot facility for biofuel production began operating in Obbola (April)
- Resolution taken to distribute Essity (April 5)
- First day of trading for the SCA share without the right to receive shares in the distributed hygiene business (June 12)
- SCA's headquarters relocated to Sundsvall and Ulf Larsson appointed President and CEO (June 15)
- Decision to invest in increased production of White-top kraftliner (December 12)

Key figures

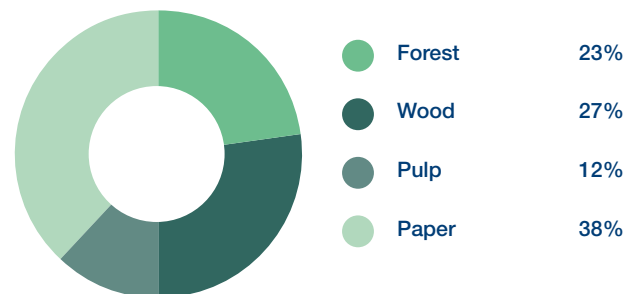
	2017	2016
	SEKm	SEKm
Net sales	16,664	15,373
Adjusted EBITDA	3,761	3,269
Adjusted EBITDA margin	22.6%	21.3%
Operating profit	2,511	2,271
Operating margin	15.1%	14.8%
Profit for the period	1,874	1,770
<hr/>		
Earnings per share, SEK	2.67	2.52
Proposed dividend per share, SEK	1.50	-
Operating cash flow	2,273	1,917
Strategic capital expenditures	2,863	2,231
Capital employed	42,719	40,127
Adjusted return on capital employed	6.3%	5.5%
Net debt/EBITDA	1.6x	1.5x ¹
<hr/>		
Average number of employees	4,127	4,022
No. of employees at December 31	4,031	3,912
Accidents (LTA per million hours worked)	10.4	8.7

1) Pro forma

Net sales by market



Net sales by segment²



2) Share of net sales before elimination of intra-Group sales

We are building value for employees, customers and shareholders

SCA is built upon Europe's largest private forest holding. We manage our forests so we will never need to reduce long-term harvesting levels. They will remain as rich in biodiversity, nature experiences – and naturally timber – in the future as they are today.

In 2017, we distributed the hygiene business to shareholders and created a dedicated forest products company. Our headquarters was moved back to Sundsvall and SCA's unique qualities as Europe's largest private forest owner have become clear.

Using our renewable forest resource, we have created a well-invested, cost-efficient and profitable value chain, an industrial ecosystem that aims to create the greatest possible value from the forest. This value chain lies at the heart of all strategic choices, priorities, investments and product development.

Positive reactions

During the year, as a dedicated forest products company, we received many positive reactions from customers, employees and other key stakeholder groups. Since the distribution of Essity on June 12, 2017, SCA's Class B share has increased in value by 35 percent up to December 31.

Strategic direction for a sustainable future

Our operations are an important element in the solution for combatting the negative effects of climate change. We have a high level of net growth – three million forest cubic meters per year – in our forests. Growth captures and binds carbon dioxide, and our renewable fiber is used in innovative product development to create exciting opportunities to replace fossil based materials and products.

All of our operations are based on a renewable natural resource. If we take care of it, the forest will generate valuable raw materials for ever. The trees we harvest are well utilized to become wood products, pulp, paper, energy, and in future green chemicals and new materials. We drive innovative development work throughout the value chain.

Our forest land also contributes with other values than raw material. Today, 301 wind turbines are located on our land and these produced 2.3 TWh of green electricity in 2017. During the year, it was decided to build another 235 wind turbines on SCA's land, with a total capacity of 2.7 TWh per year and construction is scheduled to start in 2018-2020. In so doing, we will achieve our target for wind power production on SCA land of 5 TWh by 2020.

We are not satisfied simply because we plant new forest when we harvest mature forest. We continuously strive to reduce the environmental impact of our value chain and use our resources more efficiently and we support the UN Global Compact and its principles on human rights, labor law, the environment and anti-corruption.

Strong brand

Our strong brand helps us to develop business with strategic customers and suppliers, and is also a major asset when it comes to recruiting and retaining skilled employees. SCA has strong core values and by using these as our foundation we can continue to build on our identity together with employees and customers around the world.

Investments to enhance competitiveness

Our focus is to continuously seek out improvements, increase efficiency and create growth in our unique, strong and clearly defined value chain.

We create value through strategic and carefully implemented investments. In 2016, a new saw line was inaugurated at the Tunadal sawmill in Sundsvall and this sawmill, one of the largest in Sweden, achieved a production record in 2017. We also broke production records at the Obbola paper mill and in our production of

uncoated publication paper at the Ortviiken paper mill.

Demand for high-quality packaging paper is increasing and in December we decided to invest to increase production of White-top kraftliner at Munksund paper mill.

We are currently implementing one of the largest and most important industrial investments in Sweden, the expansion of the Östrand pulp mill. When it begins operating in June 2018, it will be one of Europe's most competitive and environmentally friendly pulp mills. Östrand will secure demand for pulp wood in northern Sweden for decades to come and will meet rising customer demand for high-quality pulp based on fresh fiber.

Strong performance in 2017

Demand was generally healthy in all product areas and all geographic markets. Kraftliner (packaging paper) noted a very strong market, and demand was also favorable for wood products and pulp. Structural reduction in demand for publication paper continued and we are working intensively to develop products and to trim costs and resource use to maintain competitiveness and profitability in this area.

An exciting future

2018 will be an important and exciting year. The expanded Östrand mill will begin operating and will quickly achieve full production and quality. Together with our dedicated employees, we will ensure that our industrial ecosystem generates the highest possible value for our customers, our owners and for society as a whole.

Ulf Larsson,
President and CEO



**“It is the forest resource that
make SCA a unique company”**

Values and strategy

SCA's values are based on a belief in the importance of forests for a sustainable future for everyone. A long-term approach and sustained profitability are central to SCA's strategic direction and, together with dedicated employees, innovation and continuous improvement, create profitable growth.

Purpose and our core values

Through the force of the forest, SCA contributes toward a sustainable future. This is achieved with responsible forest management, resource efficiency and renewable products.

Responsibility

We have a responsibility to nature, each other and future generations. We are also responsible for ensuring that we all feel safe and secure at work and that we are given opportunities to develop. When we assume responsibility, learn more and have fun, we do a better job.

Excellence

We always strive to exceed expectations, by improving ourselves, our products and our services in order to create a sustainably profitable and renewable future.

Respect

Respect for our colleagues, customers and business partners is a given. Treating people as equals and showing mutual respect fosters cooperation and allows us to develop – as people and as a company.

Overall strategies

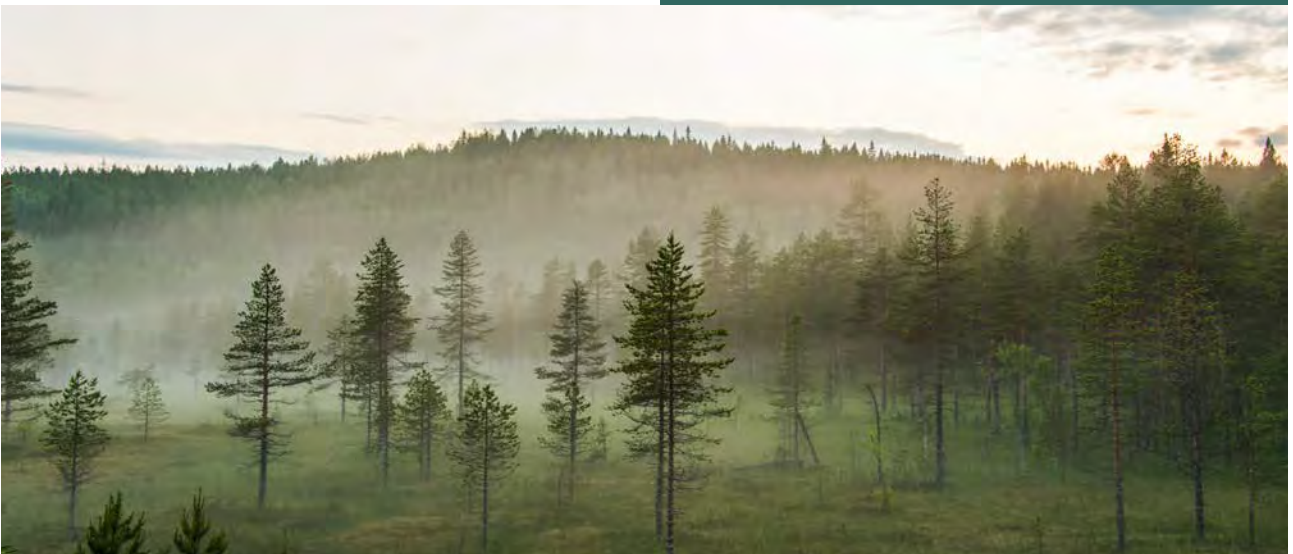
Health and safety for our employees

Profitable growth

- Pulp
- Kraftliner
- Renewable energy

Strategic competence

Continuous improvement in productivity, cost-efficiency, sustainability, products and services





Strengths and competitive advantages

- 1 Europe's largest private forest owner**
The forest is the source of SCA's value creation and the company's 2.6 million hectares of forest land provides reliable access to high-quality raw material. The biological net growth also captures and binds four million tonnes of CO₂ per year.
- 2 Global trends favor renewable materials**
Digitalization, globalization and e-commerce are increasing demand for transport packaging. Greater environmental awareness and tougher climate objectives favor SCA's pulp, packaging and publication paper as well as wood products.
- 3 Efficient and integrated value chain**
SCA has well-invested production facilities strategically located close to forest raw material. Short distances and an efficient logistics chain provide significant synergies between the operations.
- 4 Consistent and credible sustainability efforts**
SCA reduces its environmental impact by using new innovations and technology, and by continuously implementing efficiency enhancements. Since 2010, SCA's emissions of CO₂ from fossil fuels were reduced by about 50 percent.
- 5 A strong brand**
The brand helps SCA to develop business opportunities with strategic customers and suppliers, and is also a major asset when it comes to recruitment.
- 6 Leading kraftliner producer**
With its two well-invested kraftliner mills, SCA is Europe's largest independent supplier of kraftliner – fresh fiber-based packaging paper. SCA is well positioned to deliver high-performance and pure kraftliner in a cost-efficient manner.
- 7 Cost-efficient pulp production with investments in increased capacity**
One of the world's largest production lines for bleached softwood kraft pulp is under construction at the Östrand pulp mill. The expansion will make Östrand one of the most competitive pulp mills in the world, while pulp-wood demand in the region is secured for a long time to come. The investment amounts to SEK 7.8bn.
- 8 Modern and efficient sawmills**
SCA's five sawmills are well-invested and have a high degree of automation. They are among the largest in Europe and complement economies of scale with further processing of products carried out close to the customer.
- 9 Energy, biofuels and green chemicals offer growth opportunities**
SCA's production of biofuels and district heating provide the Group with a position as one of the largest suppliers of forest-based renewable energy in Europe. SCA is conducting studies to evaluate whether biofuel can be made from sawdust, black liquor and tall oil, which could create future business opportunities.
- 10 Skilled and dedicated employees**
Employees are SCA's most important asset. SCA provides a work environment that attracts, develops and engages employees in an organization characterized by responsibility, excellence and respect.

Forest

High net growth yields more timber in the future

SCA is Europe's largest private forest owner with 2.6 million hectares of forest land. The forest is managed responsibly and sustainably to provide the foundation for a sustainable supply of raw materials to the Group's operations.

SCA's forest land generates value through the timber that is harvested and processed in the Group's industries, through growth in SCA's forests and through the value growth of SCA's forest land.

SCA also purchases timber from other forest owners and offers a series of services that help them to maintain profitable and sustainable forest management. The services include site preparation, planting, pre-commercial thinning and harvesting, in addition to forest planning and professional advisory services.

Every tree harvested is replaced with more than two new trees

Two million of the company's 2.6 million hectares of forest is productive forest land and is cultivated. Since 1950 the standing volume has increased by about 50 percent and today amounts to 232 million forest cubic meters (m³fo). This is made up of pine (40%), spruce (36%), deciduous trees (15%) and contorta pine (9%).

Each tree harvested in SCA's forests is replaced by more than two new trees and annual growth totals about 9.5 million m³fo. Since 1950, the sustainable harvesting potential has more than doubled and just over 5 million m³fo (corresponding to more than 4 million m³sub) of SCA's forest is harvested each year. One million m³fo is lost due to pre-commercial thinning and natural losses, such as windfalls, insect damage, etc. This results in net growth of 3 million m³fo per year. In addition to laying the foundation for access to raw materials in future operations, the growing forest also currently captures and binds about 4 million tonnes of CO₂, net, each year.

When the younger forests, in a decade or two, reach harvestable age, the rate of harvesting will increase and at the beginning of the next century reach more than 7 million m³fo per year, assuming the current forest management methods and conditions.

Responsibility and innovation

In addition to ensuring sustainable timber production in SCA's forests, the Group must also ensure that the forest's other assets are maintained or strengthened. The most important sustainability target in SCA's forest operations is to preserve the forest's biodiversity, meaning that all of the animals and plants in the Group's forests should continue to live there in the future. This is why SCA sets aside about 21 percent of its forest from active cultivation

and also adapts its forest operations in other ways to offer a habitat for vulnerable animal and plant species. Through the Group's way of managing its forest, the company fulfils the standards of the two main forest certification systems, the Forest Stewardship Council® (FSC®) and the Programme for the Endorsement of Forest Certification (PEFC™), see page 37 for more information. Independent audits are conducted to verify compliance with the standards. Timber from certified forest operations can then be used to certify products, and SCA's customers – and in turn their customers – are offered an opportunity to buy products made from responsibly managed forests.

The Boggrundet nursery, with its Wifstamon branch, has the capacity to produce more than 100 million seedlings per year for SCA and other forest owners. SCA has developed the production and plant systems used by the Group and also works together with researchers to develop the next generation of tree seedlings. One example of an innovation with a substantial value is Hylosafe®, a mixture of sand and binding agents. It provides effective and environmentally sound protection against pine weevils, a pest that eats the bark of newly planted seedlings and costs the forest industry several hundred million SEK each year.

New agreements secure rise in timber demand

Harvesting from SCA's own forests accounts (together with SCA's own wood chips) for about 55 percent of SCA's wood consumption. Most of the remaining requirement is purchased from private forest owners and other companies and forest-owner associations in the region.

When Östrand doubles its production of northern bleached softwood kraft pulp (NBSK), timber demand will rise from about 10 to about 12 million m³sub per year. This will mean that SCA must also purchase timber from southern and central Sweden and ensure collaboration with new external timber suppliers to manage the supply of raw material.

One major focus for operations in 2017 was therefore to sign contracts with external suppliers and forest owners to secure the necessary volumes.

During 2017, the timber market in northern Sweden remained stable with a relatively good supply of timber. The price trend was stable with some minor price increases at the end of the year.



The forest creates value – today and in the future

The forest is a renewable resource that can be used for climate-smart and recyclable products. The forest is cultivated responsibly and sustainably and thereby continues to grow and be renewed. The forest already creates value in many ways, for society, people and the environment. SCA conducts research and development so that forest materials can continue to create value in completely new ways in the future.

The forest creates the following values:

- through harvesting that provides raw materials to SCA's forest industries
- through net growth that provides greater harvesting potential in the future
- through value growth of the land, as demonstrated in purchasing and divesting forest properties

The forest also provides:

- direct and indirect jobs
- an opportunity for people to live in rural areas
- recreation in the forest, such as berry and mushroom picking, fishing and hunting
- positive climate impact as growing trees absorb CO₂ from the atmosphere
- reduced climate impact when products, materials and fuel from the forest replaces items with a larger carbon footprint, such as using wood instead of concrete, paper instead of plastic and pellets instead of oil
- green energy from wind power, which replaces electricity production with a greater environmental impact
- the potential to replace energy from fossil fuels with renewable alternatives

Ambitious forest management yields high growth

SCA uses a long-term approach in the management of its forests. The forest is inventorised at regular intervals and measures the mix of wood, growth and a number of other qualities. Using this as a base, a plan for future forest management is drawn up extending about 100 years in the future.

Through the use of improved methods of forest management, SCA has over the years enhanced forest growth and thereby increased the volume of standing timber. For example, forest with low growth has been harvested and replaced with young forest with high growth. These forests will grant favorable harvesting potential when they become mature for harvesting in 20-30 years. At the same time, SCA has identified forests with high conservation values and exempts these from harvesting, to preserve the forest's biodiversity. Since 1950, improvements in forest management have more than doubled the sustainable harvesting potential on SCA's land at the same time as standing volume (the total volume of living trees in SCA's forests) has increased during the same period by about 50 percent.

SCA continuously monitors forest growth for the company's holding of 2 million hectares of productive forest land. As shown in the table below, annual net growth is estimated at about 9.5 million m³fo. Of this, approximately 1.3 million m³fo is lost from natural losses and pre-commercial thinning. This produces an annual net growth after natural losses of about 8.2 million m³fo corresponding to 3.5 percent of volume of standing timber. Annual harvesting is based on rolling ten-year plans. For the current period, approximately 5.2 million m³fo (corresponding to approximately 4.3 million m³sub) will be harvested every year, meaning about 3 million m³fo of growth remains and increases the standing volume each year.

GROWTH IN SCA'S FORESTS (million m³ fo and %)¹

Gross forest growth	9.5	4.1%
– Natural losses and pre-commercial thinning	–1.3	0.6%
Available forest growth	8.2	3.5%
– Annual harvesting	–5.2	2.2%
Annual net forest growth	3.0	1.3%

¹) Forest growth in percent and in relation to the standing volume of 232 m m³fo.

Valuing forest land

Accounting valuation

In accordance with applicable accounting regulations (IFRS), forest land must be divided into two components, the actual land and the forest growing on the land. More details of the accounting regulations and the reported values can be found in Notes D2 and D3 on pages 94-96.

The land is valued in accordance with IAS 16 (Property, plant and equipment) at acquisition cost and is not amortized. In addition to acquisition cost, there are investments in land improvements, primarily forest roads, which are amortized. The value of the forest land and land improvements in SCA amounted to SEK 1,664m at the end of 2017.

The growing forest on the land is valued in accordance with IAS 41 (Biological assets) at fair value. SCA has, along with other major forest companies in Sweden, opted to value the growing forest at a discounted present value of the estimated sales revenue with deductions for harvesting costs. SCA also deducts replanting costs.

Using this model, the recognized value of growing forest in SCA amounted to SEK 31,386m at the end of 2017. This value corresponds to approximately SEK 135 per m³fo standing timber. Including the land, the value of the forest amounted to SEK 33,050m, corresponding to approximately SEK 142 per m³fo standing timber. A sensitivity analysis concerning the pricing model is presented in the Note on page 96.

Market values

Normally, the market for purchasing and divesting forest land consists of land including standing forest on the land. In other words, the value is the total of that which is referred to in accounting as forest land and biological assets.

An indication of the market value of forest land can be seen from SCA's own forest land transactions. These smaller transactions are conducted on a regular basis with the aim of improving consolidation, meaning the creation of larger connected areas of forest land and increasing the amount of forest land close to SCA's industries. The sale of land for allocation to nature reserves may also be included. Prevailing law in Sweden prohibits SCA from the net purchase of forest land from private individuals, which impacts the number of transactions but does not normally impact the market prices (see "Laws that govern forest operations and forestry management in Sweden" below for more information).

SCA's purchase of forest land in the past four years is shown in the table to the right. On average during the period, SCA

purchased forest land, including standing timber, for an average price of SEK 264 per m³fo. The divestment of forest land during the same period was conducted for an average price of SEK 308 per m³fo. All transactions are conducted at market price.

Market statistics are also available for forest land transactions. Here, transactions also refer to both forest land and the standing timber on this land. One of the major providers of market statistics for forest land is LRF Konsult. According to LRF Konsult, the average price for forest land in SCA's region, northern Sweden, was approximately SEK 276 m³fo standing timber in 2017.

SCA's PURCHASES AND DIVESTMENTS OF FOREST LAND

Purchase	2014	2015	2016	2017
Volume (thousand m ³ fo)	1,655	185	123	261
Price (SEK/m ³ fo)	264	273	263	259

Divestment	2014	2015	2016	2017
Volume (thousand m ³ fo)	1,405	270	176	385
Price (SEK/m ³ fo)	322	310	274	270

MARKET STATISTICS ACCORDING TO LRF KONSULT

Forest land prices in northern Sweden	2014	2015	2016	2017
Price (SEK/m ³ fo)	256	254	247	276

SCA's biological assets according to IAS 41

232

SCA's total timber volume
(million m³fo)

135

Carrying amount (SEK/m³fo)

LAWS THAT GOVERN FOREST OPERATIONS AND FORESTRY MANAGEMENT IN SWEDEN

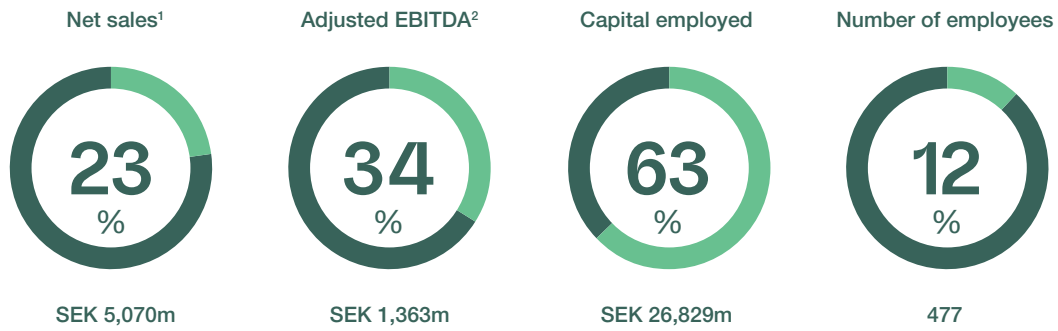
The Swedish Forestry Act, originally from 1903 and in its current form from 1993, establishes rules for how forest operations must be conducted in Sweden. Statutory regulations that impact SCA's forest operations include:

- Reforestation after final harvesting of forest must take place within a specified time after harvesting.
- Certain tree species must not be harvested before they are deemed mature, meaning they have reached a certain age. In SCA's area this means harvesting can take place about 80 years after planting. Thinning is however permitted. These rules apply to spruce and pine, but not (for example) to contorta pine and birch, where the owner is free to harvest at any time.
- The authorities must be informed of final harvesting of forest six weeks before harvesting begins.

Laws have also been in place in Sweden since 1906 that regulate the acquisition of forest land. These rules are currently included in the Land Acquisition Act. The law states that a legal entity may not net acquire forest land from private individuals, but only from other legal entities. The aim of the law is that the legislation aims to retain a certain proportion of forest owned by private individuals.

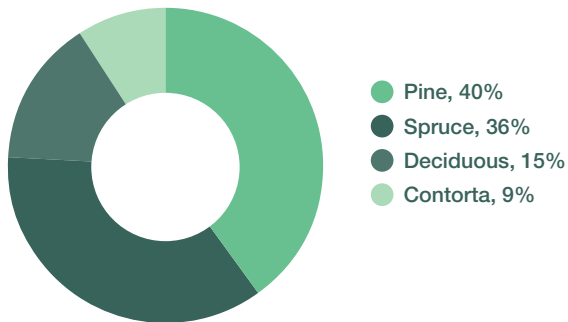
Net acquisition in practice means a legal entity can acquire forest land from private individuals, if a corresponding amount of forest land is also sold to private individuals, on average over a five-year period. Sales to the state for conservation purposes (for example for future nature reserves) can also be offset against purchases from private individuals.

Share of Group 2017



1) Before elimination of intra-Group sales 2) Share calculated of total EBITDA excluding central costs.

Forest portfolio



Financial key figures

SEKm	2017	2016
Net sales	5,070	4,978
Adjusted EBITDA	1,363	1,238
Adjusted EBITDA margin	26.9%	24.9%
Operating cash flow	585	748
Strategic capital expenditures	0	0
Capital employed	26,829	26,518
Adjusted return on capital employed	4.7%	4.3%
Harvesting of own forest, thousand m ³ sub	4,449	4,099
Average number of employees	504	514
No. of employees at December 31	477	474



Wood

Profitable growth for twenty years

SCA manufactures processed wood products for the European building materials trade, and for wood industries around the world. The solid-wood operations have demonstrated profitable growth averaging 10 percent per year over the past 20 years.

SCA operates five sawmills closely connected to the raw material, Norrland spruce and pine, as well as processing facilities with planing mills and distribution centers in Sweden, the UK and France. The slow growing Norrland wood produces a high level of heartwood and a good knot structure, making it suitable for visible wood applications and for interior use.

SCA's sawmills are some of the largest and most efficient in Sweden, with a total capacity of 2.2 million cubic meters of sawn products per year. Efficiency improvements, rationalization and technical upgrades of the sawmills have helped create a business with high added value in combination with high productivity and low costs.

Comprehensive range of building materials

Within the building materials product area, SCA delivers planed, painted, cut and impregnated wood material products. Customers include building materials chains in Scandinavia, the UK and France and the products are used by both professionals and by DIY customers.

In the markets where SCA is active with products for the building materials trade, the Group has a number of planing mills and processing facilities that adapt products to each market and ensure a high level of service. SCA also purchases processed wood products that the Group does not manufacture to provide customers with a comprehensive range of building materials.

Global sales to the wood industry

SCA also develops and sells sawn and purpose-designed wood products for applications in the wood industry. Sales of processed products to the wood industry are conducted on a number of selected markets worldwide.

Customers are made up of manufacturers of furniture, doors, windows, flooring, panels, roofs, glue-laminated beams and glue-laminated poles. Together with customers, SCA develops products adapted to the end use, with the right quality, moisture ratio and structure to maximize value creation for the customer. This process may include x-ray scanners at the sawmills to sort logs in order to select the correct structure for the raw material to minimize waste and maximize value for both SCA and the customer.

By controlling the entire value chain, from the tree to the finished product, in combination with flexible warehouses, logistics and distribution alternatives, SCA can create added value in a unique manner.

Innovation is highly valued within SCA, and Wood has developed a series of innovative wood products and services under the SmartTimber concept. One of these is pine heartwood decking, which have a long useful life without the need for impregnation. Read more about this on page 29.

Profitable growth for 20 years continued in 2017

The market for solid-wood products is expanding by 2-3 percent globally. SCA's solid-wood operations have demonstrated profitable sales growth averaging 10 percent per year over the past 20 years.

The strongest growth motor in recent years has been increasing sales to the building materials trade. This product area has grown from zero to 40 percent of sales for Wood over the past decade and amounts to approximately SEK 2bn in sales.

In 2017, the market for wood products, both spruce and pine, reported a positive trend and sawmills have maximized their production. The rise in consumption was mainly driven by increased construction in the US, Europe and China. The renovation sector, which is important for SCA, also noted a positive trend in the US and Europe. The strong market development resulted in increased prices in 2017.

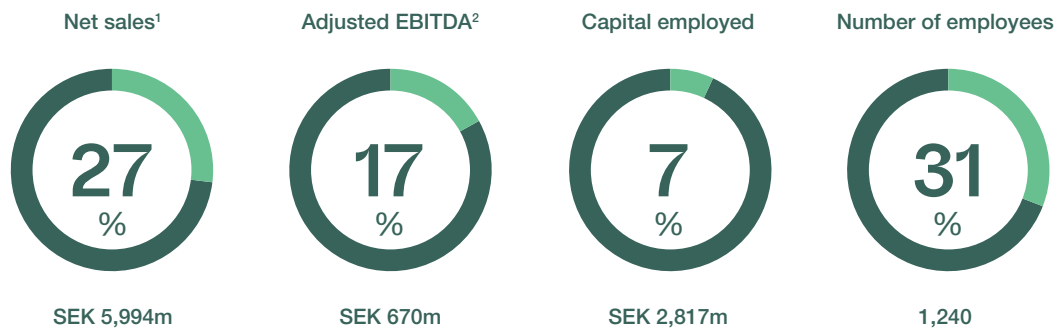
The building materials trade in Scandinavia witnessed strong growth. In core markets for construction materials – Scandinavia, the UK and France – SCA has further strengthened its position with new product offerings and better delivery reliability.

2017 was the first full year of production at full capacity for the new saw line in Tunadal. The SEK 515m investment resulted in greater utilization of raw materials and product quality and a higher production increase than planned. In 2017, a decision was taken to invest SEK 24m in expanding drying capacity to adapt to the higher production level. During the year, SCA initiated an investment in the planing mill in Tunadal to increase capacity for painted exterior cladding.

At the co-owned Gällö sawmill, a new drying facility was installed and work began on a new boiler in 2017 (due to be completed in April 2018). This will increase drying capacity and production levels as well as reducing costs. The sawmill can now manufacture higher volumes at lower moisture ratios, which meets rising demands from our customers.

In 2017, the sawmills achieved a production record with a total volume of 2,087,000 m³. Productivity increases in both the sawmills and processing units contributed to profitability improvements during the year.

Share of Group 2017



1) Before elimination of intra-Group sales 2) Share calculated of total EBITDA excluding central costs.

SCA's sawmills

Munksund, Piteå

Capacity:
420,000 m³/year
Raw material: pine

Rundvik

Capacity:
330,000 m³/year
Raw material: spruce

Bollsta, Bollstabruk

Capacity:
560,000 m³/year
Raw material: pine

Tunadal, Sundsvall

Capacity:
540,000 m³/year
Raw material: spruce

Gällö (co-owned)

Capacity:
323,000 m³/year
Raw material: spruce

Total planed products
capacity:
600,000 m³/year

Window component
capacity: 5 million linear
meters/year



Financial key figures

SEKm	2017	2016
Net sales	5,994	5,441
Adjusted EBITDA	670	531
Adjusted EBITDA margin	11.2%	9.8%
Operating cash flow	399	465
Strategic capital expenditures	28	245
Capital employed	2,817	2,740
Adjusted return on capital employed	15.7%	12.2%
Deliveries, wood products, thousand m ³	2,595	2,480
Average number of employees	1,242	1,167
No. of employees at December 31	1,240	1,140

Pulp

Building for world class competitiveness

Through one of Sweden's largest industrial investments, Östrand pulp mill is doubling its capacity to produce bleached softwood kraft pulp of high quality and purity to tissue and packaging manufacturers across the world.

A world-class production plant

SCA's production of market pulp is based at its plant in Östrand. The production of bleached softwood kraft pulp (NBSK) will be doubled through an extensive investment in what is in effect a completely new production line, which will begin operating in June 2018. The project will make Östrand one of the most cost-efficient production facilities in the world for bleached softwood kraft pulp. The Östrand plant also has the capacity to produce 100,000 tonnes per year of chemical thermomechanical pulp (CTMP), which will remain unchanged after the investment.

Raw material used in SCA Östrand's production consists of pulpwood from spruce and pine as well as sawmill chips, and for CTMP grades also birch and aspen. Having profitable uses for wood that comes from thinning and sawmill chips is strategically important for SCA. Every part of the tree is used, and waste from one product is used as raw material in the next stage, which contributes towards a circular economy and towards maximizing the value of the company's forest holding.

Global and expanding market

SCA offers bleached softwood kraft pulp of a quality suitable for tissue, packaging, publication and writing paper. The most important customer segments for SCA's CTMP pulp (chemically pre-treated thermomechanical pulp) are hygiene and packaging products. One of SCA's strategic focus areas is to establish Östrand as the most attractive supplier of NBSK for tissue producers.

All sales were focused on Europe in 2017. With the expansion, Östrand will become the world's largest facility of its kind with a share of capacity amounting to 3-4 percent of global NBSK production. This will lead to sales expansion, even outside Europe, with a particular focus on China.

Over the past five years, the Chinese paper market has grown, particularly for tissue. China's pulp consumption is to a large extent based on imports, as the country has a limited domestic pulp industry.

A larger share of the global market is based on the production of pulp from deciduous trees, particularly from plantations with fast-growing eucalyptus based largely in South America. However, pulp based on deciduous trees has different characteristics than that based on slow growing long-fiber pulpwood, as offered by SCA. Competitors who offer long-fiber pulp of similar quality to SCA operate in the Nordic region, Russia and northern parts of North America.

During 2016 and 2017 additional pulp capacity was introduced in Europe. Despite this, demand for pulp has remained high. Price development remained favorable, with price increases in the autumn of 2017.

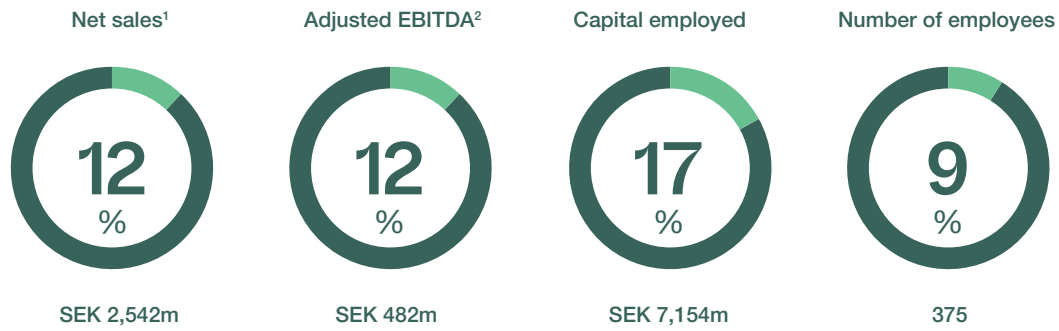
Expansion stages completed in 2017

The extension of the Östrand pulp mill, an investment of SEK 7.8bn, began in 2015. Several sections of the new production line began operating in 2017. The wood handling unit began operating in July and now receives far more timber by rail. Sections of the chemical recycling unit were completed during the year, and shortly before Christmas the new evaporation plant began operating. Operations and maintenance personnel were also trained during the year in new process and control systems. The entire plant will be commissioned in June 2018.

In the next few years, focus will be on successively boosting the new pulp mill to full production capacity. This work will also include establishing the increased pulp volume in the right markets and developing good logistics solutions for higher volumes and for new customers.

As part of the expansion project, SCA's own R&D resources worked extensively with product specifications and properties, and with optimizing the process systems. Even when full capacity is achieved in 2020, SCA will have a strong focus on developing product quality and on optimizing the processes at Östrand to maintain and increase profitable growth.

Share of Group 2017



1) Before elimination of intra-Group sales 2) Share calculated of total EBITDA excluding central costs.

SCA's pulp mill

Östrand, Timrå

Production capacity:

- Bleached softwood kraft pulp (NBSK): 430,000 tonnes/year, increasing to 900,000 tonnes/year (2020)
- Chemical thermomechanical pulp (CTMP): 100,000 tonnes/year
- Green electricity: 460 GWh/year, increasing to 1.2 TWh/year (2020)

Financial key figures

SEKm	2017	2016
Net sales	2,542	2,492
Adjusted EBITDA	482	530
Adjusted EBITDA margin	19.0%	21.3%
Operating cash flow	518	662
Strategic capital expenditures	2,816	1,964
Capital employed	7,154	4,635
Adjusted return on capital employed	4.0%	7.5%
Deliveries, pulp, thousand tonnes	495	507
Average number of employees	371	355
No. of employees at December 31	375	353



Paper

Strong position in selected paper markets

Paper is a central part of SCA's industrial ecosystem. SCA operates three paper mills that manufacture kraftliner and publication paper. The forest is transformed into strong kraftliner and high-quality publication paper that meet the customers' specific and high demands on quality and performance.

Norrand softwood makes strong paper products

Kraftliner is a fresh fiber-based packaging paper that is primarily used to manufacture corrugated board packaging, where kraftliner is used for the outer layer of the corrugated board. It is mainly manufactured from unbleached long-fiber pulpwood and therefore has a brown quality. By also using short-fiber pulpwood it can be given a white and printable surface, White-top liner.

SCA's kraftliner is produced at the Obbola and Munksund paper mills using pulpwood from the forests of northern Sweden. The Norrand softwood, which grows slowly because of its northern growth region, produces strong paper products that are light, material-efficient and environmentally friendly. They are well-suited to packaging with high demands on performance, such as for food, heavy goods or for products with a long storage time. Customers are corrugated packaging manufacturers in Europe.

The total sales volume for kraftliner in Europe amounts to about 5 million tonnes per year. SCA is the third largest supplier of kraftliner in Europe and the largest independent supplier. The most important markets are the Nordic region, Germany and the UK.

Kraftliner — a strong market and well-invested plants offer opportunities for continuing development

In 2017, SCA focused on optimizing the major investments implemented in recent years at Munksund and Obbola aimed at increasing production, raising quality, improving energy efficiency and sustainability, and reducing operating costs.

The kraftliner market continues to grow. In addition to the strong European economy, the growth in e-commerce and strong industrial climate is boosting demand for transport packaging. Demand for fresh fiber-based kraftliner has exceeded supply throughout 2017, which created a highly positive price trend.

Strong global demand for packaging material has enabled continued investment in kraftliner. In December 2017, SCA decided to invest SEK 196m in expanding White-top liner production at Munksund's paper mill.

Publication paper — focus on product development and cash flow

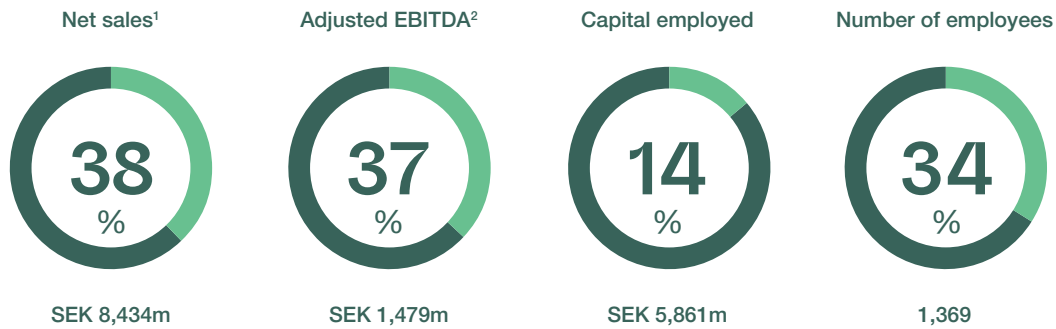
The Ortviken paper mill has three paper machines and manufactures coated and uncoated publication paper for printing houses and media companies, primarily in Europe. The mill is the world's seventh largest manufacturer of publication paper in a market that has been shrinking by approximately 5 percent per year for a number of years and is experiencing extensive restructuring. During 2016 and 2017, capacity adjustments took place as production capacity was closed due to falling demand, particularly for newsprint.

The capacity reduction has created a better balance between supply and demand, which resulted in stable market development for publication paper overall during the year.

Ortviken closed one newsprint machine in 2015 and has in practice exited the market for standard newsprint. The uncoated paper that is today manufactured at the mill mainly comprises improved qualities with high brightness and good color and image reproduction. This is an area where Ortviken has a relatively high level of competitiveness and delivers high-quality products that are in demand.

The focus for publication paper is on maximizing cash flow from operations by optimizing existing machines and through a high rate of innovation to upgrade the product portfolio with high-quality products which have a future in a digitized world.

Share of Group 2017



1) Before elimination of intra-Group sales 2) Share calculated of total EBITDA excluding central costs.



Financial key figures

SEKm	2017	2016
Net sales	8,434	7,744
Adjusted EBITDA	1,479	1,128
Adjusted EBITDA margin	17.5%	14.6%
Operating cash flow	1,122	406
Strategic capital expenditures	0	7
Capital employed	5,861	6,236
Adjusted return on capital employed	15.8%	9.7%
Deliveries, kraftliner, thousand tonnes	845	800
Deliveries, publication paper, thousand tonnes	732	730
Average number of employees	1,429	1,429
No. of employees at December 31	1,369	1,372

SCA's paper mills

Obbola, Umeå

Production capacity: 450,000 tonnes/year

Product range: brown kraftliner, for consumer and transport packaging with a focus on standard grades, including lightweight grades.

Munksund, Piteå

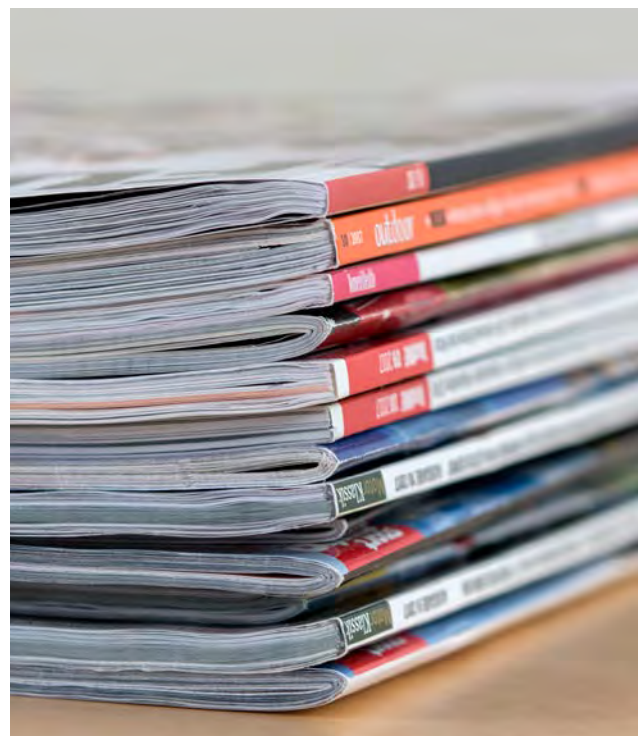
Production capacity: 415,000 tonnes/year

Product range: brown and white kraftliner, for consumer and transport packaging. Specialized in heavy-duty, wet-strength and white-top grades.

Ortviken, Sundsvall

Production capacity: 775,000 tonnes/year

Product range: Lightweight coated (LWC) and uncoated publication paper used for magazines, brochures, catalogs and other printed materials with stringent and specific demands on quality and performance.



Renewable energy with significant growth potential

SCA's forest assets and industrial operations provide the Group with a significant potential to develop and drive business opportunities in renewable energy. By-products from SCA's operations become raw materials for energy production and thereby utilizing as large a share as possible of the harvested tree.

A striving towards a reduction in environmental and climate impact and a willingness to transition to a circular economy have meant that interest for renewable energy has continued to grow, both in society at large and among companies and investors. SCA is working to maximize the business potential of wind power, biofuels and green chemicals, including sustainable biofuels.

Forest land used for wind power

SCA owns large areas of forest land with favorable wind conditions and leases land to those who wish to invest in wind power projects on the company's land. SCA plays an active part in development projects and makes every effort to ensure that a large share of new Swedish wind power is established on the Group's land.

In 2017, 301 wind turbines were in operation on SCA's land with a total annual production of 2.3 TWh. Decisions have been taken to build another 235 wind turbines on SCA's land, with operations starting in 2018–2020 with an additional 2.7 TWh in annual production. In 2017, wind power on SCA's land corresponded to 12 percent of installed wind power and 14 percent of produced wind power in Sweden. SCA's ambition is to achieve a production level of 5 TWh by 2020.

By-products become biofuels

SCA is one of the largest suppliers of forest-based biofuels in Europe. Branches, tops, stumps, bark, sawdust and peat from forest operations and sawmills are processed into wood pellets and briquettes or are incinerated directly to create energy. SCA's own operations use biofuels corresponding to almost 8 TWh per year, while just over 1 TWh is sold to external customers, primarily CHP plants. Pellets are also sold to companies and individuals in Sweden, Denmark and the UK. In addition, SCA delivers district heating to communities close to SCA's industries.

Demand for pellets has grown by an average 11 percent per year in the past five years and this trend is expected to continue for the foreseeable future. To meet this rising demand, SCA signed a subcontract in 2016 with Bioenergi in Luleå, which increased



Sawdust from SCA's sawmills is made into pellets, which are sold to households and to major energy producers, and also used as fuel in SCA's own industry.



In 2017, 301 wind turbines were located on SCA's land with a production capacity of 2.3 TWh per year. Decisions have been taken to build an additional 235 wind turbines with a total capacity of 2.7 TWh per year. The construction of these is scheduled to start in 2018–2020.

production capacity from 200,000 to 280,000 tonnes per year. At the end of the year, the Group had three fully or partially owned pellets factories, in Härnösand, Stugun and Luleå.

Developing the next generation of sustainable biofuel

SCA also sees substantial potential to develop products with a major market potential in the field of green chemicals and the next generation of sustainable biofuel.

Sawdust from sawmills can be used as raw material for sustainable biofuel, as well as black liquor, a by-product from pulp production. SCA has patented a process for the production of a liquid hydrocarbon from black liquor. In 2017, the Group started a pilot facility at the Obbola paper mill to evaluate and develop this technology.

Well-positioned to meet a renewable future

SCA has growth ambitions for all of its development areas in renewable energy. Its operations are however significantly influenced by political decisions, which can have both positive and negative effects. Currently, developments are favorable and SCA is well-positioned to contribute to developments in renewable energy.

The strategic direction and future focus in wind power means the company is actively promoting the establishment of new wind power capacity on SCA's land. For biofuel, this means maintaining and increasing profitable growth through partnership and new business models, at the same time as securing raw materials for future biorefineries.

Efficient logistics to stay competitive

Due to its own logistic system, transportation is customized based on the needs of the company, thereby maximizing the benefit to the other operations. SCA's logistics business is Norrland's largest and one of the ten largest port and shipping companies in Sweden.





The forest industry is a logistics-intensive industry and about 20 percent of SCA's cost base is for logistics. To optimize freight flows of wood raw material to mills and sawmills, as well as finished products to customers in Europe and the rest of the world, SCA has set up its own logistics system in both raw material supply and the distribution of finished products.

Within forest operations, SCA is one of Sweden's largest users of rail transport, with its own logistics from inland forests down to industries on the coast. Even in the distribution of finished products within Scandinavia, SCA has a large share of rail transport, which in total makes the company one of Sweden's largest rail users.

Shipping with own vessels

In the distribution of finished products, however, the largest volumes are exported using shipping. SCA operates three of its own RoRo vessels and two container vessels on time charter. They operate scheduled routes between SCA's industrial clusters in Sundsvall and Umeå as well as the ports in Rotterdam, Kiel, Sheerness (London), Helsingborg, Malmö and Oxelösund. These vessels, together with five own and 16 associated loading and unloading terminals, form the backbone of the system, which is supplemented with purchased services for sea, road and rail transport.

In addition to securing deliveries for the Group's products, SCA also offers cost and resource-efficient logistics solutions for external customers. SCA has logistics collaborations with other industrial, logistics and trading companies. One important element is transport sales for northbound freight from the UK and the European continent to Sweden and other Nordic markets.

Increase in transport capacity in 2017

The most important priority for 2017 was to secure sufficient transport capacity for the sharp increase in raw material and product flows to and from Östrand's new production line for northern bleached softwood kraft pulp (NBSK), which will begin operating in June 2018. SCA invested in timber terminals and took part in the development of a new generation of railcars for timber transport, which significantly improves the environmental performance and cost efficiency of the railway.

Larger systems for improved performance and a better environment

SCA has worked for some time to improve performance in the logistics system by using larger trucks, heavier trains and bigger vessels. Greater resource efficiency also leads to a lower environmental impact. Through the use of innovative solutions, SCA has, for example, reduced energy consumption for rail transportation by 25 percent per freight unit. By using 74-tonne trucks, emission reductions of 15-20 percent were achieved for transportation between industries and the port of Sundsvall. SCA also took part in developing 90-tonne wagons for timber transportation. SCA is now working together with Swedish authorities so other road transportation can also become more efficient and environmentally friendly. Fewer trucks also make roads safer.

SCA's strategies in practice

Östrand builds world-class facility

SCA is investing SEK 7.8bn in the Östrand pulp mill in Timrå municipality. The new mill, which begins operating in June 2018, will be a world-class mill in terms of product quality, environmental performance and competitiveness.

SCA's decision to invest in expanding pulp production capacity at Östrand should be viewed in the light of the market growth for bleached softwood kraft pulp, which over the past ten years has been 1.5–2 percent per year, corresponding to annual growth of approximately 0.5 million tonnes. Growth was particularly strong for areas such as tissue and packaging paper. SCA believes that this growth will continue in the coming years and that the ongoing expansion of capacity in Östrand is necessary to meet this growing demand.

With the ongoing investment, Östrand will double its production capacity from 430,000 tonnes to 900,000 tonnes and will become the largest production line for bleached softwood kraft pulp in the world. In addition, Östrand has the production capacity for 100,000 tonnes of CTMP per year.



Efficient distribution vital for SCA's competitiveness

As part of SCA's ambition to constantly improve and increase competitiveness, the Group has optimized the distribution of finished products to key markets in Europe and the world. With the new distribution system, D2016, SCA has two ship departures each week to Kiel and one to Rotterdam and Sheerness near London. With the new routes, the Group has reduced fuel consumption per transported tonne.

"We have also increased the share of container transportation of products from Sundsvall and Umeå via Rotterdam and out into the world. As a result, we have increased the size of chartered container ships. The larger ships entail increased competitiveness, greater energy savings, lower emissions per transported unit and SCA is also helping to reduce road transportation. In addition to environment benefits, D2016 offers overall efficiency gains of SEK 70-100m per year," states Magnus Wikström, Head of Marine Transportation at SCA.

Pine heartwood decking – durable wood with natural impregnation

The wood used in SCA's pine heartwood decking is from the inner-most and hardest part of a slow growing pine that is 80–100 years old and consists of 99 percent heartwood.

“Pine heartwood decking are our most environmentally sound decking for terraces and patios and requires no treatment to increase durability. It is not treated or impregnated but is naturally resistant to rotting and with time acquires an even silver-gray nuance. As pine heartwood decking contains no added substances, any waste is treated as combustible timber and it has a very minor impact on the environment,” says Jonas Johansson, Head of raw material purchasing and quality construction material products at SCA.

A two-millimeter curvature on the upper surface of the decking allows water to run off, which increases the durability of the decking and reduces the risk of cracking. Pine heartwood decking are part of SCA's SmartTimber concept, which includes innovative products and services that simplify work and save time and money for builders and builders' merchants.



SCA invests to increase production of White-top kraftliner

SCA is investing SEK 196m to increase production of White-top kraftliner – packaging paper with a white surface – at Munksund's paper mill in Piteå. The investment will increase the mill's capacity for White-top kraftliner from 150,000 to 200,000 tonnes per year. The paper mill's total production capacity will not increase following the investment. The investment is expected to be complete and in operation from May 2019.

“This is an important step in our development toward more value-added products at Munksund's paper mill,” says Mats Nordlander, President of the Paper business area. “Demand is increasing for white packaging paper with excellent printability. This investment will enable us to increase production of value-added products in Munksund and we can optimize the production of kraftliner in the paper mill in Obbola, near Umeå. We thereby strengthen the competitiveness of both paper mills.”



SCA coaches contractors for joint development

SCA has a close collaboration with the harvesting contractors it engages, a collaboration that in some cases has extended over several generations. In recent years, SCA has also helped several harvesting companies to start up their businesses.

“We assist in drawing up their business plan and strategy, provide help on recruitment issues, advice on the utilization rate the machines should have and offer support in determining priorities, etc. Establishing new supplier companies helps to create jobs and is also an important part in ensuring that SCA's industries have a sustainable timber supply over time,” says Martin Carlsson, Senior Business Developer at SCA.

Each year, SCA helps a number of companies with challenges, to become good, flourishing, supplier companies to SCA. This could take the form of strategic coaching, common targets, action plans or investments. Strategic coaching is stimulating for both suppliers, which can improve their credit rating, and for SCA.

The share and shareholders

SCA shares are quoted and traded on Nasdaq Stockholm. In June, the hygiene and health business, Essity, was distributed to the shareholders and listed on Nasdaq Stockholm. One new share in Essity was received for every share in SCA. Since the distribution, the SCA share has performed better than OMX Stockholm 30.

Share performance 2017

The SCA share after the distribution of Essity

The SCA share was traded excluding the right to the distribution of Essity from June 12. On the first day of trading, SCA's B-share closed at SEK 62.60 and has since risen by 35 percent to SEK 84.55 on December 29. During the corresponding period, the index of the 30 most traded shares, OMX Stockholm 30, fell by 4 percent. The SCA share has therefore performed better than index. The highest price for SCA's B-share since the distribution of Essity was SEK 86.50, which was

noted on December 19. The lowest price was SEK 60.25 on June 12.

The SCA and Essity share during the distribution of Essity

The Annual General Meeting's decision to distribute Essity was implemented in June. Each share held in SCA entitled the owner to one share in the global hygiene and health company Essity.

On June 9, the last day for trading in the SCA share with the right to distribution of shares in Essity, SCA's B-share closed at

SEK 302.10. As of June 12, the SCA share traded excluding the right to the distribution of Essity. On the first day of trading, SCA's B-share closed at SEK 62.60. The Essity share began trading on June 15 and on the first day of trading Essity's B-share closed at SEK 248.50.

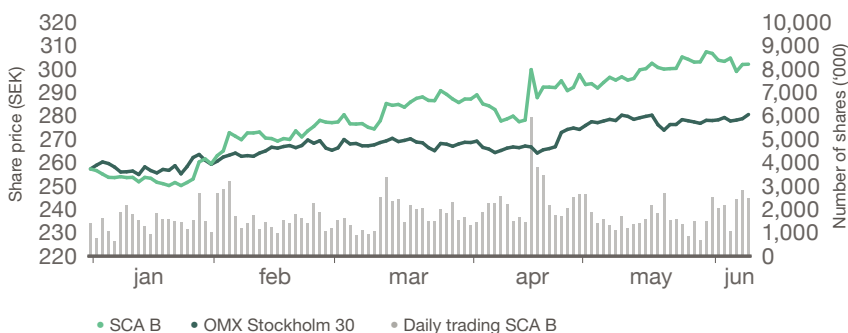
SCA share up until distribution of Essity

Up until the distribution of Essity, the SCA share performed better than Stockholm OMX 30. Between the end of 2016 and June 9, the last day of trading in SCA's shares with the right to the distribution of shares in Essity, SCA's B-share rose by 17 percent and closed at SEK 302.10. During the corresponding period, the OMX Stockholm 30 rose by 9 percent.

Share price performance in 2017 after distribution of Essity



Share price performance in 2017 up until distribution of Essity



Share trading

During 2017, the trading volume from all market places amounted to approximately 2,050 million SCA shares, which corresponds to about 292 percent of the total number of shares outstanding. The largest share of trading was on Nasdaq Stockholm, where some 717 million SCA shares exchanged hands. Average daily trading for SCA on Nasdaq Stockholm amounted to approximately 3 million shares. During the year, trading on CBOE Chi-X amounted to approximately 189 million SCA shares, trading on Turquoise to about 81 million SCA shares and trading on other marketplaces to approximately 1,063 million SCA shares. Trading volumes were particularly high in connection with the distribution of Essity.

Ownership structure

SCA had approximately 96,000 shareholders as of December 31, 2017. Some 49 percent of the share capital is owned by investors registered in Sweden and 51 percent by foreign investors. The US, Norway and the UK account for the highest percentage of shareholders registered outside Sweden. Every share has

Percentage of foreign ownership, capital



Earnings per share, 2017

2.67 SEK

Proposed dividend per share, 2017

1.50 SEK

a par value of SEK 3.35 and share capital amounts to SEK 2,350m.

Share structure

SCA's share capital comprises two classes of shares, shares of Class A and of Class B. Each share of Class A carries ten votes and each share of Class B carries one vote. Shares of Class A and Class B hold the same right to dividends. Both share classes are listed on Nasdaq Stockholm. The total number of shares as of December 31 amounted to 702,342,489, of which 64,587,991 were shares of Class A and 637,754,498 shares of Class B.

SCA's ten largest shareholders, as of December 31, 2017

Shareholders	No. of shares of Class A	No. of shares of Class B	Capital	Votes
Industrivärden	35,000,000	31,800,000	9.5%	29.7%
Norges Bank	8,066,000	42,530,137	7.2%	9.6%
Handelsbanken Pension fund	3,827,747	5,846,050	1.4%	3.4%
Swedbank Robur Funds		34,005,834	4.8%	2.6%
AMF Insurance and Funds	475,000	21,008,401	3.1%	2.0%
BlackRock		20,195,989	2.9%	1.6%
Fidelity		19,185,470	2.7%	1.5%
Livförsäkringsbolaget Skandia	1,705,441	1,553,258	0.5%	1.4%
SEB Funds		18,030,477	2.6%	1.4%
Pensionskassan SHB Insurance	1,303,000	3,576,950	0.7%	1.3%
Ten largest	50,377,188	197,732,566	35.3%	54.6%
Other	14,210,803	440,021,932	64.7%	45.4%
Total	64,587,991	637,754,498	100.0%	100.0%

Source: Modular Finance

Shareholder structure, as of December 31, 2017.

Holding	No. of shareholders	No. of shares	Capital	Votes
1–500	66,315	10,043,257	1.4%	1.7%
501–1,000	12,819	9,948,284	1.4%	1.6%
1,001–5,000	13,490	29,302,183	4.2%	4.9%
5,001–10,000	1,727	12,487,618	1.8%	2.0%
10,001–20,000	691	9,789,805	1.4%	1.4%
20,001–50,000	376	11,836,454	1.7%	1.6%
50,001–100,000	138	9,925,488	1.4%	1.3%
100,001–	281	509,454,337	72.5%	79.2%
Anonymous owners		99,555,063	14.2%	6.3%
Total	95,837	702,342,489	100.0%	100.0%

Source: Modular Finance

Dividends

The Board of Directors proposes a dividend of SEK 1.50 per share for the 2017 fiscal year. A dividend of SEK 6.00 was paid in 2016. As the distributed hygiene business accounted for the larger share of both sales, profit and capital employed at SCA, dividends for 2017 cannot be compared with dividends from previous years.

Incentive program

SCA's incentive program is designed to contribute to the creation of shareholder value. The program for senior executives consists of two components, one of which

is tied to the total shareholder return on the SCA share compared with an index consisting of both SCA's largest competitors and OMX Stockholm 30. For more information about the structure of the program, see Note C3 (Remuneration of senior executives) on pages 88–89.

Value creation for SCA's stakeholders

SCA creates value for and influences a large number of different stakeholders – employees, customers, shareholders, suppliers and the surrounding community. These groups also influence SCA. The company has a continuous dialogue with its stakeholders in order to identify areas that should be prioritized and to continuously improve the company's operations and value creation.

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Prioritized areas

In 2017, SCA conducted stakeholder dialogues and used these, together with trends in the market and the company's strategic priorities, to identify the issues that are important for the forest products company SCA and its stakeholders.

Profitable growth	EBITDA EBITDA margin Return on capital employed
Reduced impact on Climate Change	Impact of own operations (carbon footprint) Impact of value chain (green transportation) Renewable products Innovation
Resource Efficiency	Continuous improvements Innovation (material-efficient products and services) Material and energy efficiency Low level of emissions to water
Responsible Forest Management	Forest growth Biodiversity Forest owner services (Skogsvinge™) Eco-tourism
Care for People and the Community	Health and safety Strategic competence Diversity Community engagement
Value-based Culture	Ethics and values Human rights Code of Conduct Sustainable supply chain

Read more about SCA's value creation in these areas on pages 34-43 and in the sustainability notes.

Read more about the methods used in stakeholder dialogues and materiality analyses on pages 124-125.



SCA supports global initiatives

SCA monitors and wants to contribute in various ways towards global initiatives aimed at achieving a better world. SCA's annual and sustainability report describes the Group's work in these areas.

UN Sustainable Development Goals

The UN has defined 17 Sustainable Development Goals. SCA contributes towards a positive development for a number of these goals, but has identified goals 12, 13 and 15, of the development goals where the company can make the largest difference.

SCA has chosen to focus on three of the UN's 17 Sustainable Development Goals:



SCA's new sustainability targets

During 2017, a materiality analysis was conducted with various stakeholder groups. New sustainability targets have been formulated for the refocused forest products company SCA, based on the Group's strategic priorities and the materiality analysis conducted.

Focus area

Reduced Impact on Climate Change

Target

- Fossil free value chain
- Forests that counteract climate change as growing trees capture and bind CO₂
- Increased wind power production on SCA's land

Focus area

Care for People and the Community

Target

- Zero workplace accidents
- Attractive employer where diversity is a part of our culture

UN Global Compact 10 principles

Human rights is one important aspect of SCA's Code of Conduct and the Group's values. SCA has therefore chosen to support the UN Global Compact and been a member since 2008.

- **Principle 1:** Support and respect the protection of internationally proclaimed human rights
- **Principle 2:** Make sure that we are not complicit in human rights abuses
- **Principle 3:** Uphold the freedom of association and the effective recognition of the right to collective bargaining
- **Principle 4:** Eliminate all forms of forced and compulsory labor
- **Principle 5:** Abolish child labor
- **Principle 6:** Eliminate discrimination in respect of employment and occupation
- **Principle 7:** Support a precautionary approach to environmental challenges
- **Principle 8:** Undertake initiatives to promote greater environmental responsibility
- **Principle 9:** Encourage the development and diffusion of environmentally friendly technologies
- **Principle 10:** Work against corruption in all its forms, including extortion and bribery



Read more about the outcome for 2017 on page 129 in the sustainability notes.

Focus area

Reduced Impact on Climate Change

The net growth of SCA's forests captures and binds four million tonnes of CO₂ annually. The forest therefore capture approximately eight times more CO₂ than the Group's emissions from fossil sources. SCA contributes to combatting the negative impact of climate change through responsible forest management where growing trees capture CO₂, by reducing the Group's own emissions and by offering customers products with a small carbon footprint.

Almost fossil free production

A reduction in greenhouse gas emissions to the levels that researchers believe necessary requires an extensive shift to renewable, energy-efficient technology and forms of energy. Companies that lead in this field will benefit most. The COP 21 meeting in Paris in 2015 offered guidance and the European Commission's action plan for a circular economy served as supporting documentation when SCA drew up the Group's sustainability targets.

Since 2010, SCA has reduced its emissions of CO₂ from fossil sources by almost 50 percent. This reduction was achieved through energy efficiency, investments and increased use of biofuels. Currently, fuel consumption at SCA's production facilities is 95 percent fossil free. However, in 2017 emissions of CO₂ rose in part due to production disruptions in Östrand.

SCA's value chain will become free from fossil fuels by continuing to reduce its own emissions including the transportation of raw materials and finished products.

The forest as a carbon sink

SCA's large forest holding is an important carbon sink as growing trees capture and bind CO₂ from the atmosphere. Active and responsible forest management contribute thereby towards important climate benefits.

During 2017, deliveries of district heating increased following earlier investments in additional delivery capacity to the district heating grid from a pellets boiler at the Ortviken paper mill and greater utilization of surplus heat from Östrand. This results in lower emissions of CO₂ as fossil fuels are replaced. SCA delivered a total of 0.4 TWh of district heating, corresponding to heating some 30,000 homes.

SCA also offers partners an opportunity to build wind power on the Group's forest land. At the end of 2017, SCA had 301 wind turbines on its forest land with an annual capacity to produce 2.3 TWh. The target of 5 TWh by 2020 will be reached when the ongoing projects are completed.

Optimized transportation

In life cycle assessments for SCA's products, transportation is responsible for a large share of CO₂ emissions from fossil sources. These emissions can be reduced by transferring transportation from road to sea and rail, and by optimizing logistics.

From SCA's port terminal in Rotterdam transportation has, for example, been transferred from road to rail and barges for distribution to the Group's customers in Europe. SCA's coastal shipping between destinations in southern Sweden and SCA's terminals in the north has taken over goods that would otherwise have been shipped by road. Ship transport normally has very low carbon emissions per freight unit. In the D2016 logistics project, routes were optimized for SCA's RoRo vessels so they now ship larger freight volumes per journey, which reduces fuel consumption per ton of transported goods.

Timber transportation from the forest must always begin on trucks, but for long-distance transportation, the timber is transferred to rail. SCA is also endeavoring to develop and acquire permits to use larger vehicles, which would reduce emissions from timber transport.

Life cycle perspective reduces climate impact

One important tool in SCA's corporate responsibility work is the Resource Management System (RMS). This system monitors

Outcome 2017

49% **2.3** TWh

Reduction in fossil CO₂ compared with 2010 measured as emissions per ton of pulp and paper

Wind power production on SCA's land

resource consumption and environmental impact for production facilities and for transportation of raw materials and finished products. Using life cycle assessments, the carbon footprint from the Group's products can be calculated. SCA's products already possess a small carbon footprint.

The greatest climate effect can be achieved by using the Group's products to replace other products with a larger carbon footprint, for example, by, using biofuel to replace fossil fuels, wood products to replace concrete, and paper to replace plastic.

Through innovation, SCA develops products and materials that can further reduce the carbon footprint. Examples of such innovations launched in recent years include a material-efficient kraftliner that uses less packaging material without impairing performance or durability. Another example of increased resource efficiency is the proprietary Arcwise® technology that makes it possible to manufacture curved-shaped corrugated board packaging, which nobody has succeeded in doing previously. Curved-shaped corrugated board packaging requires less material, saves space in storage and offers new design opportunities.

Pine heartwood decking is one part of SCA's SmartTimber concept and utilizes wood that consists of at least 99 percent heartwood, which provides a good and natural durability against rot and therefore also reduces the need for chemical protection and impregnation substances.

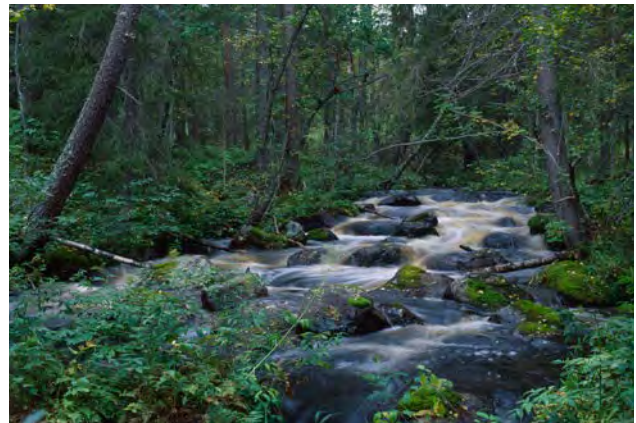
Industrial ecosystems minimize production waste

Most residual products from SCA's operations are converted into by-products that can be used as raw materials in other parts of SCA's industrial ecosystem. One example is sawdust from sawmills, which is used to produce pellets. The major part, 93 percent, of SCA's solid waste is recycled. Only a minor share, 1 percent, is hazardous waste that cannot be recycled without first being treated by an authorized consignee. The remaining waste is sent to landfill.

Better water quality

SCA is endeavoring to reduce the occurrence of substances in process water that impact the environment and to improve the purification of water that is released back to nature, using mechanical and biological treatment systems.

The rebuilding of treatment plants has resulted in an increase in emissions of suspended solids and phosphorus emissions to water over the past two years. Current targets were therefore exceeded. The rebuilding of the Munksund wastewater treatment system in 2016 has gradually begun to produce results in 2017 in the form of reduced emissions. The wastewater treatment facility in Östrand is also to be rebuilt in 2018 manage the production increase as part of the ongoing expansion project. The new Östrand plant will be equipped with the latest technology to increase energy efficiency and minimize emissions to the air and water. In 2016 and 2017, all SCA mills conducted training in wastewater treatment technology. A technical environmental network was also established in the Group to broaden and share know-how in wastewater treatment technology.



Plants with the lowest carbon footprint in the world

SCA is convinced that in the future demand will only exist for products that are produced using sustainable methods. This is why the company is working on many fronts to minimize negative impacts on the environment, people and society.

One way to achieve this is to measure the product's carbon footprint, meaning the amount of greenhouse gases generated during its entire lifecycle. In SCA's case, this means from the tree to the final product and its recycling, degradation or incineration. The carbon footprint can be reduced through efficiency enhancements and innovations.

The Ortviken paper mill and Östrand pulp mill probably have the world's lowest carbon footprint for plants of their kind due to the use of biofuel instead of fossil fuel. Transportation is another area where SCA has reduced its carbon footprint through loading and route optimization for shipping and other transportation. Moreover, SCA's sustainable products, which contain the forest as the main raw material, replace products that have a greater carbon footprint. Biofuels replace fossil fuels, wood products replace concrete, and paper replaces plastic.

Focus area

Responsible Forest Management

SCA's responsible forest management are based on the long-term and sustainable use of the forest as a resource, which ensures it is at least as rich in biodiversity, nature experiences and economic values in the future as it is today.



The forest forms the foundation for all of SCA's operations. As forest owner and forest manager, SCA has a significant influence on the forest. The Group conducts responsible, long-term and profitable forest operations that generate a valuable wood raw material. At the same time, the forest's conservation and nature experience values must be maintained. SCA forest land shall, in the future, be at least as rich in biodiversity, enjoyment and raw material as it is today. Forest processes are long. It takes almost a century for a planted tree to become mature enough for harvesting and many natural processes take even longer. SCA's forest management planning therefore extends across more than 100 years.

Biodiversity

The preservation of biodiversity in the Group's forests is the most important environmental target in the management of SCA's forests. More than 800 red-listed species, including plants, insects, lichen, mosses and fungi live in northern Sweden where SCA's

forests grow and these require special consideration. A minimum of 5 percent of the productive forest land will therefore be set aside from harvesting in our ecological landscape plans, which SCA has developed for its entire forest holding. In 2017, this voluntary allocation amounted to 8 percent of productive forest land. SCA also takes extensive conservation measures during any forest operations. In 2017, an additional 13 percent of productive forest land planned for harvesting was saved. Some 21 percent of productive forest land is set aside from harvesting, meaning about one in five trees are left to live or die according to the natural cycles of the forest.

SCA also carries out one-off measures for threatened species. For example, SCA has planted pasqueflowers on land that may be suitable, and created butterfly parks to protect, for instance, *Baptia tibiale* and *Lycaena helle*. Read more about our butterfly parks on page 37.

Outcome 2017

21% 100%

of SCA's productive forest land is excluded from harvesting to preserve biodiversity

Percentage of fresh fiber that is FSC, PEFC certified or fulfils FSC's standard for controlled wood

Harvesting and rejuvenation

Depending on the tree species and where the tree is growing, it takes between 60 and 120 years from one forest generation to the next. Every tree SCA harvests is replaced with more than two new trees. The saplings are produced at SCA's own Bogrundet nursery with its Wifstamon branch. Bogrundet is the largest nursery in the world with a capacity to produce more than 100 million seedlings per year.

Planted trees grow about 15 percent better than naturally regenerated trees. In addition to spruce and pine, contorta pine is also planted, a Canadian pine that grows 40 percent faster than Swedish softwood species and provides a valuable addition of renewable raw materials.

Environmentally compatible management methods

SCA uses environmentally compatible management methods that mimic the natural processes that were common in northern forests in the past, but no longer occur because of human intervention. This includes forest fires, which used to be far more common. These are now imitated using controlled burning. The burning benefits rare species that are dependent on burnt wood for survival, at the same time as it creates a varied landscape with forest of different ages, much dead wood and plentiful deciduous trees that in turn are important key species in the forest landscape. SCA carries out an average of approximately 100 hectares of controlled burning each year, in addition to a large number of clearances with controlled burning.

Another method is to remove spruce, but save pines, which produces a less dense and lighter forest that benefits other species

than a dark, spruce forests would. In some areas, SCA uses the forest management method selective cutting, with the continuous cover forestry method that reduces timber production but that can benefit certain sensitive species.

In 2017, SCA introduced a method of harvesting work that is better at avoiding ground damage. This entails the creation of skid trails high in the terrain and using brushwood and branches to further protect the soil.

There are also other values than biodiversity that may disappear without sufficient consideration, including ancient remains such as Sami places of worship or trapping pits. During 2017, SCA's harvesting operators were trained to mark and save ancient remains so these are not damaged by machines.

Certified forests

All fresh fiber used by SCA must originate from responsibly managed forests – forests with a high level of biodiversity that are managed under good working practises. SCA's own forest is managed in accordance with the forest management standards for the two main international certification bodies, the Forest Stewardship Council® (FSC®) and the Programme for the Endorsement of Forest Certification (PEFC™), which aim to ensure responsible forest management. SCA contributes together with other social, environmental and economic stakeholders, in developing FSC's and PEFC's standards and operations. SCA has its own representative on the FSC International board.

All timber bought by SCA that is not certified according to FSC or PEFC must fulfil the requirements of FSC's standard for controlled wood. It must not be from forests with high conservation values or forests where the rights of indigenous people or human rights are being violated.

Timber from certified forests can be used to produce certified products and thereby make it possible for customers and consumers to buy forest products based upon responsible forest operations.

Forest for recreation

The forest contributes to biodiversity while also providing a source for nature experiences and recreation. Hunting is also an important measure, for example in reducing damage caused by moose to pine, mountain ash, aspen and sawlow.



Butterfly park for threatened butterflies

SCA's forest management promotes biodiversity through nature conservation in all of its forest management activities, and also through targeted initiatives. One example is the Jämtkrogen's butterfly landscape, which SCA, together with the county administrative boards of Västernorrland and Jämtland, set up to save the two butterfly species, Baptria tibiale and Lycaena helle, which are severely threatened in Sweden.

"Our measures create conditions to encourage these, and many other, species of butterflies that are under threat. The butterfly park creates corridors where the butterflies can find sunlight and thrive. This may involve creating paths and small openings in the forest, or clearing along forest roads and near power lines. The Swedish Transport Administration has even modified haymaking along the E14 motorway to encourage the butterflies. We also try to leave deciduous trees, particularly sawlow, to create the best possible conditions for insects and bees prior to the pollination period," says Håkan Blomqvist, conservation specialist at SCA.

Focus area

Care for People and the Community

SCA endeavors to be a safe and inclusive employer where employees achieve their full potential in a work environment with respect for each other, the community and for nature. SCA is a responsible company that participates in social progress and cares about people and the community.



With a vision of zero workplace accidents

SCA's most important goal is that all of our employees, and everyone who enters our sites, should return home healthy and unscathed at the end of the working day. The Group has a vision of zero workplace accidents, and is aiming to decrease the accident frequency rate by 50 percent between 2014 and 2018. Health and safety work at SCA's largest units is certified in accordance with OHSAS 18001. SCA is running the ZERO program to create a shared health and safety culture, change behavior and create a uniform structure for systematic monitoring, evaluation and reporting.

The Group's managers are trained in change management to coach and encourage safe behavior. SCA also conducts training initiatives with regard to health and safety. In 2017, about 100 employees took part in training to create a better work environment, for example by reviewing available routines and instructions. There are also local initiatives that promote healthy living.

In 2017, 65 workplace accidents took place resulting in absence. Following a drop in the number of accidents in 2016, the outcome for 2017 was at the same level as 2014. The number of days of absence due to workplace accidents has however fallen substantially and the number of risk observations has more than doubled since the ZERO program began in 2016. The most common causes of accidents, which also resulted in the longest absence, were tripping and falling accidents.

The equality of everyone

SCA stands up for the equal value of every person and respect for each other. It fosters cooperation and allows us to develop, as people and as a company. Each year, the Group's units prepare gender equality plans containing practical activities.

In 2017, SCA's forest operations conducted a major gender equality project together with Mid Sweden University. The project's conclusions will provide a basis for the gender equality agenda moving forward.

Educating for change

By encouraging a healthy dialogue between employees and managers, SCA creates the conditions for employees to achieve their full potential. This could take the form of documented performance reviews each year where individual goals are drawn up for the employee's development.

SCA conducts regular leadership courses. In 2017, about 100 individuals took part in some form of leadership training. During the year, some one hundred individuals also took part in a three-day introductory course.

At the Östrand pulp mill, about 200 individuals have completed the 'Tekniklyftet Bas' course – a one week training course to prepare employees to start up the new plant in 2018. At the Ortvisken paper mill, a two-day course was held in 2017 for the 600 employees who have Ortvisken as their workplace. The aim was to include all employees in the changes and improvement initiatives that are needed to enable the mill to continue to deliver competitive products in a digital world.

Outcome 2017

10.4

Workplace accidents resulting in absence, per million hours worked. Equivalent to 1.6 workplace accidents per 100 employees.

20%

Share of women in senior management

18%

Share of women in the Group



Strategic competence

SCA is collaborating with schools in order to secure the industry’s attractiveness and the long-term supply of competent employees. SCA participates in the ‘Skogen i Skolan’ program, which aims to increase knowledge and awareness of the forest and forest industry among pupils and teachers, and ‘Tekniksprånget’, a nationwide placement program for senior high school students who studied natural sciences and technology programs to increase interest in pursuing the engineering profession.

SCA also offers practical workplace experience and summer jobs in offices, industrial plants, nurseries and in forest operations. This provides a good and important base for SCA’s supply of skilled employees, at the same time as young people are offered important work experience. During 2017, 353 young people had summer jobs at SCA.

Another training initiative is SCA’s “Early Career Program”, which runs for 18 months. This differs from a traditional trainee program by targeting people that have already worked for one or two years and who are interested in further development. Eleven people are part of the program, where they work with leadership and develop both in new roles and as individuals. Alongside of this program, the managers of the participants are also trained to lead a new generation of employees.

THE ZERO PROGRAM:

Accidents are avoided through behavior-based safety

Health and safety is top priority at SCA. The ZERO program was launched in 2016 to develop the Group’s health and safety culture. Despite earlier initiatives and a systematic approach to health and safety, too many workplace accidents are still taking place. Many accidents can be avoided if you reflect and act differently. Behavior-based safety (BBS) is therefore an important component in ZERO and in achieving SCA’s vision that no one should be injured at work.

Within the framework of ZERO, employees were trained to use a methodical and simple approach to alert each other to safety in the workplace. This is not about lecturing but about helping each other to become more aware of what is a safe way of working and what is not.

“We are now in the midst of a major cultural change and there is a lot of talk about safety here at Bollsta. Already, we can see a significant drop in serious accidents. This type of change takes time however, so it may take a while before we witness the major results,” says Gustav Roslund, Health and Safety Engineer at Bollsta sawmill, one of the plants that implemented BBS in 2017.



SCA in the community

To remain relevant, today and in the future, SCA must evolve in harmony with the communities that we are part of. Social challenges can serve as a source of innovation and development for SCA's business models and product offerings.

SCA has a continuous dialogue with various stakeholders about how the Group can contribute to the positive development of society. This could include meetings and dialogue with municipal representatives, local residents, reindeer herding Sami and people who live close to SCA's facilities. The Group sponsors local associations, hold regular talks with recruitment agencies and employment offices and collaborates in various ways with universities and colleges in northern Sweden.

Maintaining a vibrant countryside

SCA contributes to the local economy in the municipalities in northern Sweden where the company conducts operations. Of SCA's more than 4,000 employees, 87 percent are employees in Sweden and the remaining 13 percent mainly in Europe. In addition to direct payments, in the form of various taxes, SCA generates the preconditions so that trade, services and public services can continue to exist in smaller rural communities.

SCA's forest operations create jobs in rural areas, both directly and indirectly. SCA's forests, not least the forest roads SCA builds, contribute toward ecotourism, hunting and fishing. In combination, these operations create an opportunity for people to live and work in areas such as the inland region of Norrland.

Headquarters close to operations

SCA's decision as a listed company to locate its headquarters in Sundsvall, close to its operations, creates new jobs and mean that the Group is contributing to making Sundsvall more attractive as a town to live and work in. SCA has also been successful in recruiting specialist expertise to Sundsvall.

The proximity between SCA's research and development unit and Mid Sweden University contributes towards several interesting research and innovation projects in the region and attracts research competence to Sundsvall. SCA collaborates with IBM and BizMaker in the Forest Business Accelerator for the development of startups with forest-related business concepts.



Focus area

Value-based Culture

SCA shall be a credible and responsible company with a value-based culture that is an integrated part of the way we address people, conduct business and operate throughout the entire value chain. SCA is a trustworthy company with a high level of integrity both among employees and with suppliers.

SCA ANNUAL AND SUSTAINABILITY REPORT 2017

Code of Conduct for employees

SCA drew up a Code of Conduct in 2004 to ensure that SCA's employees comply with the Group's core values and do not take part in unethical activities. It contains principles that include business ethics, relationships to employees, respect for human rights and the environment. The Code is a tool to transform SCA's core values – of responsibility, excellence, and respect – into action.

SCA's Code of Conduct applies to all employees within the Group. It applies to all markets in which SCA conducts operations. All employees will receive regular training in the Code of Conduct. All new employees are educated in the Code as part of their introduction. Every third year all employees take part in a refresher course. The percentage of employees educated in the Code of Conduct amounted to about 90 percent at the end of 2017. During the year, seminars were also held based on ethical dilemmas for management teams.

SCA has zero tolerance for harassment, such as discrimination and sexual harassment.

Human rights

Human rights is one important aspect of SCA's Code of Conduct. SCA does not tolerate child labor in its own facilities or the operations of any business partner. The Group complies with applicable national laws and international standards on minimum age wherever the company operates. Nor does SCA tolerate any form of forced labor or abuse of staff. Fair working conditions, health and safety, and respect for the trade union rights of employees and the right to collective bargaining are taken as given.

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.

Anti-corruption

SCA's instructions for anti-corruption establish rules to prevent anti-corruption in all Group operations regardless of country. The Group does not tolerate any form of corruption or bribery – it is forbidden to both accept or offer bribes. Employees with senior positions and those with external contacts are trained in anti-corruption legislation, and the target group in the Group comprises about 1,000 employees. The Executive Management Team and other relevant individuals receive training on these issues in conjunction with mini-seminars. New employees are provided with training through online courses as part of their onboarding program. In 2017, about 150 people took part in training sessions.

Anti-trust

SCA endeavors to comply with competition laws and to combat anti-trust, price fixing, the carving up of customers or geographic markets, bid rigging or abuse of a dominant position.

SCA has established programs to increase knowledge among employees of competition law. The target group for the program is employees with market-related contact with competitors and includes about 270 employees. Moreover, seminars are held on a continuous basis with this target group that includes anti-corruption updates. In 2017, about 130 people took part in training seminars.

Outcome 2017

90% **75%**

of employees received Code of Conduct training

of the 28 largest suppliers have signed the Global Supplier Standard

Monitoring and the whistleblowing system

SCA uses a number of methods to monitor and safeguard compliance with prevailing law and the Code of Conduct. These include due diligence in connection with acquisitions, risk evaluations and regular on-site audits of SCA's units.

SCA's whistleblower system is also an opportunity for employees to anonymously report breaches of SCA's Code of Conduct. The whistleblower system is also under review.

Reported cases within SCA in 2017

During the year, no breaches of anti-corruption law or competition law were reported. A preliminary investigation, including suspected bribery, was withdrawn by the public prosecutor in June 2017. There are no ongoing cases from previous years.

During 2017, nine cases of potential breaches of the Code of Conduct were reported, which concerned discrimination, harassment, unequal treatment and conflicts of interest.

Sustainable supply chain

To ensure that SCA's suppliers share our core values, SCA has formulated a Global Supplier Standard to which our suppliers must comply. A review is ongoing of SCA's Global Supplier Standard and procedures for supplier audits.

ABOUT SCA'S SUPPLIERS AND PURCHASING

SCA has agreements with a large number of suppliers. For timber supply from external forest owners, SCA has created a purchasing organization with about 80 wood purchasers, distributed among local offices across the region. Through this organization, SCA has relationships with approximately 14,000 forest owners, most of which are private individuals. SCA may also sell silvicultural services and tree seedlings to these suppliers.

About 100 contractors are responsible for most of the felling and about another 150 for transportation to and between SCA's industries.

For most important input goods and services, there are a number of suppliers available in the market. This is also often the case for suppliers of maintenance and new and rebuilding services for industrial facilities.

Choice of partners and suppliers

SCA's ambition is to choose partners who share the same values as the company and who 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, produced and delivered with respect for people and nature. The Group's purchasing is to be from suppliers that fulfil the criteria specified in SCA's Global Supplier Standard.

Supplier audits

To ensure that SCA works with business partners that fulfil requirements, potential partners are evaluated before cooperation is initiated. The evaluation comprises both business issues and issues concerning existing policies and processes regarding, for example, the work environment and business ethics. Suppliers are expected to comply with SCA's Code of Conduct, or equivalent, which is regulated as a part of the supplier agreements. Risk assessments are also conducted on suppliers and, for suppliers judged to have a high risk level, SCA conducts on-site audits, drug tests and random checks of, for example, working conditions, work permits and salaries.

Good control of the supply chain

SCA engages contractors to conduct forest management measures and has a distinct and clear process to verify that they comply with the company's standard in terms of labor and working conditions.

"During procurement, we always consult the GS trade union (the Swedish union of forestry, wood and graphical workers). When we receive a green light from them, that there are no complaints against the company, then we proceed with a supplier check using a list of criteria. On certain issues we request verification of compliance with the requirements, for example, they must have an action plan to minimize work environment risks in their operations," says Lena Pettersson, Environmental and Quality Coordinator at SCA.

Through the use of random checks, contractors are monitored in the field to ensure they offer their employees contractual rights. Silvicultural companies often use foreign workers and SCA works together with the municipal interpreter services to conduct random checks as far as possible. If a business conflicts with the agreement or SCA's Code of Conduct, SCA calls for corrective action, otherwise the collaboration is terminated.



In Vilhelmina, newly arrived young immigrants received an introduction to society through language training alternating with silvicultural practices in a joint venture between SCA and Vilhelmina municipality.

Board of Directors' Report

SCA was founded in 1929 as a forest and forest products business. After many years of successful expansion, both geographically and into new business areas, the business was refocused to forest products in 2017 after the distribution of the hygiene business to SCA's shareholders.

Operations and business model

The core of SCA's operations is the forest, with SCA's forest being the largest private forest holding in Europe. SCA's business model is to sustainably create the most possible value from and around this unique resource.

SCA owns 2.6 million hectares of forest land in northern Sweden, of which 2.0 million hectares is productive forest land. Around this resource, SCA has built an integrated and well-invested industry, where the entire tree is utilized. Using raw materials from the forest, SCA develops products for customers all over the world with high demands on quality, delivery reliability, service and sustainability.

The most valuable part of the tree is used for sawlogs and as much as possible of the timber is sawn to become solid-wood products for industry and the building materials trade. Bark is used in energy production. Chips together with tops and small trees are used to make pulp and paper for further processing by customers into tissue, packaging and printed materials. Sawdust is used to make pellets for energy production at SCA and externally. The forest land also includes favorable sites for wind power. Finally, logistics is an important element in an efficient value chain and the transport solutions created for SCA's own products are also offered to other customers.

SCA's operations are described in more detail on pages 12 - 29.

Distribution of the hygiene business

SCA was founded in 1929 as a forest and forest products business operating in Sweden. Over the years the company has expanded into other business areas, such as hygiene products and packaging as well as expanding geographically to become a global company. The packaging operations were divested in 2012.

In 2016, the hygiene business accounted for approximately 86 percent of SCA's sales and about 67 percent of the capital employed. The remaining share comprised the forest and forest products business, the operations that now remain in SCA after the distribution of the hygiene business.

SCA's 2017 Annual General Meeting decided to split the then SCA Group into two listed companies: one for the hygiene business (was later renamed Essity) and one for the forest and forest products business (which kept the SCA name). A split of the Group and the distribution and listing of shares in Essity was expected to increase focus, customer value and development opportunities for both businesses. The split was also expected to offer opportunities for each company to successfully realize its strategies under the leadership of separate and dedicated management teams, separate Boards and with independent access to capital. This was expected to increase the value for SCA's shareholders. Moreover, synergies between operations have diminished over time and were limited at the time of the decision to split.

The main business relationship between the operations in the then SCA consisted of sales of pulp by the forest products business to the hygiene business. Sales were conducted under market conditions and totaled SEK 511m in 2016.

Registered shareholders in SCA on the record date received, for each share held in SCA, one share of the same share class in Essity. SCA's share traded without the right to receive shares in the distributed hygiene business from June 12, 2017. The new shares in Essity were listed on Nasdaq Stockholm Stock Exchange on June 15, 2017.

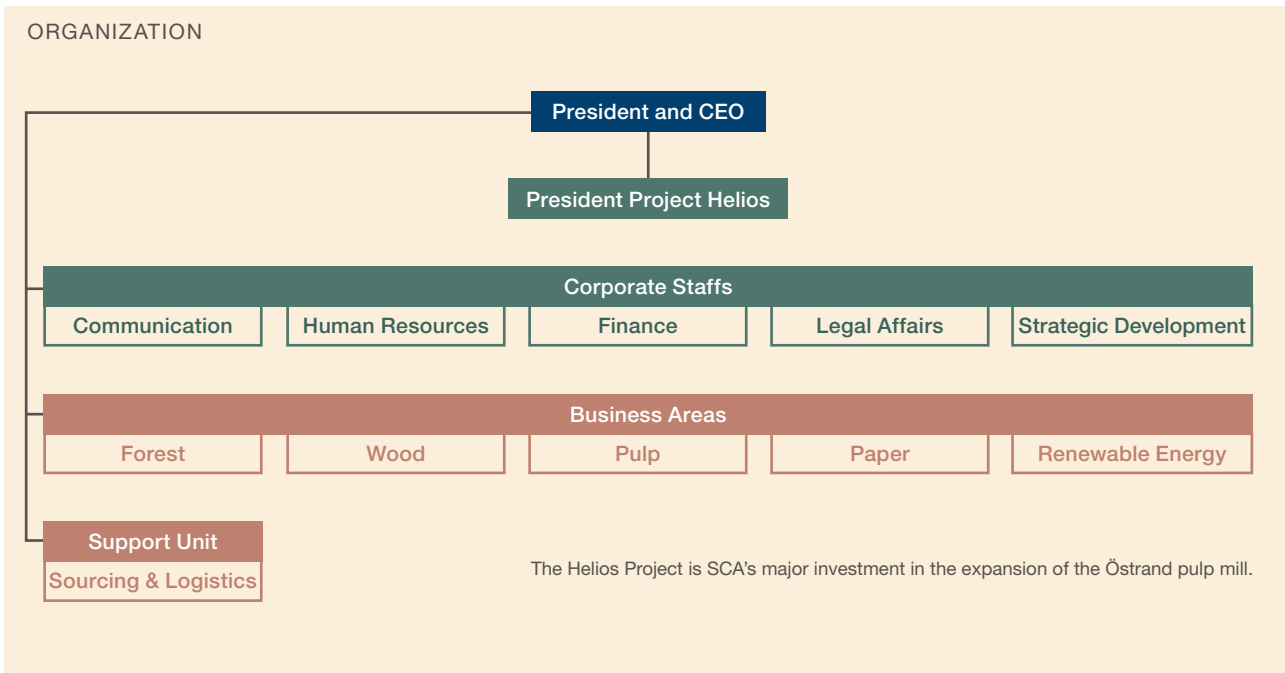
The distribution of shares in Essity had a substantial impact on SCA's key figures for 2017. The hygiene business is presented in 2017 on a separate line in the income statement called discontinued operations and is therefore not included in SCA's net sales and operating profit. The divested operation's profit after tax for the period up to the split amounted to SEK 3,367m. The distribution also resulted in a non-recurring effect on the period's net profit of SEK 136,914m. More detailed information regarding the effects can be found under Note G1 on page 110. Unless otherwise stated only SCA's continuing operations, the forest and forest products business, are described in this Board of Directors' Report. Where the hygiene business is included, it is presented as 'discontinued operations'.

Organization and reported segments

SCA is organized into five business areas and one support unit. Given the importance of the expansion project in Östrand, the President for the project (Helios) reports directly to the company's President and CEO and is a member of the Executive Management Team.

The business areas are

- The Forest business area has overall responsibility to supply SCA's forest industries with wood raw material. This includes responsibility for managing SCA's own forest land in Sweden, for sourcing wood raw material from other forest owners and for transporting the wood raw material to the industries.
- The Wood business area is responsible for the sawmill business, with five sawmills in Sweden, wood processing units in Sweden, UK and France as well as distribution and wholesale operations for wood products.



- The Pulp business area is responsible for the pulp business, consisting of kraft pulp (NBSK) and chemical thermomechanical pulp (CTMP), both produced at the Östrand pulp mill, where a major investment project is ongoing to increase production capacity.
- The Paper business area is responsible for the kraftliner business, with manufacturing of containerboard at the Obbola and Munksund paper mills, and for the publication paper business, with manufacturing of paper for magazines, catalogues and commercial print at the Ortviken paper mill.
- The Renewable Energy business area is responsible for developing SCA's business within renewable energy, which includes wind power projects, pellets manufacturing and sales, and the use of biomass in energy production.

The support unit Sourcing & Logistics manages common sourcing functions as well as SCA's logistics system for deliveries to customers using specially adapted vessels and terminals both in Sweden and in key foreign markets.

The organizational structure also includes five corporate staffs: Communications, Human Resources, Finance, Legal Affairs and Strategic Development.

SCA's financial reporting is conducted in four segments, which are slightly different to the business areas described above. The Forest segment includes the Forest business area and activities within sustainable energy linked to the forest that are managed by the Renewable Energy business area, primarily wind power projects and leases as well as the sale of logging residues (tops and branches) from the forest for energy purposes. The Wood

segment includes the Wood business area and the activities linked to the sawmills that are managed by the Renewable Energy business area, primarily pellets production.

The Wood, Pulp and Paper segment also includes an allocation of the support unit Sourcing & Logistics, equivalent to the resources of the support unit used by each business area. The Forest business area does not use the support unit's services.

'Other' includes costs for the headquarters, and in 2017 this included costs for the split of the company and the distribution of Essity and for certain strategic R&D projects.

Otherwise, the reporting segments are consistent with the business areas.

Sales

In 2017, SCA's net sales (which correspond to SCA's deliveries of finished goods in the wood, pulp and paper segments) amounted to SEK 16,664m (15,373), an increase of 8 percent compared to 2016. Higher prices (including mix) accounted for 6 percent, increased delivery volumes for 3 percent and currencies –1 percent. The generally positive market conditions during the year resulted in the full utilization of the company's technical production capacity, meaning there were no market-related stoppages for the year. For more detailed information about production capacity, refer to the sections for each segment, on pages 14-23.

In addition to net sales, SCA's other operating income amounted to SEK 1,603m (1,724) in 2017, a decrease of 7 percent compared to 2016. Other operating income comprises products and services that are not finished products in wood, pulp and paper, such as energy products, sales of freight services to external customers and wind power leases.

SCA is primarily an export company and approximately 86 percent of net sales were sold outside Sweden. The largest individual export markets are the UK (17%), Germany (16%) and France (7% of net sales). SCA's currency exposure is described in the section on risk and risk management, on page 53.

Cost structure

SCA's total operating expenses in 2017 amounted to SEK 14,506m, an increase of 5 percent compared to 2016. The cost amount was reduced by a positive change in the value in biological assets of SEK 617m (689), which reduced the cost for timber, chips and recovered fiber.

The distribution of costs is presented in the diagram above. The largest share of the cost base comprises sourced timber, chips and recovered fiber (17%), personnel costs (19%) and transportation and distribution costs (23%).

Research and development cost were SEK 52m (46). The costs are primarily related to SCA's own organization for research and development, and correspond to about 0.3 percent of SCA's sales.

COST STRUCTURE 2017



1) Timber, chips and recovered fiber also include change in inventories and changes in value in biological assets

Income statement (non-IFRS)

SEKm	2017	2016	%
Net sales	16,664	15,373	8
Other operating income	1,603	1,724	-7
Operating expenses	-14,506	-13,828	5
Adjusted EBITDA	3,761	3,269	15
Items affecting comparability	-113	116	
EBITDA	3,648	3,385	8
Depreciation	-1,137	-1,114	2
Operating profit	2,511	2,271	11
Financial items	-93	-84	
Profit before tax	2,418	2,187	11
Taxes	-544	-417	
Profit for the period, continuing operations	1,874	1,770	6
Net profit from discontinued operations	140,281	4,242	
Profit from continuing and discontinued operations	142,155	6,012	

Reasons for changes in adjusted EBITDA (%) in 2017 compared with 2016

	%
Price/mix	25
Volume	2
Raw material costs	-3
Energy costs	-1
Currency	-1
Other	-7
Total	15

Performance

SCA's performance in 2017 is presented in the income statement on the previous page. EBITDA, adjusted for items affecting comparability, amounted to SEK 3,761m (3,269), an increase of 15 percent compared to 2016. The most important factors behind the increase in adjusted EBITDA are presented in the table on the previous page. EBITDA related project costs for the investment in Östrand, which are recognized in the income statement, totaled SEK 100m, which is an increase compared to last year's figure of SEK 30m.

In 2017, items affecting comparability amounted to SEK -113m (116), comprising costs related to splitting the SCA Group into two listed companies. The positive amount in the preceding year comprised capital gains on the sale of shares in IL Recycling. EBITDA amounted to SEK 3,648m (3,385), an increase of 8 percent compared with the previous year.

Depreciation amounted to SEK 1,137m (1,114). The increase is primarily a result of investments in recent years, particularly in the Tunadal sawmill. The depreciation amount includes SEK 50m (45) in depreciation related to the Östrand project. Operating profit amounted to SEK 2,511m (2,271), an increase of 11 percent.

Financial items amounted to SEK -93m (-84).

Tax expense, including items affecting comparability, totalled SEK 544m (417), corresponding to an effective tax rate of 22.5 percent. Net profit thereby amounted to SEK 1,874m (1,770), an increase of 6 percent. Earnings per share amounted to SEK 2.67 (2.52).

The distribution of Essity yielded a positive impact on earnings of SEK 136,914m after tax. The reason for this impact on earnings is that operations were measured at market value on the first day of trading, after which the difference between the carrying amount of assets in SCA and market value is reported in earnings. In addition, earnings were positively impacted by SEK 3,367m, which is the net profit from Essity's operations during the period up until the split when

the business was part of SCA. The total net profit from discontinued operations was therefore SEK 140,281m (4,242). Total profit after tax in 2017 from continuing and discontinued operations was therefore SEK 142,155m, corresponding to earnings per share of SEK 201.94.

Expansion of the Östrand pulp mill

Based on the expected market growth for softwood kraft pulp, SCA decided in 2015 to invest SEK 7.8bn in expanding the Östrand pulp mill. Following the investment, the annual production capacity of bleached sulphate pulp is estimated to increase from the current level of 430,000 tonnes to about 900,000 tonnes. The Östrand mill also has a chemical thermomechanical pulp (CTMP) production capacity of about 100,000 tonnes per year, which will remain unchanged after the investment.

The project is following the investment plan, in terms of both time and capital expenditure. At the end of 2017, some SEK 5.5bn had been invested in Östrand, corresponding to about 70 percent of the total investment. An estimated SEK 1.8bn will be invested in 2018 and the remaining amount of SEK 0.5bn in 2019.

Production is planned to start in June 2018. Following the expected start-up

curve, 2020 is expected to be the first year with full effect, corresponding to the production of 900,000 tonnes of kraft pulp. The investment will make Östrand one of the most cost-efficient production facilities in the world for softwood kraft pulp.

Other investments and cash flow

In addition to the Östrand project, SCA's investments consisted of current capital expenditures in production facilities. In 2017, current capital expenditures amounted to SEK 638m (959).

Operating cash flow is presented in the table below. Working capital increased SEK 143m, compared to a decrease of SEK 374m in the previous year. Rising sales increased accounts receivable. Total operating cash flow for continuing operations amounted to SEK 2,273m (1,917), an increase with 16 percent.

Income tax payments totalled SEK 30m (17). The low income tax payments were primarily a result of large taxable deductions for depreciation on SCA's new investments, including the Östrand project, and accumulated tax losses carried forward from previous years. The year's income tax payments are not comparable with previous years as the hygiene business in Sweden was then part of the same tax group as SCA.

Operating cash flow statement

SEKm	2017	2016
Operating cash surplus	3,145	2,584
Change in working capital	-143	374
Current capital expenditures	-638	-959
Other operating cash flow	-91	-82
Operating cash flow, continuing operations	2,273	1,917
Financial items	-93	-84
Paid tax	-30	-17
Other	-41	3
Operating cash flow, continuing operations	2,109	1,819
Company acquisitions	0	-58
Strategic capital expenditures in non-current assets	-2,863	-2,231
Divestments	0	120
Cash flow before dividend, continuing operations	-754	-350

Financial position

To enable the distribution of Essity and the independent financing of each part of the company, it was decided that from SCA's existing net debt of SEK 35,361m as of December 31, 2016, SEK 5,000m pro forma was allocated to SCA's continuing operations and the remaining amount to the future Essity. A decisive factor in the distribution was that both companies should have a secure balance sheet and, in the case of SCA, take into account the financing required for the expansion of Östrand.

In 2017, measures were implemented so that SCA would receive the planned net debt of SEK 5,000m, pro forma, as of December 31, 2016. A dividend of SEK 4,214m was paid to the shareholders of SCA, and capital of SEK 598m was injected into the subsidiary Essity AB. Combined with existing net debt of SEK 188m at December 31, 2016, these two measures resulted in the intended level of net debt.

SCA's capital employed totaled as of December 31, 2017, SEK 42,719m (pro forma 40,127), an increase during the year of SEK 2,592m. The increase was mainly a result of the investments in expanding Östrand and a revaluation of SCA's forest assets.

SCA's net debt amounted as of December 31, 2017 to SEK 5,966m, an increase of SEK 966m compared to pro forma as of December 31, 2016. Net debt totaled 1.6 times EBITDA and the debt/equity ratio was 16 percent at the end of the year.

In conjunction with the distribution of Essity, a new loan structure was established as per June 15, 2017. The financing structure has thereafter been supplemented to reduce costs. Committed credit facilities as per December 31, 2017 total SEK 14,476m and are presented in the table on this page and in Note E4 on pages 100-101. SCA continuously evaluates available financing options in the market to obtain the most favorable financing cost possible, at the same time as balancing risk.

Balance sheet structure

SEKm	Dec 31, 2017	Pro forma Dec 31, 2016
Growing forest (biological assets)	31,386	30,770
Deferred tax liabilities related to growing forest	-6,905	-6,769
Growing forest, net	24,481	24,001
Working capital	2,861	2,740
Other capital employed, net	15,377	13,386
Total capital employed	42,719	40,127
Net debt	5,966	5,000
Net debt/EBITDA	1.6x	1.5x
Equity	36,753	35,127
Net debt/Equity	16%	14%

Credit structure and available credit facilities

Committed Credit amount SEKm ¹⁾	Dec 31, 2017	Maturity years						
		2018	2019	2020	2021	2022	2023	2024
Syndicated credit facilities	8,000			4,500		3,500		
Svensk Exportkredit	1,500					500	500	500
Commercial paper	3,500	3,500						
EIB ²⁾	1,476	1,476						
Total	14,476	4,976		4,500		4,000	500	500

1) Whereof drawn loans amounted to SEK 7,100m

2) Credit from the European Investment Bank (EIB) amounted to a value of EUR 150m and was not utilized as of December 31, 2017. The credit line matures at the end of 2018, if not used.

Share distribution

Number	Class A	Class B	Total
Share distribution as of December 31, 2016	64,594,572	640,515,522	705,110,094
Reduction of treasury shares		-2,767,605	-2,767,605
Conversion of shares from Class A to Class B	-6,581	6,581	
Share distribution as of December 31, 2017	64,587,991	637,754,498	702,342,489

At December 31, 2017, gross debt totaled SEK 7,177m, whereof drawn loans amounted to SEK 7,100m. The gross debt had an average term to maturity of 4.0 years and an average interest rate period of 6.9 months. Unutilized credit facilities

amounted to approximately SEK 7,400m, of which some SEK 3,500m was reserved in order to secure long-term financing options in the event of a disturbance in the commercial paper market.

Other Group information

Treasury shares and share distribution

At year-end 2016, SCA had 2,767,605 treasury shares. The shareholding was created to be used in a now discontinued employee stock option program. In 2017, these shares were withdrawn, in line with a decision by the Annual General Meeting. Thereafter the company has not held any treasury shares.

During 2017, at the request of shareholders, 6,581 Class A shares were converted to Class B shares.

The share distribution, following the withdrawal of treasury shares and the conversion of shares from Class A to Class B, is presented in the table on the previous page.

Dividend

The Board of Directors proposes a dividend of SEK 1.50 per share for 2017. A dividend of SEK 6.00 per share was paid for 2016. As the distributed hygiene business accounted for the larger share of both sales, profit and capital employed at SCA, dividends for 2017 cannot be compared with dividends from previous years.

Environmental impact in Sweden

In 2017, SCA operated 12 manufacturing sites for which a permit is required in Sweden. The value of deliveries from sites for which permits are required accounted for more than 90 percent of consolidated net sales in 2017. Four permits relate to the manufacture of pulp and paper. These operations impact the environment through emissions to air and water, solid waste and noise. Seven permits relate to the production of solid-wood and further processed wood products and biofuel and one permit pertains to the manufacture of fuel pellets. These operations impact the environment through emissions to air and water, and noise. Detailed environment data pertaining to these 12 units is available on pages 134-135.

Guidelines for remuneration of senior executives

Information regarding SCAs guidelines for remuneration of senior executives, how these guidelines have been applied and the expected cost for such remuneration can be found in Note C3, page 88.

Use of non-International Financial Reporting Standards (IFRS) performance measurements

In the Board of Directors' Report and in the Financial Reports and Notes in this Annual Report, a number of non-IFRS performance measurements can be found. These performance measurements are used to help investors and management to analyze the company's development and a number of these measurements are well established financial key figures. A description of these performance measurements and their use is found in Note A2, page 77.

Events after the end of the year

No significant events have occurred after the end of the year.

Risks and risk management

SCA is exposed to a number of risks that could impact the company and its development. These risks are generally defined as factors that impact SCA's ability to be a sustainable company with good profitability over time and to achieve established targets. Through effective risk management, which is described in this section, SCA attempts to reduce the negative effects of identified risks.

Many of the risks described could have a positive or negative impact on the Group. From this perspective, risk could also entail opportunities for SCA. Examples include 'Demand and market price for SCA's products' and 'Raw material prices'.

The description in this section relates to the operations and structure that SCA had at year-end 2017. Risks and risk management in the hygiene business, which

was distributed during the year, are therefore not included in this description.

Processes for risk management

SCA's Board determines the Group's strategic direction based on recommendations from the Executive Management Team. Responsibility for the long-term, overall management of risks corresponds to the company's delegation scheme, from the Board to the CEO and from the CEO to the business area presidents. This implies that most of SCA's operational risks are managed by SCA's business areas at the local level, but that they are coordinated when deemed necessary. The tools for this work primarily comprise continuous reporting by the business areas and the annual strategy process, where identifying, evaluating and managing risk are a part of the process. In this process, identified risks have been

classified according to the likelihood of the risk becoming a reality and the impact on SCA's goal fulfillment. The outcome of this evaluation constitutes a part of the assessment of the risks described in this section.

SCA's financial risk management is centralized, as is the corporate internal bank for the Group companies' financial transactions and management of the Group's energy risks. The financial risks are managed in accordance with the Group's finance policy, which is set by SCA's Board and, together with SCA's energy risk policy, comprises a framework for these activities.

SCA has a corporate internal audit, which ensures that SCA's organization complies with the set policies and agreed measures to manage identified risks.

Risk	Risk management
Operational risks	
<p>Demand and market price for SCA's products</p> <p>Demand for SCA's products is influenced by a variety of factors, such as the general GDP development, and also by more specific trends, such as an increase in e-commerce, a decline in newspaper reading and the resulting changes in the advertising market. Other sectors whose development influences demand for SCA's products include construction activity and DIY. Other products and services can replace SCA's products at the same time as SCA's products can also replace other products and materials.</p>	<p>For most of the product areas where SCA operates, there are a number of competing producers and distinct market prices. Supply is determined by the available production capacity at SCA and its competitors. Market price is determined at any time based on demand and supply. Sales contracts for SCA's products may reflect that SCA's price is a form of market price, though sometimes with a certain time lag compared the development of the market, published price indexes, etc. Sales contracts can also state a specific price, which normally is for an open ended period.</p> <p>Variations in market prices can cause significant fluctuations in profit for SCA. Several methods can be applied to address the risk of a fluctuating market price. Long-term contracts at fixed prices or price hedging only occur in exceptional cases. To reduce the impact of price movements, at least in cases where these are negative and are expected to be long-term, measures can be taken to adapt the cost scenario to the situation, for example, by renegotiating purchasing agreements, implementing personnel and capacity reductions, and reviewing the business structure. A transition to alternative production can also be considered where this is possible.</p>
<p>Raw material prices and other costs for input goods and services</p> <p>The market price of many of the input goods and services used in the manufacture of SCA's products fluctuates over time and this could influence SCA's earnings. 74 percent of SCA's cost base of SEK 14,506m is made up of raw materials and other input goods and services, including distribution services. SCA's cost structure is described in the Board of Directors' Report on page 46.</p>	<p>The risk of price movements related to input goods and services and the impact of this variation on earnings can be managed in several ways. SCA's integrated value chain ensures that the raw material flows are integrated from forest land to the finished forest products. This integration entails, in itself, risk reduction. In 2017, 55 percent of SCA's wood raw material requirements were sourced from its own forests and chips from its own sawmills. Wood fiber is used for SCA's manufacturing of solid-wood products, pulp, kraftliner and publication paper. Logging residues from SCA's activities is used to manufacture biofuels and sawdust to manufacture pellets. The energy generated in the production process is used internally or sold.</p> <p>Another method used to manage the price risk is by entering financial hedges and long-term contracts. SCA is an energy-intensive company and can, according to internal rules, hedge the electricity price risk for up to 36 months. Electricity price hedging is effected through financial instruments and fixed pricing in supply agreements. In 2017, SCA net bought 2.3 (2.3) TWh of electricity. For 2018, 67 percent of forecast electricity purchases have been hedged, and for 2019, 42 percent. No hedging has been carried out for 2020.</p> <p>Under normal circumstances, no other price risks in input goods are managed except for hedged electricity. Other alternatives to manage variations in costs include renegotiating contracts, looking for new suppliers or replacing input goods and services where prices have risen with other products and services that fulfil the same function.</p>

Environmental impact

SCA's operations have an impact on air, water, land and biological processes. These effects could lead to costs for restoring the environment or other kinds of negative effects. Demands for restoring the environment may also include the impact of SCA's previous, now discontinued operations. SCA's industrial operations in Sweden require a permit in accordance with the Environmental regulations. Permits granted stipulate limits for the scope of operations and impact on surroundings. Any expansion or changes to operations may require further action. Forest operations are impacted by the Swedish Forestry Act and the Land Acquisition Act (see description on page 16). The economic impact of climate change is also growing in significance.

A number of years ago, SCA established a sustainability policy, detailing guidelines for the Group's actions in the areas of environmental and social responsibility. In addition to this, targets for people and nature are an integrated part of SCA's business strategy. Risks are minimized through preventive work in the form of certified environmental management systems, environmental risk inspections in conjunction with acquisitions, and remediation projects in connection with plant closures. SCA's large forest holding has a significant positive climate impact through the absorption of carbon dioxide. The forest also guarantees access to renewable forest raw materials and provides valuable ecosystem services for society. Through its Resource Management System (RMS), SCA monitors how the company utilizes energy, water, transport activities and raw materials. The data is used for internal control and follow-up of established targets. SCA works proactively to decrease its carbon footprint by reducing its energy consumption and emissions of greenhouse gases from its own operations and by offering renewable products with low climate impact. Continuous efforts are conducted to increase the proportion of renewable energy and biofuel. SCA also works to reduce the volume of production waste. A comprehensive description of SCA's work and governance in this area is provided on pages 34-37 and 123-135.

Business ethics

Unethical behavior or poor management of risk linked to business ethics can damage the company's brand and reputation in the market. SCA may also suffer fines and other legal sanctions.

To ensure that SCA's organization lives up to the company's core values and is not involved in or tied to unethical business practices, there has been a Code of Conduct established since 2004. This includes general rules for how the company conducts its business and how its employees are to act toward each other and in business relationships. The Code is revised each year. The Code includes principles on business ethics, relationships to employees, respect for human rights and the environment. SCA's Group policies, including its Code of Conduct and Sustainability Policy, apply to all markets in which SCA conducts operations.

Training of all of SCA's employees regarding the Code of Conduct takes place continuously. To ensure that SCA works with business partners that share these values, potential partners are evaluated before cooperation is initiated. The evaluation comprises both business issues and issues concerning existing policies and processes regarding, for example, the work environment and business ethics. Suppliers are expected to comply with SCA's Code of Conduct, which is regulated as a part of the supplier agreements.

SCA uses a number of methods to monitor and safeguard the implementation of the Code of Conduct. These include due diligence in connection with acquisitions, risk evaluation of the company's own units and suppliers, and regular on-site audits of SCA's units and of suppliers deemed to have a higher risk level. More detailed information on operations can be found on pages 42-43 and page 126.

Risks in the forest land holding

SCA is Europe's largest private forest owner, with 2.6 million hectares of forest land of which 2 million hectares is productive forest land. The risk is that the value of the forest portfolio decreases through infestation by pests and grazing moose, by storms or fire. Value can also change through variations in demand for wood raw material in SCA's region, which in turn would impact price levels in the region.

SCA's forest management may conflict with the activities of reindeer herding Sami pertaining to land use. This is also the case for land leased out for wind power projects.

SCA works proactively to improve forestry methods and saplings to enhance forest growth. Active forest operations combined with an industry that adds value to the forest raw material is essential to secure the value of the forest asset. Since 1950, the sustainable harvesting potential has more than doubled at the same time as annual harvesting has increased by about 50 percent.

The risk of infestation by pests is managed through diligent site preparation and special protection against pine weevils. The stock of grazing moose is kept low as SCA gives out hunting licenses on its land. SCA's forest land is spread across large areas of northern Sweden, which means forest fires and storms can only impact a minor part of the forest. The forest is therefore not insured.

SCA consults the relevant Sami communities in connection with forestry operations and wind power projects on SCA's land. The consultation could cover issues including the time for felling, fertilization, site preparation and choice of tree species when planting new forest. For wind power projects, consultation may be carried out concerning the size of the wind farm, its impact on reindeer herding and impact on Sami communities.

Risk**Risk management****Operational risks, cont.****Risks at production plants**

SCA has 18 production facilities, primarily in Sweden but with some manufacturing in the UK and France. SCA also owns facilities for distribution, such as forest roads, timber terminals and port facilities in Sweden and other countries. Some of the facilities conduct continuous production. Fires, machinery breakdowns and other types of harmful incidents could damage the plant in question and also cause delivery problems. Poor health and safety at the production facilities may cause a workplace accident with substantial consequences for individual employees.

The aim of SCA's work with these risks is to effectively and cost efficiently protect the employees, local residents, the environment, the company's assets and the business, and to minimize SCA's risk management costs. The loss-prevention work is conducted in accordance with established guidelines that include inspections and benchmarking with other plants, within and outside SCA. Other important elements of loss-prevention activities include maintenance of plants, staff training, good orderliness, and documentation. Production facilities work continuously to reduce their risks by using, for example, risk assessments and continuous improvements. All wholly owned plants are insured to replacement cost and for the loss of contribution margin. This insurance is effected in cooperation with market-leading insurance companies.

SCA has a vision of zero workplace accidents and is actively and systematically running a health and safety program to minimize the risk of personal injury. For more detailed information, refer to the 'Caring for people and the community' focus area on pages 38-41.

Impact of political decisions

SCA's operations are influenced by political decisions and administrative rules, primarily in Sweden where SCA has much of its business, but also at EU level. This influence could be from general regulations, such as taxation and financial reporting. SCA is also impacted by more specific regulations, such as the granting of permits in accordance with Environmental regulations in Sweden and political decisions concerning transportation and forest operations in Sweden. Political decisions can have an impact on future harvesting levels. One important individual political decision is the UK's decision to leave the EU (Brexit). The UK is one of SCA's most important markets and accounts for about 17 percent of SCA's net sales.

SCA works to monitor and evaluate changes in its surroundings and amended legislation, and to identify actions that lead to changes that benefit SCA. SCA is also a member of national and international trade associations, which comprise the primary bodies for participation in current public debates.

A key area for SCA is global energy and environmental legislation. SCA monitors developments in prioritized areas, such as resource consumption in general and, more specifically, for example regarding issues relating to waste and emissions to water and air. It is important for SCA to monitor EU emission rights trading, regulations concerning waste and circular economy initiatives.

As regards Brexit, the UK's import needs for wood products, pulp and paper will remain even after its exit from the EU. Approximately half of SCA's net sales in the country are sourced from local suppliers. SCA's non-current assets in the UK amount to less than 1 percent of the Group's total non-current assets.

There are no expectations today of any material changes in import duties or similar restrictions on SCA's products sold in the UK. Assuming a strong UK economy and stable exchange rates, SCA expects to maintain a significant volume of sales in the UK.

Customer dependency

In 2017, SCA's ten largest customers accounted for about 29 percent of SCA's net sales. The risk of too great a dependency on an individual customer is that lost sales from an individual customer could have a negative impact on SCA's earnings.

SCA works continuously in building relations with new customers in order to reduce the consequences of lost sales from established customers. Generally, customers in the pulp and paper segment are major companies, such as newspaper and magazine publishers, tissue manufacturers and corrugated board manufacturers. Within Wood, SCA has developed completely new customer segments over the years. Traditional distributors in Wood are generally wholesalers of solid-wood products. In addition to this, SCA has built up relationships with distributors in the building materials trade, which are more focused on distribution to consumers, including the DIY segment. For this category, SCA often distributes the products directly to each customer's store. Sales of specialized components often takes place directly to the industry.

Suppliers

SCA is dependent on a large number of suppliers. The loss of key suppliers could result in costs for SCA and problems in manufacturing. Suppliers that fail to comply with SCA's Code of Conduct could also cause problems for SCA.

To reduce this risk, SCA has supply contracts with multiple suppliers. For timber supply that is not sourced from the company's own forests, SCA has built up a sourcing organization with about 80 timber purchasers, distributed between local offices across the region. Through this organization, SCA has relationships with approximately 14,000 forest owners in the region, most of which are private individuals. SCA may also sell silvicultural services to these suppliers. About 100 contractors are responsible for most of the felling and about another 150 for transportation to SCA's industries. For most other important input goods and services, there are a number of suppliers available in the market. This is also often the case for suppliers of maintenance and new and rebuilding services for facilities.

SCA has established a Global Supplier Standard, which SCA's suppliers must follow. According to this Standard, suppliers must report on working conditions, health and safety and business ethics, and may be required to undergo an audit.

IT risks

SCA relies on IT systems in its day-to-day operations. Disruptions or faults in critical systems have a direct impact on production and important business processes. Errors in the handling of financial systems can affect the company's reporting. The risk of unauthorized intrusion in SCA's system may result in financial losses and other damage. These risks grow in an increasingly technically complex and interlinked world.

SCA has established a management model for IT that includes governance, standardized IT processes and an organization for IT security. The IT security work includes a continuous risk assessment, the introduction of preventive measures and use of security technologies. Standardized processes are in place for the implementation of new systems, changes to existing systems and daily operations. The majority of SCA's system landscape is based on well-proven products, such as SAP.

Employee-related risks

SCA must have access to skilled and motivated employees and safeguard the availability of competent managers to achieve established strategic and operational objectives.

SCA works in a structured manner to ensure the health and well-being of its employees through proactive preventative healthcare activities, such as education, exercise, special initiatives, for example, to help employees quit smoking and by offering health checks. SCA also places great importance on safety activities at all of its units, work that is focused through the ZERO project described on page 40. SCA's strategic manpower planning secures access to people with the right expertise at the right time. Recruitment can take place both externally and internally, and internal recruitment and job rotation are facilitated by a job portal, where available positions are advertised both internally and externally. Salaries and other conditions are to be adapted to the market and linked to SCA's business priorities. An established succession planning program protects the operations. SCA strives to maintain good relationships with union organizations.

Financial risks

Currency

SCA's focus on exports makes SCA's operations highly dependant to currency. About 80 percent of sales are conducted in currencies other than SEK. Most purchasing is conducted in SEK. Only a minor share of purchasing is carried out in other currencies. Fluctuations in currency rates have a substantial impact on SCA's revenue and thereby on earnings.

The table shows the net exposure for the three largest currencies in 2017, and the total of other foreign currencies, measured as sales in each foreign currency less purchases in the same currency.

In accordance with SCA's Financial Policy, this exposure is hedged as follows: All balance sheet items in foreign currency are hedged, as is exposure in decided and contracted investments in non-current assets. According to the policy, transaction exposure regarding expected future net flows may also be hedged for up to 18 months. At December 31, 2017, SCA had hedged about 70 percent of the expected net exposure in EUR over the next 12 months at the average EUR/SEK exchange rate of 9.94.

Translation exposure, meaning the risk to which SCA is exposed when translating foreign subsidiaries' balance sheets and income statements to SEK, is less important to SCA as the total assets in these companies only amount to about 2 percent of SCA's total assets. Translation exposure in the foreign subsidiaries is not currency hedged.

Net exposure	2017
EUR	EUR 579m
USD	USD 355m
GBP	GBP 118m
Others (translated to SEK)	SEK 689m
Total	SEK 10,579m

Credit risk

Credit risk refers to the risk of losses due to a failure to meet payment obligations by SCA's counterparties in financial agreements or by customers.

Credit exposure in accounts receivable amounted to SEK 2,299m as per December 31, 2017. Credit risk in accounts receivable is managed through credit checks of customers using credit rating companies. Credit limits are set and regularly monitored. Accounts receivable are recognized at the amount that is expected to be paid based on an individual assessment of each customer.

The financial credit exposure, in which the counterparty is a finance player or a pension fund manager, amounted to SEK 1,752m as per December 31, 2017. This exposure includes credit risk of SEK 538m for cash and cash equivalents and credit exposure associated with derivative instruments for SEK 175m. The objective is that financial counterparties must have a credit rating of at least A- from at least two credit rating institutes.

Liquidity and refinancing risk

Liquidity and refinancing risk is the risk that SCA is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in raising new loans.

As of December 31, 2017, SCA's gross debt amounted to SEK 7,177m and the average duration, including unutilized credit facilities, to 4.0 years. Unutilized credit facilities amounted to approximately SEK 7,400m at the end of the year, and cash and cash equivalents to SEK 538m.

To ensure good access to loan financing, SCA strives to achieve an investment grade rating. On April 7, 2017, the credit rating agency Standard and Poor's (S&P) assigned SCA the credit rating of 'BBB' with a stable outlook.

SCA is to maintain financial flexibility in the form of a liquidity reserve consisting of cash and cash equivalents and unutilized credit facilities totaling at least 10 percent of the Group's annual sales. SCA limits its refinancing risk by having a good distribution in the maturity profile of its gross debt. The gross debt must have an average maturity in excess of three years, considering unutilized credit facilities. Surplus liquidity should primarily be used to amortize external liabilities. As of December 31, 2017, SCA's financing mainly comprised bank loans from a group of four banks with high credit ratings, bilateral loans from Svensk Exportkredit and the European Investment Bank and issued commercial papers.

Interest rate risks

Interest rate risk relates to the risk that movements in the interest rates could have a negative impact on SCA.

SCA's policy is that the average fixed-rate period shall be within the interval 3-36 months. SCA's average interest period for the gross debt, including derivatives, was 6.9 months as of December 31, 2017. The risk is managed using fixed-interest loans or through interest rate derivatives. For a sensitivity analysis regarding changes in interest rates, see Note E7, page 104.

SCA's sustainability reporting in accordance with the Swedish Annual Accounts Act

Sustainability work is integrated into SCA's operations, which makes it natural to allow sustainability reporting, in accordance with the Swedish Annual Accounts Act Chapter 6, Section 11, to be part of a combined Annual Report with Sustainability Report 2017. This report relates to Svenska Cellulosa Aktiebolaget SCA (publ) and its subsidiaries, refer to Note F1 on page 108 for more information. The SCA Group, its operations and business model are described in the Board of Directors' Report on page 44. The Sustainability Report was submitted to the auditor at the same time as the Annual Report.

Governance of the sustainability agenda is described in the Corporate Governance Report on pages 55 and 125. SCA's Code of Conduct is the Group's foremost governing document and constitutes, together with the Group's Sustainability

Policy, the basis of SCA's sustainability agenda. Follow-up and evaluation of these policies complies with SCA's procedures for internal control and audits, as described in the Corporate Governance Report on pages 55, 56 and 59. In addition, SCA's sustainability targets and priorities are also monitored through the Sustainability Councils.

The management of material risks in the area of sustainability constitutes part of the Group's general work with identifying and handling risks. This process, identified risks and handling these risks are described in the Board of Directors' Report on pages 50-53.

The strategic priorities for sustainability, where SCA's value chain can be influenced, how the areas are material for SCA's stakeholders, how they are governed and the most important result indi-

cators are all described in the sustainability notes, refer to the table on page 128. The table also shows how social conditions, personnel issues, the environment, human rights and anti-corruption are related to SCA's sustainability agenda.

In addition to the information above, SCA's sustainability work and the outcome of this work is described on the following pages, divided into sustainability areas according to the Swedish Annual Accounts Act:

- Social conditions and personnel issues, refer to pages 38-41, 130 and 133.
- Environment, refer to pages 34-37, 126-127 and 131-132, 134-135.
- Human rights and combatting corruption, refer to pages 42-43 and 126.
- Diversity policy for the Board of Directors, refer to page 58.

The auditor's report on the statutory Sustainability Report

To the general meeting of the shareholders of Svenska Cellulosa Aktiebolaget SCA (publ), Corporate Identity Number 556012-6293

Engagement and responsibility

The Board of Directors is responsible for the Sustainability Report for 2017 as defined above and that it has been prepared in accordance with the Swedish Annual Accounts Act.

The scope of the audit

Our examination of the statutory sustainability report has been conducted in accordance with FAR's auditing standard RevR 12 The Auditor's report on the statutory sustainability report. This means that our examination of the statutory Sustainability Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA) and generally accepted auditing in Sweden. We believe that the examination provides us with a sufficient basis for our opinion.

Opinion

A statutory Sustainability Report has been prepared.

Stockholm, February 22, 2018

Ernst & Young AB

*Hamish Mabon
Authorized Public Accountant*

Corporate governance

The task of corporate governance is to ensure SCA's commitments to all of its stakeholders, including shareholders, customers, suppliers, creditors, society and employees. Moreover, corporate governance shall support the company's long-term strategy, market presence and competitiveness. Corporate governance shall be reliable, clear, simple and business-oriented. This Corporate Governance Report forms part of the Board of Directors' Report for SCA's 2017 Annual Report in accordance with Chapter 6, Section 6 of the Swedish Annual Accounts Act (1995:1554). The report has been reviewed by the company's auditors.

Corporate governance, including remuneration, pages 55-61

This section describes the rules and regulations and the Group's corporate governance, including a description of the operational organization. It also details the Board of Directors' responsibilities and its work during the year. Information regarding remuneration in SCA and internal control in the Group are also included here. SCA applies the Swedish Corporate Governance Code without any exceptions, observing the changes made to the Code on December 1, 2016 (www.corporategovernanceboard.se).

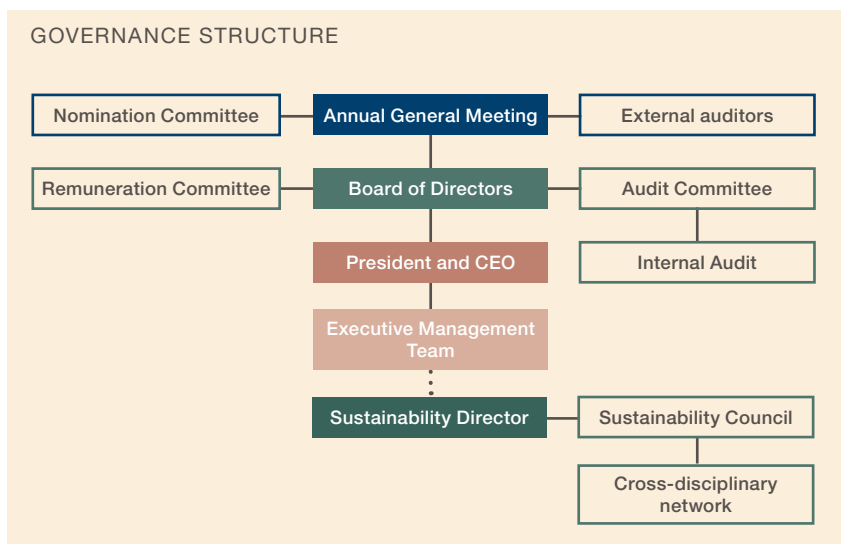
Risks and risk management, pages 50-53

SCA's processes to identify and manage risks are part of the Group's strategy work and are pursued at a local and Group-wide level. The section dealing with risk management describes the most significant risks, and the control documents and measures that the Group applies to manage these.

Sustainability, page 54

SCA's sustainability work is an integral part of the company's business model. The sustainability work helps the company reduce risks and costs, strengthen competitiveness, and attract talent and investors. The President and CEO bears the overall responsibility for the control of SCA's business in the field of sustainability. SCA has a Group Function in charge of sustainability, led by SCA's Sustainability Director. The work is coordinated through two Sustainability Councils and a number of cross-disciplinary networks.

Governance at SCA



Shareholder meeting/ Annual General Meeting

The shareholders' meeting is SCA's highest decision-making body, which all shareholders are entitled to attend, to have a matter considered and to vote in respect of all shares held by the shareholder. According to its Articles of Association, SCA has two listed classes of shares: Class A and Class B shares. Every Class A share represents 10 votes and every Class B share represents one vote. The Annual General Meeting (AGM) is the name of the annual shareholders' meeting at which the annual report is presented. Among other matters, the company's Board of Directors and the Chairman of the Board are elected at the AGM. The AGM also appoints the company's auditors.

Nomination Committee

The Nomination Committee represents the company's shareholders and is charged with the task of preparing proposals for adoption at the AGM with respect to election and remuneration matters and, in certain cases, proposing procedural motions for the next Nomination Committee.

Board of Directors

The Board of Directors has overall responsibility for the company's organization and administration through regular monitoring of the business and by ensuring the appropriateness of the organization and management team, and also compliance with guidelines and internal control. The Board approves strategies and targets, and decides on major investments, acquisitions and divestments of operations, among other matters.

The Board of Directors shall comprise nine members elected by the AGM with no deputies. In addition, the Board shall include three employee representatives and three deputies.

SCA's Articles of Association contain no provisions regarding appointment or dismissal of Board members or amendments to the Articles.

Chairman of the Board

The Chairman of the Board leads the work of the Board and is responsible for ensuring that it is effectively organized and that work is efficiently conducted. This includes continuously monitoring the company's operations in close dialogue with the President and CEO and ensuring that other Board members receive information and decision data that will enable high-quality discussion and decisions by the Board. The Chairman leads the assessment of the Board's and the President and CEO's work. The Chairman also represents the company in ownership matters.

Audit Committee

The company's Board has established within itself an Audit Committee. The tasks of the Audit Committee include monitoring financial reporting and the efficiency of the company's internal control, internal audit and risk management, and submits recommendations and proposals to ensure the reliability of reporting. The Committee keeps itself informed on the audit, reviews and monitors the impartiality and independence of the auditors and submits recommendations to the Nomination Committee as a basis for the appointment of auditor and remuneration, and information to the Board concerning the results of the audit and so forth in order to fulfill all requirements of the EU Audit Regulation and Directive. The Audit Committee sets guidelines for the procurement of services other than auditing services from the company's auditors. Lastly, the Audit Committee evaluates the audit effort and informs the Nomination Committee of the results of the evaluation.

Remuneration Committee

The company's Board also has established within itself a Remuneration Committee. This Committee prepares the Board's motions on issues relating to remuneration principles and remuneration and other terms and conditions of employment for the President and CEO, and is authorized to make decisions in these matters for the company's other senior executives. The Committee monitors and assesses programs for variable remuneration, the application of the AGM's resolution on guidelines for remuneration of senior executives and the applicable remuneration structure and remuneration levels in the Group.

Internal audit

At SCA, it is the employees' responsibility to ensure sound internal governance and control in the operation or process for which they are responsible. Internal

audit is a separate function with the task of evaluating and improving the efficiency of SCA's internal governance and control, as well as its risk management. This function reports to the Audit Committee and the Board in relation to internal audit issues. The function examines, among other aspects, SCA's internal processes for sales, financial reporting, IT systems, HR issues, various types of projects and compliance with SCA's policies and general instructions.

President and CEO

SCA's President and CEO is responsible for and manages the day-to-day administration of the Group and follows the Board's guidelines and instructions. The President and CEO is supported by the Executive Management Team (see pages 64-65), the work of which is led by the CEO. The Executive Management Team comprises the President and CEO, the CFO, the Presidents of the Business Areas Forest, Paper, Pulp, Wood, Renewable Energy and the President for the support unit Sourcing and Logistics, and President Project Helios. Furthermore, the Senior Vice Presidents of the Group functions Human Resources, Legal Affairs, Communications and Strategic Development are also members of the team. The working procedures for the Board of Directors and terms of reference issued by the Board of Directors to the President and CEO detail, for example, the division of work between the Board and President and CEO. In consultation with the Chairman of the Board, the President and CEO prepares documentation and decision data for the Board's work.

SCA's business areas and support unit are described in detail in the Board of Directors' Report (see pages 44-45).

SCA adheres to the principle of distinct decentralization of responsibility and authority. The business areas are fully responsible for developing their respective operations through established

INTERNAL RULES AND REGULATIONS INCLUDE

- Articles of Association
- Working procedures of the Board of Directors
- Terms of reference issued by the Board to the President and CEO
- Code of Conduct
- Other policy documents established by the Board and instructions established by the President and CEO.

EXTERNAL RULES AND REGULATIONS INCLUDE

- The Swedish Companies Act
- International Financial Reporting Standards (IFRS)
- Nasdaq Stockholm's rules for issuers
- Swedish Corporate Governance Code

COMPLIANCE WITH STOCK MARKET REGULATIONS

In 2017, SCA was not sanctioned by the Swedish Financial Supervisory Authority, the stock exchange's disciplinary board or any other authority or self-regulating body for violations of the rules concerning the stock market.

objectives and strategies, a process that is also centrally coordinated. Each business area is responsible for its operating result, capital and cash flow. The position of the business and results are followed up by the entire Executive Management Team on a monthly basis. Each quarter, business review meetings are conducted during which the management of each business area personally meets with the President and CEO, the CFO and others. These meetings function as a complement to the daily monitoring of operations. Information regarding SCA's President and CEO is found on page 62.

External auditors

The company's auditors, elected at the Annual General Meeting, examine SCA's accounting, the Group's annual report and sustainability report, the Board's and President and CEO's administration and the annual reports of subsidiaries, and submits an audit report.

The audit is performed in accordance with the Swedish Companies Act, the Swedish Annual Accounts Act, International Standards on Auditing (ISA) and generally accepted auditing principles in Sweden.

Activities during the year

Annual General Meeting

The AGM was held on Thursday, April 5, 2017, in Stockholm, Sweden. A total of 1,506 shareholders were represented at the Meeting, either personally or by proxy, representing approximately 60.4 percent of the votes in the company. Carl Svernlöv, Attorney-at-Law, was elected Chairman of the Meeting.

The Meeting resolved that a dividend of SEK 6.00 (5.75) per share be paid for the 2016 fiscal year. Furthermore, the AGM resolved that all shares in the wholly owned subsidiary SCA Hygiene AB (later, Essity Aktiebolag (publ)) should be distributed, according to which one share of Class A in Svenska Cellulosa Aktiebolaget SCA carries entitlement to one share of Class A in SCA Hygiene AB (publ) and one share of Class B in Svenska Cellulosa Aktiebolaget SCA carries entitlement to one share of Class B in SCA Hygiene AB. The AGM decided on the re-election of Board members Pär Boman, Ewa Björling, Maija-Liisa Friman, Annemarie Gardshol, Magnus Groth, Johan Malmquist, Bert Nordberg, Louise Svanberg and Barbara Milian Thoralfsson. Lars Rebien Sørensen was newly elected. Pär Boman was re-elected as the Chairman of the Board. Ernst & Young was reelected as auditor for the period

FACT BOX:

Read more about SCA's Corporate Governance at www.sca.com

- Articles of Association
- Swedish Corporate Governance Code
- Information from previous Annual General Meetings since 2015 (notices, minutes, President and CEO's speeches) and press releases since 2012
- Information from the Nomination Committee since 2006 (composition, proposals and work)
- Information ahead of the 2018 Annual General Meeting (notice, Nomination Committee proposals including the Audit Committee's recommendation, Board proposal for principles for remuneration of senior executives, information routines for notifying attendance at the Meeting, etc.)
- Earlier Corporate Governance Reports, since 2007

until the 2018 AGM. Moreover, guidelines for determining the salary and other remuneration of the President and other senior executives were adopted; see Note C3 on page 88. The AGM also decided to relocate the company's registered office to Sundsvall, and decided on withdrawal of treasury shares, as well as the change in share capital through a bonus issue.

The minutes of the Meeting in full and information on the 2017 AGM, including the President and CEO's speech, are available at www.sca.com.

SCA held an Extraordinary General Meeting in Sundsvall on May 17, 2017. Charlotte Bengtsson, Lennart Evrell, Ulf Larsson, Martin Lindqvist and Lotta Lyrå were elected as new Board members.

The newly elected members joined the Board on the first day of trading in the shares in Essity Aktiebolag (publ) on Nasdaq Stockholm, on June 15, 2017.

Board members Ewa Björling, Maija-Liisa Friman, Magnus Groth, Johan Malmquist, Lars Rebien Sørensen and Louise Svanberg declared that they were not available for election to the Board of SCA following the listing of Essity Aktiebolag (publ).

Accordingly, the Board of Directors of SCA from June 15, 2017, comprises Pär Boman (Chairman), Charlotte Bengtsson, Lennart Evrell, Annemarie Gardshol, Ulf Larsson, Martin Lindqvist, Lotta Lyrå, Barbara Milian Thoralfsson and Bert Nordberg, and the appointed employee representatives (see next page).

Minutes from the Extraordinary General Meeting are available from www.sca.com.

Nomination Committee

The 2017 AGM decided that the following procedure for appointing the Nomination Committee is to apply until further notice. The Nomination Committee is to comprise representatives of not fewer than four and not more than six of the largest shareholders in terms of voting rights as per the shareholders' register maintained by the company on the final banking day of August, as well as the Chairman of the Board, who also convenes the first meeting of the Nomination Committee. The member representing the largest shareholder in terms of votes is to be appointed as Chairman of the Nomination Committee. If necessary, due to subsequent ownership changes, the Nomination Committee – should the number of members be less than seven – is entitled to call on one or two additional members

from among the next largest shareholders in terms of voting rights, so that the total number of members amounts to not more than seven. In the event that a member steps down from the Nomination Committee before the task is completed and the Nomination Committee decides it would be beneficial for a replacement to be appointed, such a replacement is to be appointed by the same shareholder or, if this shareholder is no longer among the largest shareholders in terms of voting rights, by the next largest shareholder in terms of voting rights. Changes to the composition of the Nomination Committee are to be disclosed immediately. The composition of the Nomination Committee is to be disclosed not later than six months prior to the AGM. No remuneration is to be paid to the members of the Nomination Committee. Any expenses incurred during the work of the Nomination Committee are to be paid by the company. The mandate period of the Nomination Committee extends until the composition of the next Nomination Committee is disclosed. The Nomination Committee is to submit proposals relating to the Chairman of the Meeting, the Board of Directors, the Chairman of the Board, Board fees for the Chairman of the Board and each of the other Board members, remuneration for committee work, the company's auditors and auditors' fees.

In its work, the Nomination Committee is to consider the rules that apply to the independence of Board members, as well as the requirement of diversity and breadth with the endeavor to achieve an even gender distribution and that the selection for those nominated shall be based on expertise and experience relevant to SCA.

Composition of the Nomination Committee for the 2018 AGM

The composition of the Nomination Committee for the 2018 AGM is as follows:

- Helena Stjernholm, AB Industrivärden, Chairman of the Nomination Committee
- Petter Johnsen, Norges Bank Investment Management
- Håkan Sandberg, Handelsbanken Pension Foundation, among others
- Marianne Nilsson, Swedbank Robur Funds
- Pär Boman, Chairman of the Board, SCA

All shareholders have had an opportunity to submit proposals to the Nomination Committee. The Nomination Committee's proposal for the 2018 AGM is presented in the notice convening the AGM on SCA's website www.sca.com. The 2018 AGM will be held on March 23; see page 145.

The Nomination Committee was convened on four occasions up to January 31, 2018. The Chairman of the Board presented the Board evaluation and provided the Nomination Committee with information regarding Board and committee work during the year.

Diversity policy

When preparing proposals for the Board for both the 2017 AGM and the Extraordinary General Meeting on May 17, 2017, the Nomination Committee applied Item 4.1 of the Swedish Corporate Governance Code as its diversity policy. The policy aims to ensure that the Board has, in accordance with the company's operations, stage of development and circumstances in general, an appropriate composition characterized by diversity and breadth with regard to the AGM-elected members' expertise, experience and background with the endeavor to achieve an even gender distribution. The 2017 AGM resolved in accordance with the Nomination Committee's proposal, which meant ten members were elected, of which five were women and five men. The Extraordinary General Meeting resolved in accordance with the Nomination Committee's proposal, which meant the number of Board members following the Meeting is nine, of which four are women and five men. For further information, see also the Board of Directors below.

When preparing proposals for the Board for the 2018 AGM, the Nomination Committee has worked with an applied diversity policy in a similar manner, which resulted in the proposal for the Board described in the notice convening the AGM. The Nomination Committee's proposal entails the appointment of ten Board members, of which four are women and six men. When preparing its proposal for the election of auditors and remuneration, the Nomination Committee also gave consideration to the recommendation of the Audit Committee.

Board of Directors

SCA's Board of Directors comprises nine members elected by the AGM and the Extraordinary General Meeting on May 17,

2017. In addition to these members, there are three employee representatives and their three deputies.

Accordingly, following the distribution of Essity Aktiebolag (publ), as of June 15, 2017, the Board of Directors comprised the AGM-elected members Pär Boman (Chairman), Charlotte Bengtsson, Lennart Evrell, Annemarie Gardshol, Ulf Larsson (President and CEO), Martin Lindqvist, Lotta Lyrå, Barbara Milian Thoralfsson and Bert Nordberg.

The independence of Board members is presented in the table on page 59. SCA complies with the requirements of the Swedish Corporate Governance Code that stipulate that not more than one member elected by the AGM shall be a member of company management, that the majority of the members elected by the AGM shall be independent of the company and company management, and that not fewer than two of these shall also be independent of the company's major shareholders. All of the AGM-elected Board members have experience of the requirements incumbent upon a listed company.

The following three employee representatives were appointed to the Board for the period until the 2018 AGM: Roger Boström, Johanna Viklund Lindén and Hans Wentjär, and their deputies Maria Jonsson, Per Andersson and Stefan Lundkvist. Further information concerning the Board members can be found on pages 62-63.

Board activities

In 2017, the Board was convened 12 times. The Board has fixed working procedures that describe in detail which ordinary agenda items are to be addressed at the various Board meetings of the year. Recurring agenda items are finances, the market situation, investments and adoption of the financial statements. The Board also establishes and evaluates the company's overall objectives and strategy and decides on significant internal rules. Another key task is to continuously monitor the internal control and compliance of the company and its employees with relevant internal and external rules, and that the company has well-functioning procedures for market disclosures. On a regular basis throughout the year, the Board also deals with reports from the Audit and Remuneration Committees and reports on internal control and financial operations. The company's auditors

regularly present a report on their audit work and these issues are discussed by the Board.

In 2017, one focus area for the Board was the completed distribution of the company's hygiene business (Essity Aktiebolag (publ)). Before the distribution, this work involved preparations for a proposal concerning the distribution to be presented to shareholders ahead of the 2017 AGM. After the distribution of Essity AB, in addition to standard Board duties, this work has involved strategy issues, training and site visits for the Board members in SCA's areas of business.

Evaluation of the Board's work

The work of the Board, like that of the President and CEO, is evaluated annually using a systematic and structured process, the purpose of which is to obtain a sound basis for the Board's own development work and to provide the Nomination Committee with decision data for its nomination work. In 2017, the evaluation took the form of an anonymous ques-

tionnaire and interviews as well as group and individual discussions between the Chairman of the Board and the members. The evaluation covers such areas as the Board's methods of work, effectiveness, expertise and the year's work. The Board was provided with feedback after the results were compiled. The Nomination Committee was also informed of the full results of the evaluation.

Audit Committee

The Audit Committee comprises Chairman Barbara Milian Thoralfsson, Pär Boman and Martin Lindqvist. The Audit Committee held five meetings in 2017. In its monitoring of the financial reporting, the Committee dealt with relevant accounting issues, internal auditors' reviews, auditing work and a review of internal control procedures and the measurement of the Group's forest assets. The Audit Committee also prepared a recommendation to be used by the Nomination Committee when deciding on its proposal to the AGM regarding the election of auditors and remuneration.

Remuneration Committee

The Remuneration Committee comprises Pär Boman (Chairman), Bert Nordberg and Lennart Evrell. The Remuneration Committee held seven meetings in 2017. Activities in 2017 mainly concerned remuneration and other employment terms and conditions for senior executives, and current remuneration structures and remuneration levels in the Group.

Internal audit

The basis of the work with internal audit is a risk-based annual plan. The plan derives from a risk assessment process based on documentation from operations, management and the Board. The annual plan is approved by the Audit Committee. In 2017, ten internal audit assignments were conducted. Observations are reported to the Audit Committee.

During 2017, work included follow-up of the organization's work concerning the effectiveness of internal controls and monitoring regulatory compliance, which consists of SCA's Code of Conduct and other control documents.

Board of Directors and committees

Names	Elected	Dependence	The Board of Directors	Attendance ⁵⁾	Audit Committee	Attendance ⁵⁾	Remuneration Committee	Attendance ⁵⁾
Pär Boman	2010	●	Chairman	12	Member	5	Chairman	7
Charlotte Bengtsson	2017 ¹⁾	●	Board member	5				
Lennart Evrell	2017 ¹⁾		Board member	5			Member ³⁾	4
Annemarie Gardshol	2015		Board member	12				
Martin Lindqvist	2017 ¹⁾		Board member	5	Member ³⁾	3		
Lotta Lyrå	2017 ¹⁾		Board member	4				
Bert Nordberg	2012		Board member	12	Member ⁴⁾	2	Member	7
Barbara Milian Thoralfsson	2006		Board member	12	Chairman	5		
Ulf Larsson	2017 ¹⁾	●	Board member	5				
Ewa Björling	2016 ²⁾		Board member	7				
Maija-Liisa Friman	2016 ²⁾		Board member	7				
Johan Malmquist	2016 ²⁾		Board member	7				
Lars Rebien Sörensen	2017 ²⁾		Board member	4				
Louise Svanberg	2012 ²⁾		Board member	7			Member ⁴⁾	3
Magnus Groth	2015 ²⁾	●	Board member	7				

1) Elected to the Board on June 15, 2017.

2) Withdrew from the Board on June 15, 2017.

3) From June 15, 2017.

4) Until June 14, 2017.

5) Board meetings January 1–December 31, 2017.

- Dependent in relation to the company's major shareholder, Industrivärden.
- President and CEO of SCA, dependent in relation to the company and corporate management.
- Dependent in relation to the company and corporate management – President of Skogforsk.

	Number of meetings in 2017	Number of meetings after June 15, 2017
The Board of Directors	12	5
Audit Committee	5	3
Remuneration Committee	7	4

External auditors

The 2017 Annual General Meeting appointed the accounting firm of Ernst & Young AB as the company's auditor for a mandate period of one year. The accounting firm notified the company that Hamish Mabon, Authorized Public Accountant, would be the auditor in charge. Hamish Mabon is also the auditor for Essity AB, Skanska AB, AB Tetra Pak and Husqvarna AB. The auditor owns no shares in SCA.

In accordance with its working procedures, the Board met with the auditors at two scheduled Board meetings in 2017. The auditors also attended each meeting of the Audit Committee. At these meetings, the auditors presented and received opinions on the focus and scope of the planned audit and delivered verbal audit

and review reports. Furthermore, at the Board's third scheduled autumn meeting, the auditors delivered a preliminary report on the audit for the year. The working procedures specify a number of mandatory issues that must be covered. These include matters of importance that have been a cause for concern or discussion during the audit, business deals and transactions where differences of opinion may exist regarding the choice of accounting procedures. The auditors also provide an account of consultancy work assigned to the audit firm by SCA and the audit firm's independence in relation to the company and its management. On each occasion, Board members have had an opportunity to ask the auditors questions. Certain parts of the detailed discussion on the accounts take place

without representatives of company management being present.

The largest shareholders

As of December 31, 2017, AB Industrivärden was the company's largest shareholder, with a holding totaling 35,000,000 Class A shares and 31,800,000 Class B shares, corresponding to 9.5 percent of the total number of shares and 29.7 percent of the total number of votes in the company. No other shareholder in the company has a direct or indirect shareholding whose voting rights represent one-tenth or more of the total number of votes in the company. For more information about the company's largest shareholders, refer to page 31.

Remuneration, Executive Management Team and Board of Directors

Guidelines

The 2017 Annual General Meeting adopted guidelines for remuneration of senior executives. The total remuneration package comprises a fixed salary, variable salary, other benefits, and a pension. See Note C3 on pages 88-89.

Remuneration of the President and CEO and other senior executives

Remuneration of the President and CEO and other senior executives is presented in Note C3 on page 89.

Variable remuneration and strategic targets

Programs for variable remuneration are formulated to support the Group's stra-

tegic targets. The short-term program is individually adapted and based mainly on cash flow and profit. The long-term program is based on the SCA share's long-term total shareholder return.

Remuneration of the Board

The total remuneration of the AGM-elected Board members is presented in Note C4 on page 90.

Internal control and financial reporting

The Board's responsibility for internal governance and control is regulated in the Swedish Companies Act, the Annual Accounts Act and the Swedish Corporate Governance Code. The Annual Accounts Act requires that the company, each year, describes its system for internal control and risk management with respect to financial reporting. The Board bears the overall responsibility for financial reporting and its working procedures regulate the internal division of work between the Board and its committees.

The Audit Committee has the important task of preparing the Board's work to assure the quality of financial reporting. This preparation work includes issues relating to internal control and regulation

compliance, control of recognized values, estimations, assessments and other activities that may impact the quality of the financial statements. The Committee has charged the company's auditors with the task of specifically examining the degree of compliance in the company with the rules for internal control, both general and detailed.

Financial reporting to the Board

The Board's formal work plan stipulates which reports and information of a financial nature are to be submitted to the Board at each scheduled meeting. The President and CEO ensures that the Board receives the reports required to enable the Board to continuously assess

the company's and Group's financial position. Detailed instructions specifically outline the types of reports that the Board is to receive at each meeting.

External financial reporting

The quality of external financial reporting is guaranteed via a number of actions and procedures. The President and CEO is responsible for ensuring that all information issued, such as press releases with financial content, presentation material for meetings with the media, owners and financial institutions, is correct and of a high quality. The responsibilities of the company's auditors include reviewing accounting issues that are critical for the financial reporting and reporting their

observations to the Audit Committee and the Board of Directors. In addition to the audit of the annual accounts, a review of the six-month report and of the company's administration and internal control is carried out.

Risk management

With regard to financial reporting, the risk that material errors may be made when reporting the company's financial position and results is considered the primary risk. To minimize this risk, control documents have been established pertaining to accounting, procedures for annual accounts and follow-up of reported annual accounts. There is also a joint system for reporting periodical accounts. SCA's Board of Directors and management assess the financial reporting from a risk perspective on an ongoing basis. To provide support for this assessment, the company's income statement and balance sheet items are compared with earlier reports, budgets and other planned figures. For further information, see Risk and risk management on pages 50-53.

Control activities and follow-up

Significant instructions and guidelines related to financial reporting are prepared and updated regularly by the Group Finance Function and are easily accessible on the Group's intranet. The

Group Finance Function is responsible for ensuring compliance with instructions and guidelines. Process owners at various levels within SCA are responsible for carrying out the necessary control measures with respect to financial reporting. An important role is played by the business areas and support units' finance organizations, which are responsible for ensuring that financial reporting from each unit is correct, complete and delivered in a timely manner. The company's control activities are supported by the budgets prepared by each business unit and updated during the year through continuous forecasts.

SCA has introduced a standardized system of control measures involving processes that are significant to the company's financial reporting, among other matters. The controls are adapted to the operational process and system structure of each unit. Accordingly, each unit prepares a record of the actual controls to be carried out in the unit in question. Control of these processes is assessed and updated through self-evaluation followed up by a review through the internal control function. In some cases, SCA has enlisted help to validate these control measures from the internal auditors and external parties.

Financial results are reported and examined regularly within the management

teams of the operating units and communicated to SCA's management at monthly and quarterly meetings. Before reports are issued, results are analyzed to identify and eliminate any mistakes in the process until closing. For additional information, see Internal audit on page 59.

The Board follows up to ensure that the internal control and reporting to the Board functions through continuous reporting from the President and CEO and CFO and through reporting from the internal audit unit in the scope of the audit plan set annually. Internal audit also continuously reports its observations in this respect to the Audit Committee. Internal audit's tasks include following up compliance with the company's policies, and the results of this follow-up are reported to the Board through the Audit Committee.

Activities in 2017

In 2017, this work has focused on handling the split of the company and the financial reporting as a consequence of the distribution of Essity. A framework for internal control has been drafted and established. A self-evaluation of the controls in this framework has been performed and reported. Another development involved the co-location of accounting and reporting of several units in a shared service center, which made reporting more efficient and uniform.

Board of Directors and Auditors



Pär Boman



Charlotte Bengtsson



Lennart Evrell



Annemarie Gardshol



Ulf Larsson



Martin Lindqvist

Pär Boman (1961)

Engineer, Economist, Hon PhD Econ

Chairman of the Board since 2015. Chairman of the Board of Svenska Handelsbanken AB and Essity AB, and Deputy Chairman of the Board of AB Industrivärden. Board member of Skanska AB. Former President of Handelsbanken during the period 2006 to 2015.

Elected: 2010
Class B shares: 10,000
Independent of the company and corporate management.

Charlotte Bengtsson (1971)

MSc Civil Engineering, PhD in Steel and Timber Structures

President of Skogforsk and Adjunct Professor in timber engineering at Linnaeus University. Board member of Södra's Research Foundation, Norrskog's Research Foundation, the Nils and Dorthi Troedsson's Research Foundation and member of the jury of the Schweighofer Prize, Austria.

Elected: 2017
No SCA shares.
Independent of SCA's major shareholders.

Lennart Evrell (1954)

MSc Eng. and Econ.

President and CEO of Boliden Group. Chairman of the Board of Gruvornas Arbetsgivareförbund. Board member of Epiroc, SveMin and the Confederation of Swedish Enterprise.

Elected: 2017
Class B shares: 4,000
Independent of the company, corporate management and SCA's major shareholders.

Annemarie Gardshol (1967)

MSc Eng.

President of PostNord Strålfors Group AB. Board member of Essity AB. Former Board member of Etac AB, Bygghemma AB, Ortivus AB and Semcon AB and various management positions at PostNord and Gambro AB as well as management consultant at McKinsey & Company.

Elected: 2015
Class B shares: 2,200
Independent of the company, corporate management and SCA's major shareholders.

Ulf Larsson (1962)

BSc Forestry

President and CEO of SCA. Board member of The Swedish Forest Industries Federation, Handelsbanken Region Umeå, CEPI, member of the Advisory Council Västernorrland County and deputy board member of Industriarbetsgivarna. Former President of SCA Forest Products AB, 2008-2016, as well as other leading positions at SCA Skog, SCA Timber and Domänverket.

Employed since: 1992
Class B shares: 75,000
Independent of SCA's major shareholders.

Martin Lindqvist (1962)

Engineer and Master of Business Administration

President and CEO of SSAB AB. Chairman of the Board of Jernkontoret. Board member Boards of Industriarbetsgivarna, Stål och Metall and the Confederation of Swedish Enterprise (deputy). Previously held senior positions, including at SSAB and NCC.

Elected: 2017
No SCA shares.
Independent of the company, corporate management and SCA's major shareholders.

Information regarding individuals' own and related parties' shareholdings pertains to the situation on December 31, 2017.



Lotta Lyrå



Bert Nordberg



Barbara Milian Thoralfsson



Roger Boström



Hans Wentjärvi



Johanna Wiklund Lindén

Lotta Lyrå (1975) *MSc Econ.*

President and CEO of Clas Ohlson AB publ. Previously held senior positions within the IKEA Group, including Head of Strategy and also Head of Development in 2009-2017. Experience in the Swedish forest industry as Head of Development at Södra Timber and Sawmill Manager at Södra's Mönsterås sawmill. Former employee of McKinsey & Company.

Elected: 2017
No SCA shares.
Independent of the company, corporate management and SCA's major shareholders.

Bert Nordberg (1956) *Engineer*

Chairman of the Board of Vestas Wind Systems A/S. Board member of Essity AB, AB Electrolux and SAAB AB. Previously held various management positions at Digital Equipment Corp. and Ericsson. President of Sony Ericsson Mobile Communications AB in 2009-2012.

Elected: 2012
Class B shares: 16,800
Independent of the company, corporate management and SCA's major shareholders.

Barbara Milian Thoralfsson (1959) *MBA, BA*

Chairman of the Board of ColArt Holdings Ltd. Board member of Essity AB, Hilti AG and G4S Plc. Industry advisor to EQT. President of NetCom ASA 2001-2005 and President of Midelfart & Co AS 1995-2000. Former member of the Boards of AB Electrolux, Telenor ASA Cable & Wireless Plc, Orkla ASA and Tandberg ASA.

Elected: 2006
No SCA shares.
Independent of the company, corporate management and SCA's major shareholders.

Employee representatives

Roger Boström (1971)
Chairman of the Swedish Paper Workers' Union dept. 167 at SCA Graphic Sundsvall AB, Östrand pulp mill, Timrå.
Member of the Swedish Trade Union Confederation (LO). Appointed 2013.
Class B shares: 55

Hans Wentjärvi (1963)
Chairman GS trade union, Rundvik Sawmill, SCA Timber
Member of the Swedish Trade Union Confederation (LO). Appointed 2017.
Class B shares: 420

Johanna Wiklund Lindén (1973)
Chairman Unionen, SCA Graphic Sundsvall AB/SCA Sourcing & Logistics
Member of the Council for Negotiation and Cooperation (PTK). Appointed 2017.
No SCA shares.

Employee representatives, deputies

Per Andersson (1955)
Swedish Paper Workers Union, dept 29, SCA Obbola AB
Member of the Swedish Trade Union Confederation (LO). Appointed 2013.
No SCA shares.

Maria Jonsson (1966)
Chairman Unionen, SCA staff functions
Member of the Council for Negotiation and Cooperation (PTK). Appointed 2017.
No SCA shares.

Stefan Lundkvist (1977)
Chairman of Swedish Paper Workers Union, dept 158, SCA Munksund AB
Member of the Swedish Trade Union Confederation (LO). Appointed 2017.
No SCA shares.

Honorary Chairman

Bo Rydin
MSc Econ., Hon PhD Econ., Hon PhD Engineering

Auditors

Ernst & Young AB
Senior Auditor: Hamish Mabon,
Authorized Public Accountant

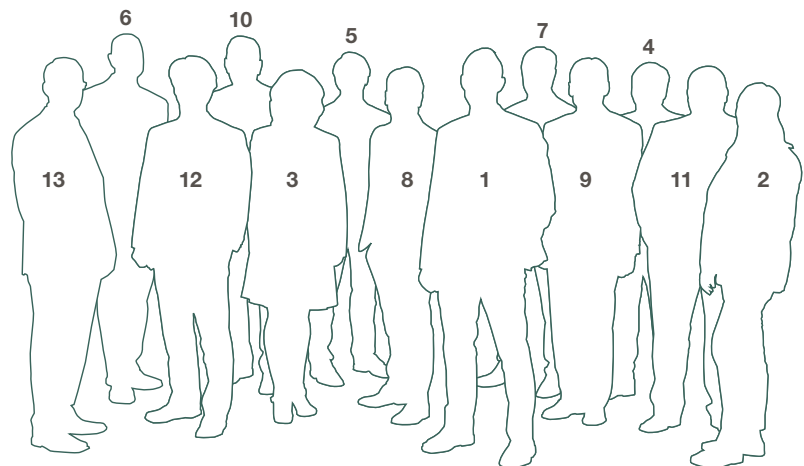
Secretary to the Board

Jan Svedjebrant (1955)
Master of Laws
Senior Vice President, Legal Affairs Group Function, General Counsel.
Employed since: 2001
Class B shares: 6,130

Executive Management Team



From left to right: Åke Westberg, Björn Lyngfelt, Ole Terland, Jan Svedjebrant, Ingela Ekebro, Toby Lawton, Mats Nordlander, Ulf Larsson, Jonas Mårtensson, Mats Sandgren, Mikael Källgren, Magnus Svensson and Stina Danielsson.



1.

Ulf Larsson

President and CEO
BSc Forestry
 Employed since: 1992
 Class B shares: 75,000

5.

Toby Lawton

CFO
MA
 Employed since 2017
 Class B shares: 1,282

9.

Mats Sandgren

President, Forest
BSc Forestry
 Employed since: 2008
 Class B shares: 6,135

2.

Stina Danielsson

Senior Vice President,
 Human Resources
BA
 Employed since: 2005
 Class B shares: 406

6.

Björn Lyngfelt

Senior Vice President,
 Communications
BSc Forestry
 Employed since: 1986
 Class B shares: 4,000

10.

Jan Svedjebrant

Senior Vice President and
 General Counsel Legal Affairs
Master of Laws
 Employed since: 2001
 Class B shares: 6,130

3.

Ingela Ekebro

President Project Helios
BSc Energy
 Employed since: 1986
 Class B shares: 4,365

7.

Jonas Mårtensson

President, Wood
MSc Eng.
 Employed since: 2005
 Class B shares: 20,000

11.

Magnus Svensson

President, Sourcing & Logistics
MSc Eng.
 Employed since: 1993
 Class A shares: 6,100
 Class B shares: 54,380

4.

Mikael Källgren

President, Renewable Energy
BSc Energy
 Employed since: 2015
 Class B shares: 125

8.

Mats Nordlander

President, Paper
Dipl. Eng.
 Employed since: 2015
 Class B shares: 2,975

12.

Ole Terland

Senior Vice President,
 Strategic Development
Doctor of Technology
 Employed since: 2016
 Class B shares: 27,000

13.

Åke Westberg

President, Pulp
MSc Eng.
 Employed since: 1974
 Class B shares: 5,200

Financial statements and notes

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Amounts that are reconcilable to the income statement, balance sheet, equity and cash flow statement are marked with the following symbols:

IS	Consolidated income statement
ISC	Consolidated statement of comprehensive income
BS	Consolidated balance sheet
EQ	Consolidated statement of change in equity
CF	Consolidated cash flow statement

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Amounts that are reconcilable to the income statement, balance sheet, equity and cash flow statement are marked with the following symbols:

PIS Parent Company income statement

PISC Parent Company statement of comprehensive income

PBS Parent Company balance sheet

PEQ Parent Company statement of change in equity

PCF Parent Company cash flow statement

Consolidated income statement IS

SEKm	Note	2017	2016 ¹⁾
Net sales	B1	16,664	15,373
Other operating income	B2	1,603	1,724
Change in inventories		-159	-132
Change in value in biological assets	D3	617	689
Raw materials and consumables	B3	-5,951	-5,585
Personnel costs	C1	-2,763	-2,536
Other operating expenses	B3	-6,251	-6,258
Result from joint ventures and participations in associates	F2	1	-6
Items affecting comparability	B4	-113	116
EBITDA		3,648	3,385
Depreciation		-1,137	-1,114
Operating profit		2,511	2,271
Financial income	E7	29	40
Financial expenses	E7	-122	-124
Profit before tax		2,418	2,187
Tax	B5	-544	-417
Profit for the period, continuing operations		1,874	1,770
Profit for the period, discontinued operations	G1	140,281	4,242
Profit for the period		142,155	6,012
Profit for the period attributable to:			
<i>Owners of the Parent</i>			
Profit for the period, continuing operations		1,873	1,770
Profit for the period, discontinued operations		3,041	3,800
Impact on earnings from the distribution of Essity		136,914	-
Profit for the period		141,828	5,570
<i>Non-controlling interests</i>			
Profit for the period, continuing operations		1	-
Profit for the period, discontinued operations held for distribution		326	442
Profit for the period		327	442
Average number of shares, millions ²⁾		702.3	702.3
Earnings per share			
Earnings per share, SEK – owners of the Parent continuing operations ²⁾		2.67	2.52
Earnings per share, SEK – owners of the Parent discontinued operations ²⁾		4.33	5.41
Earnings per share, SEK – of which, impact on earnings from the distribution of Essity ²⁾		194.94	-
Earnings per share, SEK		201.94	7.93
Dividend per share, SEK		1.50 ³⁾	6.00

1) Certain figures are recalculated compared with the 2016 Annual Report to correspond to changes in accounting principles for 2017, refer to Note A1.

2) There are no share instruments that give rise to dilution effects.

3) Board proposal.

Consolidated statement of comprehensive income **ISC**

SEKm	Note	2017	2016
IS Profit for the period, continuing operations		1,874	1,770
Profit for the period, discontinued operations	G1	140,281	4,242
IS Profit for the period		142,155	6,012
Other comprehensive income for the period			
<i>Items that cannot be transferred to profit for the period</i>			
Remeasurement of defined benefit pension plans		144	44
Income tax attributable to components in other comprehensive income		-32	-10
Total continuing operations		112	34
Total discontinued operations		630	-1,148
Total		742	-1,114
<i>Items that have been or can be transferred to profit for the period</i>			
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity		32	221
Transferred to the income statement for the period		3	-
Transferred to cost of hedged investments		-18	-
Translation differences in foreign operations		-4	-91
Income tax attributable to components in other comprehensive income		-4	-48
Total continuing operations		9	82
Total discontinued operations		-689	2,805
Total		-680	2,887
Other comprehensive income for the period, net after tax			
Of which, continuing operations		121	116
Of which, discontinued operations		-59	1,657
Total comprehensive income for the period			
Of which, continuing operations		1,995	1,886
Of which, discontinued operations		140,222	5,899
Total comprehensive income attributable to:			
EQ Owners of the Parent		142,049	7,108
EQ Non-controlling interests		168	677

Consolidated balance sheet **BS**

SEKm	Note	2017	2016	Proforma excluding Essity 2016
ASSETS				
Non-current assets				
Goodwill	D1	3	19,257	4
Other intangible assets	D1	91	7,750	85
Buildings, land, machinery and equipment	D2	17,104	62,184	14,690
Biological assets	D3	31,386	30,770	30,770
Participations in joint ventures and associates	F2	28	1,123	27
Shares and participations	F3	–	46	14
Surplus in funded pension plans	C5	1,002	1,186	851
Non-current financial assets	E2	28	722	5
Deferred tax assets	B5	22	1,465	8
Other non-current assets		43	242	1
Total non-current assets		49,707	124,745	46,455
Current assets				
Inventories	D4	3,460	14,347	3,403
Trade receivables	E3	2,299	17,811	1,968
Current tax assets	B5	4	741	1
Other current receivables	D5	694	2,898	508
Current financial assets	E2	9	568	–1,109
Non-current assets held for sale	G1	–	156	–
Cash and cash equivalents	E2	538	4,482	238
Total current assets		7,004	41,003	5,009
Total assets		56,711	165,748	51,464
EQUITY AND LIABILITIES				
Equity				
<i>Owners of the Parent</i>				
Share capital		2,350	2,350	2,350
Other capital provided		6,830	6,830	6,830
Reserves		–219	400	–3,661
Retained earnings		27,790	63,562	34,419
Total equity owners of the Parent		36,751	73,142	39,938
Non-controlling interests		2	6,377	1
Total equity		36,753	79,519	39,939
Non-current liabilities				
Non-current financial liabilities	E4	3,675	31,360	61
Provisions for pensions	C5	366	5,602	329
Deferred tax liabilities	B5	8,381	11,718	7,846
Other non-current provisions	D7	13	1,413	6
Other non-current liabilities	D6	103	181	61
Total non-current liabilities		12,538	50,274	8,303
Current liabilities				
Current financial liabilities	E4	3,502	5,357	–217
Trade payables	D8	2,900	15,750	2,778
Current tax liabilities	B5	22	935	20
Current provisions	D7	19	1,447	38
Other current liabilities	D6	977	12,466	603
Total current liabilities		7,420	35,955	3,222
Total liabilities		19,958	86,229	11,525
Total equity and liabilities		56,711	165,748	51,464
Capital employed		42,719	114,880	40,127
Net debt		5,966	35,361	188

Consolidated statement of change in equity EQ

SEKm	2017	2016
Attributable to owners of the Parent		
Value, January 1	73,142	70,401
ISC Total comprehensive income for the period	142,049	7,108
Cash dividend	-4,214	-4,038
Distribution of shares in Essity	-174,448	-
Private placement to non-controlling interests	499	240
Private placement to non-controlling interests, dilution	-288	-110
Issue expenses, private placement	-	-4
Acquisition of non-controlling interests	15	-799
Acquisition of non-controlling interests, dilution	-	348
Remeasurement effect upon acquisition of non-controlling interests	-4	-4
Value, December 31	36,751	73,142
Non-controlling interests		
Value, January 1	6,377	5,290
ISC Total comprehensive income for the period	168	677
Cash dividend	-130	-190
Distribution of shares in Essity	-7,242	-
Private placement to non-controlling interests	461	199
Private placement to non-controlling interests, dilution	288	110
Issue expenses, private placement	-	-4
Acquisition of non-controlling interests	80	643
Acquisition of non-controlling interests, dilution	-	-348
Value, December 31	2	6,377
Total equity, value December 31	36,753	79,519

For further information, refer to Note E8.

Consolidated cash flow statement **CF**

SEKm	Note	2017	2016
Operating activities			
Profit before tax continuing operations ¹⁾		2,419	2,187
T:1 Adjustment for non-cash items		509	233
		2,928	2,420
Paid tax	B5	-30	-17
Cash flow from operating activities before changes in working capital, continuing operations		2,898	2,403
Cash flow from operating activities before changes in working capital, discontinued operations		5,651	11,183
Cash flow from operating activities before changes in working capital		8,549	13,586
Cash flow from changes in working capital, continuing operations			
Change in			
Inventories		-60	17
Operating receivables		-100	254
Operating liabilities		17	103
Cash flow from operating activities, continuing operations		2,755	2,777
Cash flow from changes in working capital, discontinued operations		-1,134	1,596
Cash flow from operating activities, discontinued operations	G1	4,517	12,779
Cash flow from operating activities		7,272	15,556
Investing activities			
Company acquisitions	F4	-	-4
Divestments	F4	-	120
T:2 Investments in intangible assets and property, plant and equipment		-3,577	-3,049
Sale of property, plant and equipment		76	123
Sale of securities		264	-42
Cash flow from investing activities, continuing operations		-3,237	-2,852
Distribution of Essity ²⁾		-4,170	-
Cash flow from investing activities, discontinued operations	G1	-15,591	-10,120
Cash flow from investing activities		-22,998	-12,972
Financing activities			
Private placement to non-controlling interests		-	435
Acquisition of non-controlling interests		-	-50
Loans raised		7,100	16,165
Amortization of debt		-1,980	-15,614
Listing costs		-123	-
Dividend ³⁾		-4,214	-4,228
Cash flow from financing activities, continuing operations		783	
Cash flow from financing activities, discontinued operations	G1	11,022	
Cash flow from financing activities		11,805	-3,292
Cash flow for the period			
		-3,921	-708
Cash and cash equivalents, January 1		4,482	5,042
Exchange differences in cash and cash equivalents		-23	148
Cash and cash equivalents, December 31	E2	538	4,482

1) For amounts relating to paid and received interest, refer to Note E7

2) Corresponds to Essity's cash and cash equivalents on the date of distribution.

3) Including dividend to non-controlling interests.

For the Group's liquidity reserve, refer to the risk section on page 53.

T:1 Adjustment for non-cash items, SEKm	2017	2016
Depreciation and impairment of non-current assets	1,137	1,114
Fair-value measurement of forest assets	-617	-689
Gain/loss on asset sales and swaps	2	-33
Gain/loss on divestments	-	-115
Unpaid relating to efficiency program	47	-7
Payments relating to efficiency program already recognized	-20	-66
Other	-40	29
Total	509	233

T:2 Investments in intangible assets and property, plant and equipment, SEKm	2017	2016
Measures to raise the capacity level of operations (Strategic capital expenditures)	-2,863	-2,231
Measures to uphold capacity level (Current capital expenditures)	-714	-1,082
Investments in finance leases	-	264
Total	-3,577	-3,049

A. ACCOUNTING PRINCIPLES AND APPLICATION OF ALTERNATIVE PERFORMANCE MEASURES (APM)

A1. GENERAL ACCOUNTING PRINCIPLES AND NEW ACCOUNTING RULES

Reading instructions

General accounting principles **AP** and new accounting rules are presented below. Other accounting principles considered material by SCA are presented in conjunction with the respective note. The same principles are usually applied in both the Parent Company and the Group. In some cases, the Parent Company applies principles other than those used by the Group and, in such cases, these principles are specified under the respective note in the section about the Parent Company.

Key assessments and assumptions **KAA** are presented under the respective note. The preparation of financial statements in conformity with IFRS and generally accepted Swedish accounting principles requires assessments and assumptions to be made that affect recognized asset and liability items and income and expense items, respectively, as well as other information disclosed.

These assumptions and estimates are often based on historical experience, but also on other factors, including expectations of future events. With other assumptions and estimates, the result may be different and the actual result will seldom fully concur with the estimated result.

In SCA's opinion, the areas that are impacted the most by assumptions and estimates are:

Taxes, Note B5
Remuneration after employment, Note C5
Biological assets, Note D3

Amounts that are reconcilable to the income statement, balance sheet, equity and cash flow statement and tables in notes are marked with the following symbols.

IS	Income statement
ISC	Statement of comprehensive income
BS	Balance sheet
EQ	Equity
CF	Cash flow statement
Tx:x	Reference to table in note

Basis for preparation

The SCA Group's financial statements are prepared in accordance with the Annual Accounts Act and International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS), as adopted within the EU, and the Swedish Financial Reporting Board, recommendation RFR 1; Supplementary Accounting Rules for Groups. The Parent Company's financial statements are prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2; Reporting by Legal Entities, and the Annual Accounts Act. The accounts for both the Group and the Parent Company relate to the fiscal year that ended on December 31, 2017. SCA applies the historical cost method as basic principle for measurement of assets and liabilities. Biological assets (standing timber) and financial assets and liabilities, including derivative instruments, are, however, measured at fair value through profit or loss. Available-for-sale financial assets are measured at fair value in other comprehensive income. In the Parent Company, biological assets or financial assets and liabilities are not measured at fair value.

Changes to accounting principles

In June 2017, Essity (the hygiene business) was distributed. The consolidated income statement and the Parent Company income statement for the continuing forest products company have been changed from a function-based income statement to

a cost-based income statement, which offers a more detailed picture of the cost base for a company in the manufacturing industry. The segmentation has also been changed compared with the 2016 Annual Report. In this report, sales to the hygiene business have been regarded as sales to external parties and have not been eliminated. Profit for the period for the hygiene business is recognized on a separate line in the consolidated income statement. In the cash flow statement, the hygiene business is recognized separately under each main group. At December 31, 2017, only the continuing operations are included in the balance sheet. At December 31, 2016, both continuing and discontinued operations are included.

From 2017, a number of changes to the accounting principles were implemented to provide an accurate view of the company's main business (figures for 2016 have been adjusted in line with the new accounting principles). Transactions relating to external wood raw material swaps in the Forest segment, amounting to SEK 1,184m (1,125), are no longer included in net sales, but recognized net with the corresponding raw material purchase. External sales of by-products from the production of the Group's main products, amounting to SEK 599m (665), are recognized as other operating income (previously recognized net as energy costs).

In other respects, the accounting principles applied are consistent with those described in the 2016 Annual Report. These amendments are not judged to have any material impact on the Group's or Parent Company's results.

New or amended accounting standards after 2017

A number of new and amended IFRS standards have not yet come into effect and have not been applied in advance in preparing the Group's and the Parent Company's financial statements. The IFRS standards that may affect these reports are described below. Other new or amended standards or interpretations published by the International Accounting Standards Board (IASB) are not expected to have any impact on the Group's or the Parent Company's financial results.

IFRS 9 Financial instruments

The standard was issued in July 2014 and will replace IAS 39. The standard is divided into three areas: Classification and measurement of financial assets and liabilities, impairment and hedging. The new standard entails essentially unchanged recognition of financial liabilities. During 2017, SCA conducted a detailed impact analysis of all three areas of IFRS 9. The impact analysis is based on currently available information and can therefore require further adjustments in 2018.

1) Classification and measurement of financial assets and liabilities: The company's business model for managing the asset and the nature of the asset's contractual cash flows comprise the basis for classification and measurement. Financial assets are classified in one of the following three categories: a) financial assets measured at amortized cost b) financial assets measured at fair value through other comprehensive income and c) financial assets measured at fair value through profit or loss. During the year, SCA conducted a mapping of financial assets and liabilities based on the Group's business model. Classification and measurement then took place using the categories stated in IFRS 9 without any significant impact on the balance sheet. The majority of financial assets consist of trade receivables and bank balances. These financial assets are not normally sold outside the Group and the purpose of the holding is to obtain contractual cash flows and these will therefore continue to be measured in the balance sheet at amortized cost. No change will be made for financial assets that are currently measured at fair value through profit or loss. SCA will apply an exception for equity instruments in unlisted participations that are not held for

trading, where changes in fair value will be recognized in other comprehensive income. Other equity instruments are measured at fair value with changes in the income statement.

2) Impairment: The standard introduces a new model for impairment of financial assets based on expected losses and not, as previously under IAS 39, when the loss event has already occurred. Under the model, provisions are established for credit losses that may arise within the next 12 months on assets. In cases where the credit risk has increased significantly since initial recognition, provisions are established for credit losses that are expected to occur during the full lifetime of the asset. A simplified model has been developed for trade receivables and lease receivables, whereby anticipated losses are recognized over the estimated remaining term of the receivable. SCA has chosen to apply the simplified impairment model for trade receivables and this has been adapted based on the requirements of IFRS 9. The quantitative effect at initial recognition, January 1, 2018, will result in a reduction in equity of approximately SEK 3m.

3) Hedge accounting: The new standard focuses to a greater extent on reflecting the company's risk management strategies in hedge accounting and allowing more hedging strategies to qualify for hedge accounting. SCA has established that all existing hedging relationships will also qualify for hedge accounting within the framework of IFRS 9. SCA has evaluated the new rules for hedge accounting and has concluded that these will provide greater scope to apply hedge accounting and will facilitate the Group's documentation of hedge accounting. The hedging documentation has been reworked in line with the new standard. The application of IFRS 9 will not have a significant effect on the Group's financial statements.

IFRS 15 Revenue from contracts with customers

The standard comes into effect on January 1, 2018 and is designed according to a control-based five-step model framework. The standard regulates commercial agreements (contracts) with customers in which delivery of goods and/or services is divided into separately identifiable performance obligations that are recognized independently. In certain cases, the goods/services can be integrated with other obligations in the contract, whereby a package of goods and services comprises a joint obligation. The standard establishes rules for calculating the transaction price for delivery of goods and services and the manner in which this can be allocated among the various performance obligations. Revenue is recognized when control has passed to the customer by the customer being able to use or benefit from the goods or service, at which point it is deemed to have been transferred. Control may be passed at a given point in time, which is usually the case for sales of goods. In other cases, a performance obligation may be satisfied over time, which is common for services.

In 2016 and 2017, a project group at SCA analyzed the implications of a switch of revenue standard in 2018. Sales revenue, which is synonymous with net sales, refers to the consideration received or receivable for goods and services sold within the Group's main business. SCA's revenue from contracts with customers is from the Wood, Pulp and Paper segments. SCA's sales mainly comprise goods. Contracts regarding product sales include services to a very limited extent (such as freight services), and thus the assessment has been made that no separate reporting of services is required.

Revenue from contracts with customers is recognized when a performance obligation is satisfied when goods are transferred to the customer, which takes place when the customer acquires control over the goods. Revenue is recognized at the amount that is allocated to the performance obligation that is satisfied.

SCA's contracts with customers are mainly framework agreements without established minimum volumes, which means a binding agreement in accordance with the criteria specified in IFRS 15 arises when the customer makes a call-off order. SCA's performance obligation in the contracts consists of providing the goods specified in the contracts. The transaction price primarily consists of a fixed price per sold quantity. Variable parts

of the transaction price only occur to a small extent. The total transaction price is estimated at the value that is expected to accrue to SCA when entering into the agreement. The transaction price is continuously updated if the circumstances that form the basis of the estimate change. All performance obligations consist of sales of goods, which are satisfied at a point in time. The control is transferred to the customer at the same time as the risk for the goods is transferred, in accordance with the Incoterms applicable in the contract. SCA applies the Delivered at Place (DAP) terms for approximately 70 percent of sales revenues, meaning control is transferred when the goods are made available to the customer at the agreed destination.

Separate sales of logistics services occurs. SCA does not have control over the goods delivered through these logistics services, but simply acts as a freight carrier. Performance obligations in connection with logistics services comprise solely the freight itself. The transaction price for these obligations pertains in its entirety to fixed parts. This revenue will in the future be recognized over time as the shipment approaches the agreed destination. The progress toward completion is measured in terms of shipment time in relation to total transport time. Revenue for these logistics services are recognized – as in the past – as Other operating income in the consolidated income statement.

The new standard will entail no translation effects in respect of the transition to IFRS 15. This therefore means there is no need to adjust equity when the new standard is implemented.

IFRS 16 Leases

The standard is applicable to fiscal years beginning on January 1, 2019 or later and will replace IAS 17 Leases and associated interpretations IFRIC 4, SIC 15 and SIC 27. The standard requires that all assets and liabilities attributable to all lease agreements, with a few exceptions, be recognized in the balance sheet. This type of recognition is based on the approach that the lessee is entitled to use an asset over a specific period and simultaneously has an obligation to pay for this entitlement.

SCA has begun an overview of the lease agreements that exist in the Group to assess the measures required and to adapt recognition to the new standard, partly to decide the extent to which SCA is to continue leasing equipment, and also to assess the quantitative effects of IFRS 16.

The cost of operational lease agreements for the 2017 fiscal year amounted to SEK 279m. As of December 31, 2017, the undiscounted amount relating to payment commitments for operational lease agreements totaled approximately SEK 3,000m. However, the application of IFRS 16 would entail that a lower amount would be recognized as a liability and asset given that components of the lease agreements may refer to service and, moreover, the future payment commitments are also to be discounted. SCA will apply IFRS 16 from January 1, 2019, and the first application will use the alternative method for the translation of existing leasing contracts. SCA's assessment is that IFRS 16 will have quantitative material effects.

Principles of consolidation

The financial statements are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all Group companies in accordance with the definitions below. Group companies are consolidated from the date the Group exercises control or influence over the company according to the definitions provided below. Divested Group companies are included in the consolidated accounts until the date the Group ceases to control or exercise influence over the companies. Intra-Group transactions have been eliminated.

Subsidiaries

All companies over which the Group has a controlling influence are consolidated as subsidiaries. The definition of controlling influence is that SCA has the ability to control the subsidiary, is entitled to a return and has the power to influence the activities that impact return. The consolidated financial statements are prepared in accordance with the purchase method.

Translation of foreign currency**Functional currency and translation of foreign Group companies to the presentation currency**

SCA's Parent Company has Swedish kronor (SEK) as its functional currency. The functional currency of each SCA Group company is determined on the basis of the primary economic environment in which the respective company is active which, with a few exceptions, is the country in which the individual company operates. The financial statements of Group companies are translated to the Group's presentation currency, which is SEK in the case of SCA. Assets and liabilities are translated at the closing rate, while income and expenses are translated at the average rate for the respective period. Translation differences on net assets are recognized as translation differences in other comprehensive income, which is a component of equity (translation reserve).

Exchange rate effects arising from financial instruments used to hedge foreign subsidiaries' net assets are recognized in the same manner in other comprehensive income, which is a component of equity (translation reserve). On divestment, the translation difference on the foreign subsidiary and exchange rate effects on the financial instrument used to currency hedge the net assets in the company are recognized as part of the gain or loss on disposal.

Goodwill and surplus value adjustments arising in connection with the acquisition of a foreign subsidiary are to be translated, in a manner corresponding to the net assets in the company, from their functional currency to the presentation currency.

Transactions and balance sheet items in foreign currency

Transactions in foreign currency are translated to a functional currency using the rate prevailing on the transaction date. At accounting year-end, monetary assets and liabilities are translated at the closing day rate and any exchange rate effects are recognized in the income statement. In cases where the exchange rate effect is related to the operations, the effect is recognized net in operating profit. Exchange rate effects pertaining to borrowing and financial investments are recognized as other financial items. Non-monetary assets and liabilities recognized at historical cost are translated at the exchange rate prevailing on the transaction date.

If hedge accounting has been applied, for example, for cash flow hedges or hedging of net investments, the exchange rate effect is recognized in equity under other comprehensive income.

If a financial instrument has been classified as available-for-sale financial assets, the portion of the value change pertaining to currency is recognized in the income statement, while any other unrealized change is recognized in equity under other comprehensive income.

Revenue recognition

Sales revenue, which is synonymous with net sales, refers to the consideration received or receivable for goods and services sold within the Group's main business. Revenue is recognized when delivery to the customer has taken place according to the terms of the sale. Other operating income includes compensation for sales that are not included in the Group's main business, for instance logistics income from SCA's transport activities, income from sales of by-products from the production of the Group's main products, income from sales of forest seedlings and gravel, lease income from hunting and fishing rights and for wind power, and capital gains from the sale of fixed assets. This income is recognized as other operating income. Income from the sale of self-produced energy, electricity certificates and emission allowances is recognized as reduced energy costs. The translation differences on trade receivables are also recognized as other operating income as of 2018. Interest income is recognized in accordance with the effective interest method, meaning the estimated change in value (effective interest) is recognized as interest income or interest expense in the income statement. Dividends received are recognized when the right to receive a dividend has been established.

Government grants

Government grants are recognized at fair value when there is reasonable assurance the grants will be received and that the Group will comply with the conditions attached to them. Government grants related to acquisition of assets are recognized in the balance sheet by the grant reducing the carrying amount of the asset. Government grants received as compensation for costs are accrued and recognized in the income statement during the same period as the costs. If the government grant or assistance is neither related to the acquisition of assets nor to compensation for costs, the grant is recognized as other income. For more information about Government grants, refer to Notes B2 and B3.

A2. APPLICATION OF NON-INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PERFORMANCE MEASURES

The Annual Report refers to a number non-IFRS performance measures used to assist investors and company management to analyze the company's operations. A description of the various non-IFRS performance measures used as a complement to the financial information reported according to IFRS is presented below.

In view of the fact that the company has become a dedicated forest products business, a review was carried out of which

non-IFRS performance measures are important in communications with the company's shareholders. The new non-IFRS performance measure included in the 2017 Annual Report is Working capital as a percentage of net sales. The following non-IFRS performance measures were removed compared with the previous Annual report: Return on equity, Capital turnover, Debt payment capacity, Interest coverage ratio, Organic sales, Adjusted gross profit and Financial net margin.

Calculation of financial measures not included in IFRS

PERFORMANCE MEASURES		
Various types of performance measures and margin measures expressed as a percentage of sales		
Key figure	Description	Application of the measure
EBITDA	Profit before depreciation, amortization and impairment, financial items and taxes.	This measure is a complement to operating profit, as it shows the cash surplus from operations.
Adjusted EBITDA	Profit before depreciation, amortization and impairment, financial items and taxes excluding items affecting comparability.	This measure is a complement to operating profit, as it shows the cash surplus from operations adjusted for the impact of items affecting comparability. Management uses the measure to control the company's business units.
EBITDA margin	Profit before depreciation, amortization and impairment, financial items and taxes as a percentage of net sales for the year.	This measure is a complement to operating margin, as it shows the cash surplus in relation to net sales.
Adjusted EBITDA margin	Adjusted EBITDA as a percentage of net sales for the year.	This measure is a complement to operating margin, as it shows the cash surplus in relation to net sales adjusted for the impact of items affecting comparability. Management uses the measure to control the company's business units.
Items affecting comparability	Under items affecting comparability, SCA includes costs in connection with acquisitions, divestments, restructuring, impairment and other specific events, refer to Note B4.	Separate reporting of items affecting comparability between periods provides a better understanding of the company's operating activities.
Restructuring costs	Costs for impairment together with personnel costs in connection with structural changes to the company's operations.	This measure shows the specific costs that have arisen in connection with structural changes of an operation, which contributes to an understanding of the underlying cost level in the continuing operations.
Operating margin	Operating profit as a percentage of net sales during the period.	Operating margin describes how large a share of net sales remains as operating profit.
Adjusted operating margin	Operating profit as a percentage of net sales during the period excluding items affecting comparability.	Adjusted operating margin describes how large a share of net sales remains as operating profit excluding items affecting comparability.
Adjusted operating profit	Operating profit excluding items affecting comparability.	Adjusted operating profit is a key ratio for control of the Group's profit centers and provides an understanding of earnings performance of the operations excluding items affecting comparability.
Net margin	Profit for the period as a percentage of net sales for the period.	Net margin describes how large a share of net sales remains after costs and tax have been deducted.
CAPITAL MEASURES		
Shows how capital is utilized and the company's financial strength		
Key figure	Description	Application of the measure
Equity/assets ratio	Equity excluding non-controlling interests expressed as a percentage of total assets.	A traditional measure for showing financial risk. Expresses the percentage of total assets that is financed by the owners.
Capital employed	Calculated as the balance sheet's total assets excluding financial assets and pension assets, less any non-interest-bearing liabilities.	The management follows this measure to minimize the capital used in operations that is financed by owners and creditors.

SEKm	2017	2016
CAPITAL EMPLOYED		
Total assets	56,711	165,748
Financial assets	-1,577	-6,958
Non-current, non-interest-bearing liabilities	-8,497	-13,312
Current, non-interest-bearing liabilities	-3,918	-30,598
Capital employed	42,719	114,880
CAPITAL EMPLOYED PER SEGMENT		
Forest	26,829	26,518
Wood	2,817	2,740
Pulp	7,154	4,635
Paper	5,861	6,236
Discontinued operations	-	74,753
Other	58	-2
Capital employed	42,719	114,880

Key figure	Description	Application of the measure
Working capital	Working capital is calculated as current operating receivables (inventories, trade receivables and other non-interest-bearing, current receivables) less current operating liabilities (trade payables and other non-interest-bearing, current liabilities).	The management follows this measure to minimize capital tied up in the balance sheet from the company's operations.

SEKm	2017	2016
WORKING CAPITAL		
Inventories	3,460	14,347
Trade receivables	2,299	17,811
Other current receivables	694	2,898
Trade payables	-2,900	-15,750
Other current liabilities	-977	-12,466
Adjustments ¹⁾	285	43
Working capital	2,861	6,883

1) Adjustment of non-operating-related items: receivables from electricity certificates, trade payables from strategic investments and liabilities from emission allowances.

Key figure	Description	Application of the measure
Working capital as a percentage of net sales	Calculated as an average of working capital for 13 months as a percentage of 12-month rolling net sales.	The management follows this measure to minimize capital tied up in the balance sheet from the company's operations.
Net debt	Calculated as current and non-current financial liabilities and provisions for pensions with deductions for financial assets (surplus in funded pension plans, financial assets and cash and cash equivalents).	Net debt describes the company's total loan financing and is monitored by the management.

SEKm	2017	2016
NET DEBT		
Surplus in funded pension plans	1,002	1,186
Non-current financial assets	28	722
Current financial assets	9	568
Cash and cash equivalents	538	4,482
Financial assets	1,577	6,958
Non-current financial liabilities	3,675	31,360
Provisions for pensions	366	5,602
Current financial liabilities	3,502	5,357
Financial liabilities	7,543	42,319
Net debt	5,966	35,361

Key figure	Description	Application of the measure
Debt/equity ratio	Net debt in relation to equity.	Shows financial risk and is the most useful measure for management to monitor the level of the company's indebtedness.

RETURN MEASURES		Return is a financial term that describes how much the value of an asset changes from an earlier point in time					
Key figure	Description	Application of the measure					
Return on capital employed	Accumulated return on capital employed is calculated as 12-month rolling operating profit as a percentage of average capital employed for the five most recent quarters. The corresponding key figure for a single quarter is calculated as operating profit for the quarter multiplied by four as a percentage of average capital employed for the two most recent quarters.	Used to measure return on capital tied up in operations.					
SEKm		Forest	Wood	Pulp	Paper	Other activities	Total Group
Fiscal year 2017							
<i>Return on capital employed, ROCE</i>							
Operating profit, SEKm		1,244	443	236	956	-368	2,511
Average capital employed, SEKm		26,599	2,830	5,853	6,051	51	41,384
Return on capital employed, ROCE %		4.7%	15.7%	4.0%	15.8%		6.1%
SEKm		Forest	Wood	Pulp	Paper	Other activities	Total Group
Fiscal year 2016							
<i>Return on capital employed, ROCE</i>							
Operating profit, SEKm		1,131	334	272	702	-168	2,271
Average capital employed, SEKm		26,372	2,728	3,614	6,010	111	38,835
Return on capital employed, ROCE %		4.3%	12.2%	7.5%	11.7%		5.8%
Key figure	Description	Application of the measure					
Adjusted return on capital employed	Accumulated return on capital employed is calculated as operating profit on a rolling 12-month basis, excluding items affecting comparability, as a percentage of the average of capital employed over the past five quarters. Corresponding key figures for a quarter are calculated as operating profit for the quarter, excluding items affecting comparability, multiplied by four as a percentage of the average capital employed over the past two quarters.	This is the central ratio for management to measure return on capital tied up in operations.					
Adjusted return on capital employed – industrial portion	Calculated as the Group's adjusted return on capital employed, excluding operating profit and capital employed from the Forest operating segment and a share of other operations.	This is the central ratio for management to measure return on capital tied up in the industrial portion.					
Adjusted return on capital employed – industrial portion, excluding the ongoing investment in Östrand	Calculated as the Group's adjusted return on capital employed – industrial portion, excluding invested amount in the ongoing investment at the Östrand pulp mill.	Shows the underlying return on capital employed for the industrial portion adjusted for the ongoing investment in Östrand.					
CASH FLOW PERFORMANCE MEASURES		Various performance measures and costs that have impacted the company's cash flow					
Key figure	Description	Application of the measure					
Operating cash surplus	Adjusted profit before depreciation, amortization and impairment (adjusted EBITDA) with deductions for capital gains and capital losses from property, plant and equipment and intangible assets and the reversal of the share of profits of associates and the result of the forest revaluation.	This measure shows cash flow generated by the income statement when calculating operating cash flow.					
Operating cash flow	Operating cash flow comprises the sum of operating cash surplus and change in working capital, with deductions for current net investments in property, plant and equipment and restructuring costs.	The management control the business areas using this measure that shows the combined cash flow from operating activities that the units can themselves influence.					

SEKm	2017	2016
OPERATING CASH FLOW		
Forest		
Operating cash surplus	744	545
Change in working capital	-16	343
Current capital expenditures, net	-143	-140
Restructuring costs, etc.	-	0
Operating cash flow	585	748
Wood		
Operating cash surplus	669	519
Change in working capital	-91	6
Current capital expenditures, net	-172	-67
Restructuring costs, etc.	-7	7
Operating cash flow	399	465
Pulp		
Operating cash surplus	496	608
Change in working capital	62	77
Current capital expenditures, net	-27	-43
Restructuring costs, etc.	-13	20
Operating cash flow	518	662
Paper		
Operating cash surplus	1,469	1,038
Change in working capital	-114	-85
Current capital expenditures, net	-246	-610
Restructuring costs, etc.	13	64
Operating cash flow	1,122	407

Key figure	Description	Application of the measure
Cash flow from current operations	Operating cash flow less net financial items and tax payments and taking into account other financial cash flow.	This measure illustrates the cash flow generated by operations and that can potentially be used for strategic initiatives such as strategic capital expenditures or acquisitions.
Strategic capital expenditures in non-current assets	Strategic capital expenditures increase the company's future cash flow through acquisitions of companies, capital expenditures to expand facilities, or new technologies that boost competitiveness.	Shows the size of the capital expenditures that are made in expansion in production capacity and other growth measures.
Current capital expenditures, net	Current net investments are made to maintain competitiveness, and include maintenance, rationalization and replacement measures or investments of an environmental nature with deductions for compensation from divested non-current assets.	Shows the size of the capital expenditures required to maintain existing manufacturing capacity.

Consolidated operating cash flow statement

SEKm	Note	2017	2016
Net sales		16,664	15,373
Operating expenses		-12,903	-12,104
Adjusted earnings before depreciation and impairment (Adjusted EBITDA)		3,761	3,269
Adjustment for non-cash items		-616	-685
Operating cash surplus		3,145	2,584
Change in			
Inventories		-60	17
Operating receivables		-100	254
Operating liabilities		17	103
Change in working capital		-143	374
Current capital expenditures, net		-638	-959
Other operating cash flow		-91	-82
Operating cash flow, continuing operations		2,273	1,917
Operating cash flow, discontinued operations		4,649	13,031
Operating cash flow		6,922	14,948
Financial items	E7	-93	-84
Paid tax	B5	-30	-17
Other		-41	3
Cash flow from current operations, continuing operations		2,109	1,819
Cash flow from current operations, discontinued operations		3,040	8,563
Cash flow from current operations		5,149	10,382
Strategic capital expenditures and divestments			
Company acquisitions	F4	-	-58
Strategic capital expenditures in non-current assets		-2,863	-2,231
Total strategic capital expenditures		-2,863	-2,289
Divestments	F4	-	120
Cash flow from strategic capital expenditures and divestments, continuing operations		-2,863	-2,169
Cash flow from strategic capital expenditures and divestments, discontinued operations		-25,297	-8,204
Cash flow from strategic capital expenditures and divestments		-28,160	-10,373
Cash flow before dividend, continuing operations		-754	-350
Cash flow before dividend, discontinued operations		-22,257	359
Cash flow before dividend		-23,011	9
Private placement to non-controlling interests		-	435
Dividend		-4,214	-4,228
Net cash flow from continuing and discontinued operations		-27,225	-3,784

Net debt

SEKm	2017	2016
Net debt, January 1	-35,361	-29,478
Net cash flow	-27,225	-3,784
Net debt discontinued operations ¹⁾	56,010	-
Remeasurements to equity	1,027	-1,526
Exchange rate effects and market value changes	-417	-573
Net debt, December 31	-5,966	-35,361

1) Essity's cash and cash equivalents were SEK 4,170m on the first day of quotation.

Correlation between consolidated cash flow statement and operating cash flow statement

Cash flow from operating activities

SEKm	2017	2016
Cash flow from operating activities	2,755	15,556
<i>Adjustment items</i>		
Current capital expenditures, net	-638	-5,181
Accrued interest	-9	8
Adjustment for discontinued operations	3,040	
Other	1	-1
Cash flow from current operations according to consolidated operating cash flow statement	5,149	10,382

Cash flow from investing activities

SEKm	2017	2016
Cash flow from investing activities	-3,237	-12,972
<i>Adjustment items</i>		
Current capital expenditures, net	638	5,181
Repayment of loans from external parties	-	-141
Net debt in acquired and divested companies	-	-2,128
Acquisition of non-controlling interests	-	-50
Investments through finance leases	-	-264
Sale of securities	-264	-
Adjustment for discontinued operations	-25,297	-
Other	-	1
Cash flow from strategic capital expenditures and divestments according to the consolidated operating cash flow statement	-28,160	-10,373

Cash flow for the period

SEKm	2017	2016
Cash flow for the period	-3,921	-708
<i>Adjustment items</i>		
Amortization of debt	1,980	15,614
Loans raised	-7,100	-16,165
Sale of securities	-264	42
Adjustment for discontinued operations	-17,911	-2,311
Investments through finance leases	-	-264
Accrued interest	-9	8
Net cash flow according to consolidated operating cash flow statement	-27,225	-3,784

B. SALES AND EARNINGS

B1. SEGMENT REPORTING

AP Operating segments are recognized in accordance with IFRS 8 in a manner that complies with the internal reporting submitted to the chief operating decision maker. The chief operating decision maker is the function that is responsible for allocating resources and assessing the result of the operating segments. At SCA, this function has been identified as the company's President and CEO, who is responsible for and manages the day-to-day administration of the Group in accordance with the Board's

guidelines and terms of reference. The Executive Management support the CEO in his work; refer to the section Corporate governance in the Board of Directors' Report on page 55.

A description of the four operating segments can be found on pages 14-23.

The tables below show parts of the consolidated balance sheet and income statement broken down by operating segment: Forest, Wood, Pulp and Paper.

SEKm	Forest	Wood	Pulp	Paper	Other operations	Eliminations	Total Group
2017 fiscal year							
TB1:2 External sales	–	5,994	2,236	8,434	–	–	16,664
of which goods	–	5,994	2,236	8,434	–	–	16,664
Internal sales	5,070	–	306	–	–	–5,376	–
IS Total net sales	5,070	5,994	2,542	8,434	–	–5,376	16,664
Other operating income	679	796	285	1,736	49	–1,942	1,603
of which goods	649	469	–	100	–	–	1,218
of which services	30	327	285	1,636	49	–1,942	385
Operating expenses	–4,385	–6,122	–2,344	–8,691	–283	7,318	–14,507
Result from participations in associated companies	–	1	–	–	–	–	1
Depreciation	–120	–226	–247	–523	–21	–	–1,137
Performance by operating segment	1,244	443	236	956	–255	–	2,624
Items affecting comparability ¹⁾	–	–	–	–	–113	–	–113
IS Operating profit	1,244	443	236	956	–368	–	2,511
Other disclosures							
Capital employed	26,829	2,817	7,154	5,861	58	–	42,719
Investments	–219	–199	–2,843	–246	–70	–	–3,577

1) Items affecting comparability relate to Other operations and concern personnel and other operating expenses.

SEKm	Forest	Wood	Pulp	Paper	Other operations	Eliminations	Total Group
2016 fiscal year							
TB1:2 External sales	–	5,440	2,189	7,744	–	–	15,373
of which goods	–	5,440	2,189	7,744	–	–	15,373
Internal sales	4,978	1	303	–	–	–5,282	–
IS Total net sales	4,978	5,441	2,492	7,744	–	–5,282	15,373
Other operating income	614	673	260	1,648	45	–1,516	1,724
of which goods	594	420	–	99	–	–	1,113
of which services	20	253	260	1,549	45	–1,516	611
Operating expenses	–4,354	–5,577	–2,222	–8,263	–204	6,798	–13,822
Result from participations in associated companies	–	–6	–	–	–	–	–6
Depreciation	–107	–197	–258	–543	–9	–	–1 114
Performance by operating segment	1,131	334	272	586	–168	–	2,155
Items affecting comparability ¹⁾	–	–	–	116	–	–	116
IS Operating profit	1,131	334	272	702	–168	–	2,271
Other disclosures							
Capital employed	26,518	2,740	4,635	6,236	–2	–	40,127
Investments	–199	–347	–2,008	–628	–131	–	–3,313

1) Items affecting comparability relate to the Paper operating segment and pertain to impact on earnings from the divestment of shares in IL Recycling AB.

Operating segments

SCA recognizes four operating segments in accordance with IFRS 8:

The Forest segment manages 2.6 million hectares of forest land, of which 2 million is productive, and supplies timber to SCA's forest industry operations (Wood, Pulp and Paper). SCA sources a similar amount of timber from other forest owners as the company harvests from its own forest. By-products are used in energy production.

The Wood segment comprises five sawmills in Sweden, wood processing units with planing mills in Sweden, the UK and France, and a distribution and wholesale business. By-products are used in energy production.

The Pulp segment comprises kraft pulp and chemical thermomechanical pulp (CTMP). The pulp is produced in Östrand,

where a major investment project to expand the production capacity is also ongoing.

The Paper segment comprises packaging papers (kraftliner) manufactured in Obbola and Munksund, and publication papers manufactured in Ortvikén, and used for magazines, catalogues and advertising printing.

Intra-group deliveries

Revenues, expenses and results for the various operating segments were affected by intra-Group deliveries. Internal prices are market-based. Intra-Group deliveries are eliminated when preparing the consolidated financial statements.

Customers

SCA's ten largest customers account for 29 percent (30) of the company's sales.

TB1:1 Group by country	Net sales – sold to ¹⁾				Net sales – sold by ¹⁾			
	2017		2016		2017		2016	
	SEKm	%	SEKm	%	SEKm	%	SEKm	%
Sweden	2,396	14	2,167	14	13,984	84	13,087	85
EU excl. Sweden								
UK	2,823	17	2,646	17	1,361	8	1,287	8
Germany	2,617	16	2,406	16				
France	1,248	7	1,143	7	332	2	277	2
Netherlands	645	4	569	4				
Denmark	520	3	551	4				
Belgium	425	3	530	3				
Poland	421	3	441	3				
Spain	355	2	390	3				
Italy	413	2	368	2				
Finland	316	2	321	2				
Rest of EU	648	4	585	4	127	1	123	1
Total EU excl. Sweden	10,431	63	9,950	65	1,820	11	1,687	11
Rest of Europe								
Norway	652	4	593	4				
Switzerland	146	1	115	1				
Other	116	–	100	–				
Total rest of Europe	914	5	808	5	–	–		
Rest of world								
Japan	778	5	737	5	216	1	144	1
China	614	3	406	2				
US	270	2	271	2				
Morocco	296	2	254	2				
India	161	1	118	1				
Egypt	158	1	102	1				
Hong Kong	22	–	17	–	644	4	455	3
Other	624	4	543	3				
Total rest of world	2,923	18	2,448	16	860	5	599	4
Total Group	16,664	100	15,373	100	16,664	100	15,373	100

1) Net sales have been recognized from two perspectives. The first column "Net sales – sold to" is based on sales to the countries where SCA has its customers. The second column "Net sales – sold by", meaning revenue from external customers where the company is domiciled and in other countries from which the company receives revenues.

TB1:3 Group by country	Average number of employees						Non-current assets ¹⁾	
	2017	Of whom men, %	Of whom women, %	2016	Of whom men, %	Of whom women, %	SEKm 2017	SEKm 2016
Sweden	3,592	82	18	3,512	82	18	48,149	45,090
EU excl. Sweden								
Germany	45	46	54	42	49	51	1	1
UK	305	88	12	274	88	12	165	185
France	85	78	22	82	80	20	42	44
Netherlands	77	89	11	80	90	10	225	227
Belgium	2	100	–	7	47	53	1	1
Portugal	1	–	100	1	–	100	–	–
Rest of EU	11	68	32	14	64	36	1	1
Total EU excl. Sweden	526	83	17	500	82	18	435	459
Rest of world								
Japan	4	27	73	5	21	79	–	–
Hong Kong	5	52	48	5	55	45	–	–
Total rest of world	9	42	58	10	39	61	–	–
Total Group	4,127	82	18	4,022	82	18	48,584	45,549

1) Non-current assets comprise goodwill, other intangible assets, buildings, land, machinery and equipment, and biological assets.

B2. OTHER OPERATING INCOME

Specification of other operating income

SEKm	2017	2016
Revenues from energy	776	684
Revenues from transportation	675	723
Other	152	317
IS Total	1,603	1,724

Other disclosures

Government grants received increased other operating income by SEK 8m (9).

B3. OPERATING EXPENSES

Specification of raw materials and consumables

SEKm	2017	2016
Timber and chips	-2,863	-2,782
Other raw material and consumables	-2,032	-1,979
Purchase of goods for resale	-1,056	-824
IS Total	-5,951	-5,585

Specification of other operating expenses

SEKm	2017	2016
Transportation	-3,330	-3,230
Energy ¹⁾	-950	-1,036
Repairs and maintenance	-750	-773
IT, telephony and lease of premises	-308	-331
Other	-913	-888
IS Total	-6,251	-6,258

1) After deduction for revenues for energy in the amount of SEK 158m (170).

Other disclosures

Government grants received reduced operating expenses by SEK 44m (45). Costs for research and development amounted to SEK -52m (-47) during the period.

Specification of auditing expenses

SEKm	2017 ²⁾	2016
EY		
Audit assignments	-8	-14
Auditing activities other than the audit assignment	-3	-1
Tax consultancy services	–	-3
Total EY	-11	-18
Other auditors		
Audit assignments	-1	-1
Tax consultancy services	-1	–
Other assignments	-1	–
Total other auditors	-3	-1
Total	-14	-19

2) Additional costs include advisory services related to auditing in conjunction with the distribution of Essity of SEK 9m from EY and SEK 28m from other auditors. These costs are not included in operating expenses but are recognized against equity.

B4. ITEMS AFFECTING COMPARABILITY**AP ACCOUNTING PRINCIPLES**

Profit/loss items of a non-recurring nature (items affecting comparability) with a significant impact on profit are reported separately to facilitate the understanding of the underlying development of the business. Such items include costs in connection with acquisitions, divestments, restructuring, impairment and other specific events.

Items affecting comparability by type of cost

SEKm	2017	2016
Personnel costs	-51	-
Impairment of tangible fixed assets	4	-
Gain/loss on divestment	-	115
Other operating expenses	-66	1
IS Total	-113	116

Items affecting comparability by activity

SEKm	2017	2016
Costs associated with the distribution of the shares in Essity	-118	-
Gain on divestment of IL Recycling	-	115
Reversal of impairment buildings	4	-
Other	1	1
IS Total	-113	116

B5. TAXES**AP ACCOUNTING PRINCIPLES**

The Group's tax expense comprises current tax and deferred tax.

Current tax is calculated on the taxable profit for the period based on the tax rules prevailing in the countries where the Group operates. Since taxable profit excludes costs that are not tax deductible and income that is not taxable, this is differentiated from profit before tax in the income statement. Current tax also includes adjustments relating to recognized current tax from prior periods. Interest attributable to income tax is also recognized as income tax.

Deferred tax is calculated based on temporary differences between the carrying amounts and the taxable values of assets and liabilities and for tax loss carryforwards in so far as it is probable that these can be utilized against future taxable profits. Deferred taxes are measured at their nominal amount and based on the tax rates enacted on the balance sheet date. Deferred tax is not calculated on the initial recognition of goodwill or when an asset or liability is recognized for the first time, provided that the asset or liability is not attributable to an acquisition. SCA does not recognize tax that may arise on future dividends of the retained earnings of foreign subsidiaries. Any such future effects (withholding tax deducted at source and other deferred tax on profit-taking within the Group) are recognized when SCA can no longer control the reversal of such differences or when, for other reasons, it is probable that a reversal can take place in the foreseeable future.

The recognition of tax effects is determined by the manner in which the underlying transaction is recognized. For items in the income statement, the tax effect is recognized in the income statement. For transactions in equity and in other comprehensive income, the tax effect is recognized in equity and in other comprehensive income, respectively.

Tax liabilities and tax assets are recognized net when SCA has a legal right to offset.

KA A KEY ASSESSMENTS AND ASSUMPTIONS

The Group conducts operations in several countries, which increases the complexity when determining deferred tax assets and tax liabilities. This requires that assessments and assumptions are made to determine the value of the deferred tax asset and deferred tax liability on the balance sheet date. Future changes to taxation legislation and trends in the business climate will impact the company's future taxable profits and thus its possibility to utilize deferred tax assets on loss carryforwards and other temporary differences.

As of December 31, 2017, SEK 22m was recognized as deferred tax assets based on best assessment of future taxable profits in the Group. At year-end 2017, the Group also had tax loss carryforwards of SEK 48m, for which no deferred tax asset had been recognized. Accordingly, a changed assessment of the probability of future taxable profits could have a positive or negative effect.

Key assessments and assumptions are also made regarding recognition of provisions and contingent liabilities relating to tax risks. For further information, refer to Note D7 and Note G3.

TB5:1 Tax expense

Tax expense (+), tax income (-).

SEKm	2017	% ¹⁾	2016	% ¹⁾
Current tax				
Income tax for the period	26	1.1	-17	-0.8
Adjustments for prior periods	33	1.4	3	0.2
Current tax expense	59	2.5	-14	-0.6
Deferred tax				
Changes in temporary differences	492	20.3	463	21.2
Adjustments for prior periods	-5	-0.2	-32	-1.5
Revaluation	-2	-0.1	-	-
TB5:2 Deferred tax expense	485	20.0	431	19.7
IS Tax expense	544	22.5	417	19.1

1) Percentage of profit before tax.

Explanation of tax expense

The difference between the recognized tax expense and expected tax expense is explained below. The expected tax expense is calculated based on profit before tax in each country multiplied by the tax rate in effect in the country.

SEKm	2017		2016	
	SEKm	%	SEKm	%
Profit before tax	2,418		2,187	
IS Tax expense	544	22.5	417	19.1
Expected tax expense	521	21.5	462	21.1
Difference	23	1.0	-45	-2.0
The difference is explained by:				
Permanent differences between accounting and taxable result				
Effects of acquisitions and divestments	-	-	-25	-1.1
Other permanent effects ¹⁾	-6	-0.2	10	0.5
Taxes related to prior periods ²⁾	29	1.2	-29	-1.4
Changes in the value of deferred tax assets	2	0.1	-2	-0.1
Changes in tax rates	-2	-0.1	1	0.1
Total	23	1.0	-45	-2.0

1) Other permanent effects for 2017 relate primarily to issuance costs associated with the distribution of Essity, which were recognized directly against equity and the utilization of replacement reserves.

2) Taxes attributable to prior periods for 2017 relate, for the most part, to a reversal of the tax asset relating to the divestment of the Laakirchen publication paper mill, which is why the tax expense increased by SEK 29m. Taxes attributable to prior periods for 2016 relate, for the most part, to tax income of SEK 29m pertaining to the adjustment of income tax on capital gains on the divestment of Laakirchen.

Current tax liability

Current tax liability (+), current tax asset (-).

SEKm	2017	2016
Value, January 1	194	-45
TB5:1 Current tax expense	59	-14
CF TB5:3 Paid tax	-30	-17
Other changes from acquisitions, divestments and reclassifications	-30	-487
Translation differences	-	-3
Changes relating to discontinued operations	-175	760
Value, December 31	18	194
BS of which current tax liability	22	935
BS of which current tax asset	-4	-741

TB5:3 Paid tax

Tax payments by SCA entities per country, paid tax (-).

SEKm	2017	2016
France	-6	-
Holland	-15	-
Japan	-1	-5
Sweden	-4	-3
UK	-	-4
Germany	-4	-5
CF Total	-30	-17

TB5:2 Deferred tax liability 2017

Deferred tax liability (+), deferred tax asset (-).

SEKm	Value, January 1	Deferred tax expense	Discontinued operations	Other changes ²⁾	Value, December 31
Intangible fixed assets	1,679	-	-1,676	-	3
Property, plant and equipment	12,012	317	-4,111	-	8,218
Financial non-current assets	47	4	119	47	217
Current assets	-288	10	270	5	-3
Provisions	-1,063	178	821	-23	-87
Liabilities	-606	-53	681	-1	21
Future tax credits and tax loss carryforwards	-1,489	168	1,293	-	-28
Other	-39	-139	189	7	18
BS Total¹⁾	10,253	485	-2,414	35	8,359

1) The closing deferred tax liability comprises deferred tax assets of SEK 22m (1,465) and deferred tax liabilities of SEK 8,381m (11,718).

2) Other changes include deferred tax recognized directly in equity according to IAS 19 of SEK -24m and IAS 39 of SEK 11m.

Loss carryforwards

Future tax credits and loss carryforwards for which deferred tax assets were recognized have been reported at the tax amount of SEK 28m on the line Future tax credits and tax loss carryforwards in table **TB5:2**. Loss carryforwards for which no deferred tax assets were recognized amounted to **TB5:4** SEK 48m (39), gross, at December 31, 2017. The tax value of uncanceled tax loss carryforwards amounted to SEK 12m (10). In SCA's opinion, it is not probable that loss carryforwards for which no deferred tax was recognized will be offset against future profits as these largely concern saved capital losses with a limited right of deduction against future capital gains. The expiry dates of these loss carryforwards are distributed as shown in table **TB5:4**.

The change in uncanceled loss carryforwards for the period includes SEK 1m that was either utilized or capitalized. No loss carryforwards expired in 2017.

TB5:4 Loss carryforwards, gross, for which no deferred tax assets were recognized as per December 31, 2017

Year of maturity	SEKm
2018	-
2019	-
2020	-
2021	1
2022 and later	20
Indefinite life	27
Total	48

C. EMPLOYEES

C1. PERSONNEL COSTS

Personnel costs

SEKm	Note	2017	2016	Proforma (excluding Essity) 2016
Salaries and remuneration		-1,878	-14,535	-1,737
TC3:1B of which Executive Management		-31 ¹⁾	-140	
of which Board	C4	-9	-8	
Pension costs		-210	-1,392	-187
of which defined benefit pension costs	C5	-64	-612	-71
of which other pension costs		-146	-780	-116
Other social security costs		-575	-3,357	-518
Other personnel costs		-100	-1,229	-94
Total personnel costs		-2,763	-20,513	-2,536
Discontinued operations			17,977	
IS Total personnel costs, continued operations			-2 536	

1) For the period June 15, 2017 to December 31, 2017. For salary and remuneration paid to Executive Management for the period January 1, 2017 to June 14, 2017, refer to table TC3:1A.

C2. PERSONNEL DATA

Average number of employees

	2017	2016	(excluding Essity) 2016
Average number of employees	4,127	46,171	4,022
of whom men	3,377	31,937	3,305
of whom women	750	14,234	717

C3. REMUNERATION OF SENIOR EXECUTIVES

Remuneration has been paid to senior executives in SCA for work in this company in 2016. In connection with the distribution of Essity Aktiebolag (publ), the costs for senior executives have been allocated from SCA to Essity for the year 2016. Remuneration to senior executives in Essity for 2017 has been paid from Essity. SCA reports below the remuneration attributable to the SCA Group prior to the distribution of Essity June 14, 2017 and the following period.

Guidelines for salary and employment conditions for senior executives

Senior executives refer to the President, who is also the CEO, and Business Area Presidents, President for the support unit and Central Staff Managers. For the composition of this group, refer to pages 64-65.

Annual General Meeting guidelines for remuneration of senior executives

The 2017 Annual General Meeting adopted the following guidelines for remuneration and other employment conditions for senior executives:

Remuneration of senior executives will be a fixed amount, variable remuneration, additional benefits and pension. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession and linked to the senior executive's responsibility and authority.

Variable remuneration is to be linked to the fixed remuneration, based on earnings results in relation to annual and long-term established targets.

In the event of termination of employment, the notice period should normally be up to two years if termination is initiated by the company, and up to one year, when initiated by the senior executive. There will be no severance pay.

Pension benefits should, wherever possible, only include defined premium pension benefits and entitle the executive to receive a pension from the age of 65.

Variable remuneration is not pensionable income.

The Board of Directors has the right to depart from the established guidelines if there is an individual case with special grounds. The guidelines do not take precedence over compulsory conditions in accordance with labor legislation or collective agreements. Furthermore, they are not applicable to existing contracts.

Company's application of guidelines

Fixed salary

The fixed salary is to be in proportion to the authority and responsibility of the executive. Salaries are decided on an individual basis to a level, using an overall assessment of the executive's total remuneration, that is deemed competitive and corresponds to market practice in the executive's field of profession.

Variable remuneration

The President and CEO as well as other senior executives are part of SCA's program for variable remuneration, where remuneration is paid according to SCA's prevailing stipulations. The total variable remuneration can, for the President and CEO, amount to a maximum of 100 percent of fixed salary while for the variable remuneration for other senior executives can amount to a maximum of 80 percent of fixed salary. Variable remuneration is divided into a short and long-term portion. It shall encourage high performance, but should also act as a variable payroll expense at times when results do not achieve the established targets.

The short-term variable remuneration (Short Term Incentive "STI") can, for the President and CEO, amount to a maximum of 50 percent of fixed salary and for other senior executives to 40 percent of fixed salary. The established STI targets for the President and CEO and senior executives with staff functions focus on the Group's profit before tax, EBITDA and operating cash flow. For Business Area Presidents and President for the support unit, the targets primarily focus on operating cash flow, cost control, production volume, EBITDA and growth for each business area and the support unit.

The long-term portion (Long Term Incentive "LTI") can, for the President and CEO, amount to a maximum of 50 percent of fixed salary and for other senior executives to 40 percent of fixed salary, where half of the net outcome (after tax deductions) is to be used to buy shares in SCA. The acquired shares may then not be sold within three years of the purchase of shares in the relevant LTI program.

The LTI goal is based on the performance of the company's Class B share over a three-year period, measured as "Total Shareholder Return" (TSR) compared with a weighted index, composed of OMXS30 and a "peer group" comprising a number of defined competitors. The LTI program follows the principles and guidelines that applied before the distribution of Essity. Only the peer group has been updated to reflect the changed competitive position.

Outcome, variable remuneration

For the President and CEO and Central Staff Managers, STI resulted in 50 percent and 40 percent respectively of fixed salary for 2017. STI resulted in variable remuneration correspond-

ing to 23–40 percent of fixed salary for other senior executives with responsibility for a business area. The LTI target was achieved for 2015–2017, resulting in maximum outcome for the President and CEO as well as for the other senior executives.

Pensions

The senior executives are covered by a defined premium pension, where the company annually pays a premium of 40 percent of the fixed salary to the President and CEO and an annual premium of 30 percent of the fixed salary to other senior executives. Two senior executives have retained their old pension solutions with differing conditions, of which one senior executive has a defined benefit pension solution. The agreed pension premium for the President and CEO as well as for the other senior executives is paid as long as they are employed, though not longer than the month before the month the senior executive reaches the age of 65.

Other benefits

Other benefits pertain to a company car and any other benefits.

Notice period and severance pay

The agreement with the President and CEO stipulates a period of notice of 24 months if such notice is given by the company and a period of notice of 6 months if notice is given by the President and CEO. If notice is given by the company, the President and CEO is obligated to be available to the company during the notice period if so requested by the company. If the President and CEO, after written approval from the company, assumes a new position during the period of notice then, unless otherwise agreed, the new salary will be deducted from the salary received during the notice period. The agreement does not contain any stipulations with regard to severance pay.

Other senior executives have a notice period, if such notice is given by the company, of 12 months, which after five years of service, from their last employment, increases to 18 months. The executive's notice period toward the company is six months. One senior executive has differing conditions, with a notice period, if such notice is given by the company, of 18 months, which after three years of service increases to 24 months. If requested by the company, this executive is obligated to be available to the company during the notice period. Any new salary from other positions will be deducted from the salary received during the notice period. The agreements have no stipulations with regard to severance pay.

Preparation and decision process for remuneration

During the year, the Remuneration Committee submitted recommendations to the Board regarding the principles for remuneration of senior executives. The Board discussed the Remuneration Committee's proposal and decided on the basis of the Committee's recommendations. The remuneration of senior executives for the fiscal year was based on the Remuneration Committee's recommendation. Matters of remuneration of the President and CEO were decided by the Board of Directors. The executives concerned did not participate in remuneration matters pertaining to themselves. When it was deemed necessary, the work of the Remuneration Committee was carried out with the support of external expertise. For information about the composition of the Remuneration Committee, refer to page 59.

TC3:1A Remuneration and other benefits during the year until June 14, 2017

SEK	Fixed salary	Variable remuneration	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	5,466,667	4,624,800	41,062	10,132,529
Other senior executives (14 people)	27,971,918	22,922,376	1,250,440	52,144,734
Total	33,438,585	27,547,176	1,291,502	62,277,263

TC3:1B Remuneration and other benefits during the year from June 15, 2017

SEK	Fixed salary ¹⁾	Variable remuneration ²⁾	Other benefits	Total salaries and remuneration
President and CEO Ulf Larsson	3,536,383	3,536,383 ³⁾	63,916	7,136,682
Other senior executives (12 people)	13,746,642	9,861,533 ⁴⁾	434,565	24,042,740
Total	17,283,025	13,397,916	498,481	31,179,422

- 1) Fixed salary consists of salary paid and vacation pay bonus for the period, and, where applicable, the value of housing benefits.
- 2) Variable remuneration is calculated on fixed salary and covers the 2017 fiscal year (June 15 to December 31, 2017) and is paid in 2018.
- 3) Of which LTI program SEK 1,768,192.
- 4) Of which LTI program SEK 5,119,457.

Pension costs until June 14, 2017¹⁾

SEK	
President and CEO Magnus Groth ²⁾	2,294,178
Other senior executives (14 people) ³⁾	8,577,791
Total	10,871,969

- 1) The pension costs pertain to the costs that affected profit for 2017, excluding special payroll tax.
- 2) Outstanding pension obligations (value as of December 31, 2017) amounted to SEK 18,858,000.
- 3) Outstanding pension obligations (value as of December 31, 2017) amounted to SEK 106,453,265.

Pension costs from June 15, 2017¹⁾

SEK	
President and CEO Ulf Larsson ²⁾	1,485,927
Other senior executives (12 people) ²⁾	4,836,181
Total	6,322,108

- 1) The pension costs pertain to the costs that affected profit for 2017, excluding special payroll tax.
- 2) Outstanding pension obligations to all senior executives, including the President and CEO, (value as of December 31, 2017) amounted to SEK 37,082,000. These primarily consist of defined benefit pension plans, including ITP.

Remuneration and other benefits during the year 2016

SEK	Fixed salary	Variable remuneration ¹⁾	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth	11,000,000	8,998,000 ²⁾	87,738	20,085,738
Other senior executives (15 people) ⁴⁾	63,817,033	49,682,430 ³⁾	6,248,771	119,748,234
Total	74,817,033	58,680,430	6,336,509	139,833,972

- 1) Variable remuneration covers the 2016 fiscal year but was paid in 2017.
- 2) Of which LTI program SEK 5,500,000.
- 3) Of which LTI program SEK 31,680,631.
- 4) During the year, two business areas were discontinued. Remuneration and benefits for the two business area Presidents are included in the table, but not in the number of senior executives.

Pension costs 2016¹⁾

SEK	
President and CEO Magnus Groth ²⁾	4,495,961
Other senior executives (15 people) ³⁾	22,377,410
Total	26,873,371

- 1) The pension costs pertain to the costs that affected profit for 2016, excluding special payroll tax.
- 2) Outstanding pension obligations amount to SEK 15,741,000.
- 3) Outstanding pension obligations amount to SEK 162,635,322.

C4. FEES TO BOARD MEMBERS IN THE PARENT COMPANY

Remuneration has been paid to the Board members of SCA for board work in this company in 2016. In connection with the distribution of Essity Aktiebolag (publ), the expenses for Board members have been allocated from SCA to Essity for 2016. From 2017, each company has paid the compensation for each Board.

Remuneration of the Board refers to fees approved at the Annual General Meeting (AGM) on April 5, 2017 (SEK 2,100,000 for the Chairman and SEK 700,000 of other members) and fees approved at the extraordinary general meeting on May 17, 2017 (SEK 1,800,000 for the Chairman and SEK 600,000 for other members) and is effective from June 15, 2017 until the next AGM in March 2018. Members, who were part of the Board during the period between April 5 and June 14, 2017, have, according to the AGM resolution, received remuneration pro rata for each started month, meaning for three months (SEK 175,000).

For the Chairman and other Board members who were part of the Board between the time of the 2017 AGM on April 5, 2017 until the next AGM in March 2018, an additional fee was paid pro rata for the period between April 5 until June 14, 2017 (70 days), based on the difference between the fees decided by the scheduled shareholders' meeting and the fees decided by the extraordinary general meeting.

Those Board members who were members of the Board of the subsidiary SCA Forest Products AB for the period between March 1 and June 14, 2017, and who later joined the SCA Board, were paid fees of SEK 250,000 in accordance with the decision of SCA Forest Products AB's AGM on April 5, 2017. Fees for committee work refers to fees decided by the AGM on April 5, 2017. No remuneration is paid to the President and other employees.

SEK	Board fee		Audit Committee fee		Remuneration Committee fee		Remuneration SCA Forest Products		Extra remuneration ²⁾		Total ¹⁾	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Pär Boman	1,800,000	2,100,000	250,000	200,000	135,000	135,000			57,534		2,242,534	2,435,000
Charlotte Bengtsson	600,000						250,000				850,000	
Lennart Evrell	600,000				105,000		250,000				955,000	
Annemarie Gardshol	600,000	700,000							19,178		619,178	700,000
Martin Lindqvist	600,000		250,000				250,000				1,100,000	
Lotta Lyrå	600,000										600,000	
Bert Nordberg	600,000	700,000	47,945	200,000	105,000	105,000			19,178		772,123	1,005,000
Barbara Milian Thoralfsson	600,000	700,000	330,000	250,000					19,178		949,178	950,000
Louise Svanberg		700,000			26,250	105,000			175,000		201,250	805,000
Majja-Liisa Friman		700,000							175,000		175,000	700,000
Lars Rebien Sørensen									175,000		175,000	
Johan Malmquist		700,000							175,000		175,000	700,000
Ewa Björling		700,000							175,000		175,000	700,000
Total	6,000,000	7,000,000	877,945	650,000	371,250	345,000	750,000		990,068		8,989,263	7,995,000

1) For Board members who invoice their fees, it was agreed that SCA also adds employer's contributions to the remuneration, which is a cost-neutral solution for both parties.

2) For the period April 5, 2017 to June 14, 2017 (70 days).

SCA's Board consists of four women and five men. For the senior executives category, the distribution is 15 percent women and 85 percent men.

C5. REMUNERATION AFTER EMPLOYMENT

AP ACCOUNTING PRINCIPLES

Defined benefit pension plans

Defined benefit pension plans are characterized by the fact that payment is based on the period of employment and the employee's salary at, or just prior to, retirement. The actuarial and investment-related risks associated with defined benefit pension plans are carried by the company. The defined benefit obligations are calculated annually by independent actuaries using the Projected Unit Credit Method. Calculation is based on actuarial assumptions. Actuarial assumptions comprise the company's best assessment of the variables that determine the final cost for providing the benefits. The obligation is measured at the present value of the anticipated future cash flows using a discount rate (refer to Key assessments and assumptions below). Actuarial gains and losses (remeasurements) are recognized directly in equity under other comprehensive income in the period in which they arise. The recognized cost for the defined benefit plans includes personnel costs, as well as net interest items. Net interest items comprise the discount rate calculated on the average net pension liability for the period, taking fee and remuneration payments into consideration. The difference between the calculated discount rate on the plan assets and SCA's actual return on the plan assets is included in the remeasurement of the defined benefit net liability (net asset) recognized in equity under other comprehensive income. Past service costs are recognized in the income statement in the period in which they arise.

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the obligation on the balance sheet date minus the fair value of the plan assets. Funded plans with net assets, meaning plans with assets exceeding

obligations, are recognized as a financial non-current asset provided they are not limited by the asset ceiling in IAS 19. Other pension plans, which are not fully funded or unfunded, are recognized as Provisions for pensions.

In certain countries, pension payments are subject to taxes or fees. In such cases, these are included in the calculation of the obligation for the defined benefit pension plans. These taxes or fees are recognized as an expense in the income statement, except in cases where they are attributable to actuarial gains or losses, in which case they are recognized directly in equity under other comprehensive income, as are the actuarial gains or losses.

Defined contribution pension plans

Plans where the employer's obligation is limited to the premiums the company has undertaken to pay are classified as defined contribution plans. In these plans, it is the employee who bears the investment risk, meaning the risk that the invested assets could be insufficient to generate the anticipated compensation. The Group's payments relating to defined contribution plans are recognized as an expense during the period the employees carry out the service to which the payment relates.

Other post-retirement benefits

Some Group companies provide post-retirement healthcare benefits. The obligation and anticipated costs for these benefits has been calculated and recognized in a similar manner to that applying to defined benefit pension plans.

Severance pay

Severance pay is recognized as a payroll expense when the Group has an obligation to compensate employees whose employment was terminated early.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

The calculation of recognized expenses and provisions for defined benefit pension plans, where the size of the future compensation is unknown and payment will occur far in the future, is dependent on assumptions and assessments. The key assumptions and assessments include the discount rate, future salary increases, inflation and life expectancy. SCA determines the discount rate based primarily on AA-rated corporate bonds issued in the currency in which the payments will be made that match

the duration of the obligations. If no such corporate bonds are available, government bonds or mortgage bonds are used. Inflation assumptions are based on a combination of central bank targets, implicit market expectations and long-term analyst forecasts. Assumptions regarding salary increases are based on market expectations and market research forecasts. Key actuarial assumptions are presented in **TC5:5**. The sensitivity of the recognized provision with respect to key actuarial assumptions is described in **TC5:6**.

Provisions for pensions and similar obligations

SEKm	2017	2016
TC5:2 Defined benefit obligations	1,700	32,352
TC5:3 Fair value of plan assets	-3,118	-29,234
TC5:4 Effect of asset ceiling	782	1,298
TC5:1 Provision for pensions and similar obligations per plan	-636	4,416

Surpluses in funded plans recognized as financial non-current assets amounted to **BS** SEK 1,002m (1,186) on the balance sheet date and provisions for pensions totaled **BS** SEK 366m (5,602). Defined benefit obligations include obligations in an amount of SEK 245m (2,461) pertaining to unfunded plans.

SCA has both defined contribution and defined benefit pension plans in a number of subsidiaries. The most significant defined benefit plans are the pension plans in the Netherlands and Sweden, as described in **TC5:1**.

TC5:1 Provisions for pensions and similar obligations per plan

SEKm	Active	Paid-up pension policies	Retirees	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
Country								
Netherlands	61	7	8	76	-62	-	14	34
Sweden	512	294	487	1,293	-2,150	-	-857	19
Other	152	74	105	331	-906	782	207	
Total	725	375	600	1,700	-3,118	782	-636	

Netherlands

The plan is a defined benefit plan with premiums paid by the company and is managed by an independent board of trustees. Surpluses in the fund remain in the fund assets but can be utilized in the form of premium discounts. The plan is based on average salary and includes beneficiaries' pension and disability pension. The plan is obligated to meet the minimum legislated funding level. The plan applies a duration matching strategy to control the interest rate risk in the plan. SCA has applied to withdraw from the pension plan.

United Kingdom

SCA has had a defined benefit plan managed by an independent pension fund in accordance with British law. The contract between SCA and the pension fund was terminated in 2017.

Sweden

The ITP2 plan (supplementary pensions for salaried employees) encompasses employees born before 1979 and is a defined benefit plan that provides retirement pension based on final salary. The ITP2 plan provides pension as a percentage of various salary intervals.

The pension is reduced proportionately if the total period of service is less than 30 years. The ITP2 plan is managed by a fund, and the company may compensate itself using any surpluses in the plan assets.

Other

In addition to those described above, there are a number of minor pension obligations, including in France, the Netherlands, Sweden and Germany. Some of these plans are funded.

Costs for the period for defined benefit plans

SEKm	2017	2016
Current service cost, after deduction for premiums paid by the employees	-62	-584
Past service cost	-1	-23
Pension tax expense	-7	-36
Remeasurement, net	-1	-5
Net interest	12	-100
Pension costs before effects of settlements	-59	-748
Settlements	-43	-
Pension costs after effects of settlements	-102	-748

TC5:2 Defined benefit obligations

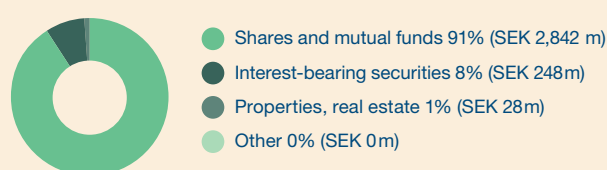
SEKm	2017	2016
Value, January 1	32,352	27,101
Current service cost	63	598
Interest expense	46	971
Past service cost	1	23
Pension tax expense	7	36
Settlements and transfers	-225	-15
Discontinued operations	-30,638	-
Other acquisitions and divestments	-	2,168
Benefits paid	-69	-1,137
Pension taxes paid	-1	-63
Remeasurement: financial assumptions	163	4,167
Remeasurement: demographic assumptions	-	-34
Remeasurement: experience-based assumptions	22	-588
Pension taxes pertaining to remeasurement	-24	16
Translation differences	3	-891
Value, December 31	1,700	32,352

Remeasurements in the defined benefit obligations comprise changes in financial assumptions, such as changes to the discount rate, etc., any changes in demographic assumptions and experience-based deviations. Experience-based deviations include unexpectedly high or low employee turnover or salary increases.

TC5:3 Fair value of plan assets

SEKm	2017	2016
Fair value, January 1	-29,234	-25,863
Interest income	-94	-909
Discontinued operations	26,364	-
Other acquisitions and divestments	-	-1,473
Contributions by plan participants	-1	-14
Contributions by the employer	-59	-1,036
Benefits paid, excluding settlements	56	1,129
Benefits paid for settlements	268	30
Return in excess of recognized interest income	-416	-2,133
Administrative expenses for pension obligations	-	40
Translation differences	-2	995
Fair value, December 31	-3,118	-29,234

The plan assets are distributed according to the following classes of assets 2017:



The plan assets are distributed according to the following classes of asset 2016:



99 percent (95) of the plan assets on the balance sheet date were traded on active markets in which market quotations are used for the valuation of assets. As in the preceding year, no financial instruments issued by SCA are included in the fair value of plan assets at December 31, 2017.

TC5:4 Effect of asset ceiling

SEKm	2017	2016
Value, January 1	1,298	1,162
Interest expense	36	38
Other changes to asset ceiling	111	98
Discontinued operations	-663	-
Value, December 31	782	1,298

Effect of asset ceiling pertains to funds in two Swedish foundations that can be used for possible future undertakings for early retirement for certain categories of employees.

TC5:5 Principal actuarial assumptions

	Sweden	UK	Eurozone
2017			
Discount rate	2.60	–	1.30
Expected salary increase rate	3.25	–	2.85
Expected inflation	2.00	–	1.60
Life expectancy, men ¹⁾	22	–	22
Life expectancy, women ¹⁾	25	–	24
2016			
Discount rate	2.73	2.72	1.31
Expected salary increase rate	2.75	3.00	2.85
Expected inflation	1.50	3.00	1.60
Life expectancy, men ¹⁾	22	22	22
Life expectancy, women ¹⁾	25	25	24

1) Life expectancy, expressed in years, for an individual currently aged 65.

TC5:6 Change of obligation, increased obligation (–)

SEKm	
Discount rate +0.25%	82
Price inflation, incl. salary inflation +0.25%	–84
Longevity +1 year	–69

The above sensitivity analysis is calculated by changing one assumption while the others remain constant.

Other disclosures**Multiemployer plans**

SCA has obligations for disability and family pensions for salaried employees in Sweden, secured through insurance with the insurance company Alecta. These benefits are reported as defined contribution plans since there is no basis for allocating the obligations, plan assets and costs to the individual companies covered by the plan.

Budgeted contributions

The budgeted contributions for the company's defined benefit pension plans for 2018 were calculated at SEK 58m. Contributions for multiemployer plans for 2018 were calculated at SEK 6m.

D. OPERATING ASSETS AND LIABILITIES**D1. INTANGIBLE FIXED ASSETS****AP ACCOUNTING PRINCIPLES****Goodwill**

Goodwill arises in connection with business combinations where the consideration transferred exceeds the fair value of the acquired net assets. Goodwill is recognized at cost less accumulated impairment and is an intangible asset with an indefinite useful life. This means that goodwill is not amortized, but rather is tested annually for impairment. All goodwill is allocated to the cash-generating units that to benefit from the synergies from the business combination. In connection with the sale of Group companies, the remaining carrying amount of the goodwill attributable to the divested unit is included in the capital gain. Goodwill that arises in acquisitions of associates or joint ventures is included in the carrying amount of the respective associate or joint venture. The cash-generating units following the distribution of Essity correspond to the operating segments in accordance with Note B1.

Other intangible fixed assets

Intangible fixed assets also include patents, licenses and other similar rights. Acquired assets of this type are recognized at cost and are amortized on a straight-line basis during their anticipated useful life, which varies between 3 and 20 years.

Customer relations are measured at fair value at the time of the acquisition. The value of these customer relations is amortized over their useful life, which is considered to be between 3 and 15 years.

Research expenditure is recognized as an expense as incurred. Identifiable expenditure for development of new products and processes is capitalized to the extent it is expected to provide future economic benefits. In cases in which it is difficult to separate the research phase from the development phase in a project, the entire project is treated as research and expensed immediately. Capitalized expenditure is amortized on a straight-line basis from the date when the asset is in a location and in the condition required to use it in the manner intended by management.

Impairment testing

Goodwill is tested annually for impairment. When testing for impairment, the assets are grouped in cash-generating units in accordance with SCA's operating segments in Note B1. The test

compares the carrying amounts of the cash-generating units with the recoverable amounts. The recoverable amount of each cash-generating unit is determined by discounting future cash flows in order to determine their value in use. The calculation of future cash flows is based on the strategic plans adopted by Executive Management for the next three years. The carrying amount for the cash-generating unit includes goodwill with indefinite useful lives and assets with definite useful lives, such as non-current assets and working capital.

The value of depreciated assets is tested for impairment whenever there are indications that the carrying amount might not be recoverable.

In cases in which the carrying amount of an asset exceeds its estimated recoverable amount, an impairment loss is recognized to reduce the carrying amount of the asset to the recoverable amount.

An impairment loss recognized earlier is reversed, if the reasons for the impairment no longer exist. The carrying amount after the reversal is limited to what it would have been prior to impairment loss. Impairment losses on goodwill are never reversed.

Emission allowances and costs for carbon dioxide emissions

SCA participates in the European system for emission allowances and receives a permit for each facility, in which operations requiring a permit are conducted, to emit a specific volume of carbon dioxide during a calendar year. Emission allowances relating to carbon dioxide emissions are recognized as an intangible asset and as deferred income (liability) when they are received. Allowances are received free of charge and measured and recognized at market value as of the date to which the allocation pertains. During the period, the initial liability for emission allowances received is dissolved over the income statement as income in pace with actual carbon dioxide emissions. If the emission allowances received do not cover actual emissions, SCA makes a provision for the deficit valued at the market value on the balance sheet date. Sales of surplus emission allowances are recognized as income on the delivery date.

If the market price of emission allowances on the balance sheet date is less than recognized cost, any surplus emission

allowances that are not required to cover emissions made are impaired to the market price applying on the balance sheet date. In conjunction with this, the remaining part of the deferred income is recognized as income by a corresponding amount and therefore no net effect occurs in the income statement. The emission allowances are used as payment in the settlement with the Swedish state regarding liabilities for actual emissions.

Intangible fixed assets SEK m	Goodwill		Other intangible assets	
	2017	2016	2017	2016
Accumulated costs	46	19,452	340	11,583
Accumulated amortization	-	-	-225	-3,428
Accumulated impairment	-43	-195	-33	-490
Total	3	19,257	82	7,665
Value, January 1	19,257	15,412	7,665	7,355
Investments	-	-	19	165
Sales and disposals	-	-	-	-1
Company acquisitions	-2	3 379	2	213
Reclassifications	-	-	1	131
Amortization	-	-	-16	-397
Impairment	-	-135	-	-2
Translation differences	-	601	-	201
Discontinued operations	-19,252	-	-7,589	-
Value, December 31	3	19,257	82	7,665
TD1:1 Emission allowances, net value	-	-	9	85
BS Value, December 31 including emission allowances	3	19,257	91	7,750

Impairment testing

Annual testing for impairment of goodwill is carried out in the fourth quarter. Impairment testing for 2017 did not indicate any impairment requirement. Sensitivity analyses show that reasonable changes to key parameters do not give rise to any impairment requirement. The impairment of goodwill in 2016 amounted to SEK 137m and related to discontinued operations.

In addition to annual impairment testing of the cash-generating units, individual assets are tested to determine whether any impairment is needed. The discount rate before tax used in the impairment testing of goodwill is 5.3 percent (5.7). No impairment was carried out during the year.

TD1:1 Emission allowances

SEK m	2017	2016
Accumulated costs	10	98
Accumulated revaluation of surplus	-1	-13
Total	9	85
Value, January 1	85	85
Emission allowances received	33	104
Sales	-27	-30
Settlement with the government	-7	-71
Revaluation of surplus	-1	-2
Translation differences	-	-1
Discontinued operations	-74	-
Value, December 31	9	85

D2. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Tangible fixed assets

Property, plant and equipment is recognized at cost less accumulated depreciation and any impairment. In cases where an investment in foreign currency has been recognized using hedge accounting, the gain/loss from the hedge is recognized as part of the acquisition cost. The cost of properties and production facilities included in major projects includes costs for running-in and start-up. Borrowing costs are included in the cost of investments exceeding SEK 250m that take more than 12 months to complete. Expenses for repairs and maintenance are expensed directly in the income statement. Income from the sale of products manufactured during the completion of the facility are recognized over the income statement.

Forest land

SCA's forest land is valued at historical cost and is not subject to depreciation. The cost of forest roads is recognized as land improvements.

Depreciation and impairment

Land is not subject to depreciation. Buildings, land improvements, machinery and equipment are depreciated on a straight-line basis over the useful lives of the assets. If, at accounting year-end, there is an indication that property, plant and equipment has declined in value, impairment testing is carried out.

Assessed useful lives

	Number of years
Pulp and paper mills, sawmills	10–25
Other machinery	7–18
Tools	3–10
Vehicles	4–5
Buildings	15–50
Energy plants	15–30
Computers	3–5
Office equipment	5–10
Harbors and railways	20–30
Land improvements	10–20

Carrying amounts

SEKm	Buildings		Land and land improvements ^{1) 2)}		Machinery and equipment ³⁾		Construction in progress ³⁾		Total property, plant and equipment	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Accumulated costs	4,918	24,980	4,028	7,701	25,749	96,247	5,506	7,125	40,201	136,053
Accumulated depreciation	-2,730	-10,725	-1,625	-2,006	-17,370	-58,321	-	-24	-21,725	-71,076
Accumulated impairment	-148	-485	-4	-68	-1,210	-2,202	-10	-38	-1,372	-2,793
Total	2,040	13,770	2,399	5,627	7,169	35,724	5,496	7,063	17,104	62,184
Value, January 1	13,770	12,742	5,627	5,541	35,724	32,228	7,063	4,021	62,184	54,532
Investments	27	315	108	211	254	2,841	3,155	6,431	3,544	9,798
Sales and disposals	1	-34	-1	-10	-6	-117	-	-	-6	-161
Company acquisitions	-	511	-	28	-	2,289	-	68	-	2,896
Company divestments	-	-	-	10	-	-	-	-	-	10
Reclassifications	175	686	107	-53	576	2,626	-859	-3,536	-1	-277
Depreciation	-117	-811	-117	-148	-879	-4,878	-	-24	-1,113	-5,861
Impairment ⁴⁾	4	-159	-	-102	-	-127	-7	-32	-3	-420
Translation differences	5	520	-	150	2	862	-15	135	-8	1,667
Discontinued operations	-11,825	-	-3,325	-	-28,502	-	-3,841	-	-47,493	-
BS Value, December 31	2,040	13,770	2,399	5,627	7,169	35,724	5,496	7,063	17,104	62,184

1) Land and land improvements includes forest land and forest roads valued at SEK 1,664m (1,636).

2) For land improvements linked to forest land, investments amounted to SEK 98m (97) and depreciation to SEK 73m (70).

3) During the period, interest was capitalized in machinery and equipment in an amount of SEK 0m (19) and in construction in progress in an amount of SEK 22m (41). The average interest rate used was 1 percent (1).

4) Reversal of impairment of buildings from previous years amounting to SEK 4m is recognized in the income statement as an item affecting comparability, refer to Note B4.

D3. BIOLOGICAL ASSETS

AP ACCOUNTING PRINCIPLES

The Group's standing timber is defined and recognized as biological assets at fair value in accordance with IAS 41 Agriculture. Forest assets are divided up and recognized as biological assets and land assets in accordance with IAS 16 Property, plant and equipment. Forest land and forest roads are classified as land and land improvements. The biological assets are measured and recognized at fair value. The fair value of the Group's standing timber is calculated as the present value of anticipated future cash flows from the assets before tax. The calculation is based on existing, sustainable felling plans and assessments regarding growth, timber prices, felling costs and silviculture costs, including costs for replanting; that is using input data that is not observable in the market. Environmental restrictions and other limitations are taken into account and the calculation is performed for a production cycle that SCA estimates at an average of 100 years. The change in value is recognized in the income statement under Change in value in biological assets.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

Since a market price or other comparable value does not exist for assets of the scope owned by SCA, biological assets are measured at the present value of anticipated future cash flows. Key assessments and assumptions pertain to discount rates, future timber prices, felling costs and felling volumes. As of 2014, expected future felling volume and growth are based on the forest survey conducted between 2012 and 2013. A new forest assessment is performed approximately every eight years. The calculation of future income and expenses is based on the trends of these items over the most recent five-year period. The discount rate used was 5.25 percent (5.25).

TD3:1 describes the sensitivity of the carrying amount with respect to key assumptions.

Biological assets

SEKm	2017	2016
Value, January 1	30,770	30,119
Purchases and forest swaps	70	17
Sales	-71	-55
Other changes in fair value	1,479	1,472
Change due to felling	-862	-783
BS Value, December 31	31,386	30,770
Deferred tax related to standing timber	6,905	6,769

The change in fair value and change due to felling are recognized as a net value in the income statement under the heading Change in value in biological assets, and amount to SEK 617m (689). The unrealized increase in value recognized during the year for assets held on the reporting date is estimated at SEK 1,479m (1,472). Costs for site preparation and replanting are included in the valuation of biological assets and amounted to SEK 124m (125).

For the year's valuation of standing timber, the same valuation model was used as in the past. For the 2017 valuation, no change was made to the discount rate, which amounted to 5.25 percent.

Assessed income and expenses are adjusted upward by an annual inflation rate of 2 percent. Assumptions regarding future price and cost levels have, as in the valuation in 2016, been based on the outcome for the five preceding years. The 2017 valuation used an average timber price of SEK 432 (432) per solid cubic meter under bark (m³sub). Annual harvesting is expected to demonstrate a rising trend over the calculated future production cycle and amounts to 4.3 million m³sub for 2017, ending at 5.9 million m³sub by 2114.

On average, 89 percent of felling comprises final harvesting and 11 percent thinning. 56 percent is expected to comprise sawlogs and 44 percent pulpwood.

SCA's forest holdings comprise approximately 2.6 million hectares of forest land primarily in northern Sweden, of which approximately 2.0 million is productive forest land. The forest portfolio's timber volume amounts to 232 million m³fo. Growth amounts to approximately 9.5 million m³fo per year, gross, on

productive forest land. Net growth, meaning growth after felling and natural losses, is estimated at 3 million m³fo per year. Felling in 2017 amounted to approximately 4.4 million m³sub (4.1).

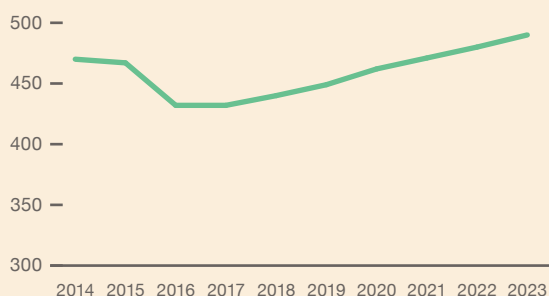
	2017	2016
Value SEK/hectare productive forest land	15,693	15,385
Value timber supplies SEK/m ³ fo	135	134

TD3:1 Sensitivity analysis

SEKm	Change in assumption		Change in value, before tax	
			2017	2016
Discount rate	0,25%	±	2,280	2,238
Wood price	0.50% the first 10 years	±	2,900	2,884
Felling cost	0.50% the first 10 years	±	745	742
Volume (final felling)	150,000 m ³ sub the first 10 years	±	417	412

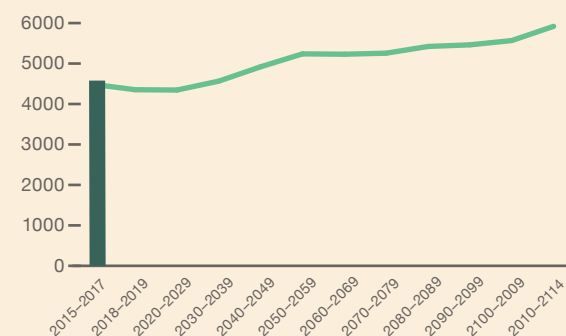
Price in the forest valuation

Nominal (SEK/m³sub/year)



Harvest

Harvest 2015–2017 and planned harvest 2018–2114 (1 000 m³sub/year)



D4. INVENTORIES

AP ACCOUNTING PRINCIPLES

Inventories are measured at the lower of cost and net realizable value. Cost is calculated by applying the first-in, first-out (FIFO) principle or weighted average cost formula. The cost of inventories and work in progress includes raw material costs, direct labor, other direct expenses and production-related overheads, based on a normal capacity utilization.

The net sales price is the calculated sales price received for normal business transactions less calculated marketing and sales costs.

Felling rights for standing timber are measured at contract prices, which on average have not exceeded the lower of net realizable value and cost.

Inventories

SEKm	2017	2016
Raw materials and consumables	1,031	4,254
Spare parts and supplies	473	1,906
Products in progress	92	1,346
Finished products	1,246	6,349
Felling rights	618	489
Advance payments to suppliers	–	3
BS Total	3,460	14,347

Impairment of inventory amounted to SEK 0m (258) during the period.

D5. OTHER CURRENT RECEIVABLES

AP ACCOUNTING PRINCIPLES

Derivatives

Derivatives are classified as a financial instrument, refer to Note E1. However, SCA has chosen to define derivatives used to hedge operating items as operating derivatives, which is why they are recognized on operating lines in the balance sheet.

Other current receivables

SEKm	2017	2016
VAT receivables	182	908
Prepaid expenses and accrued income	199	644
Suppliers with debit balance	–	155
Receivables for electricity and gas	–	171
Receivables from authorities	31	112
Derivatives	112	314
Receivables from associates	32	19
Other receivables	138	575
BS Total	694	2,898

D6. OTHER LIABILITIES

AP ACCOUNTING PRINCIPLES

Derivatives

Derivatives are classified as a financial instrument, refer to Note E1. However, SCA has chosen to define derivatives used to hedge operating items as operating derivatives, which is why they are recognized on operating lines in the balance sheet.

Other liabilities

SEKm	2017	2016
Other non-current liabilities		
Derivatives	–	2
Other non-current liabilities	103	179
BS Total	103	181
Of which items that fall due for payment later than within five years	–	28
Other current liabilities		
Derivatives	8	76
TD6:1 Accrued expenses and prepaid income	749	9,527
Other operating liabilities	220	2,863
BS Total	977	12,466

TD6:1 Accrued expenses and prepaid income

SEKm	2017	2016
Accrued social security costs	125	481
Accrued vacation pay liability	95	717
Other liabilities to personnel	173	1,167
Bonus and discounts to customers	80	4,116
Other items	276	3,046
Total	749	9,527

D7. OTHER PROVISIONS**AP ACCOUNTING PRINCIPLES**

Provisions are recognized in the consolidated balance sheet when there is a legal or informal obligation arising from events that have occurred and it is probable that payments will be required to settle the obligation. It must also be possible to reliably estimate the amount to be paid. The provision is valued at the present value of the anticipated future expenditure to settle the obligation.

A provision for restructuring measures is recognized when the Group has established a detailed plan and either implementation has begun or the main features of the measures have been communicated to the parties involved. Restructuring costs include, for example, costs for plant closures, impairment of production machinery and costs for personnel reductions.

Other provisions

SEKm	Efficiency programs	Tax risks	Environment	Legal disputes	Other	Total
Value, January 1	917	520	78	1,009	336	2,860
Provisions	-	-	7	-	8	15
Utilization	-20	-	-7	-	-	-27
Dissolutions	-1	-	-	-	-	-1
Discontinued operations	-882	-520	-71	-1,008	-334	-2,815
Value, December 31	14	-	7	1	10	32

Provisions comprise:

BS Long-term component	13
BS Short-term component	19

Of the provisions for the period for Environment, SEK 7m pertains to a liability for carbon dioxide emissions, which will be paid out in 2018. Of the Efficiency programs provisions, SEK 20m was paid out in 2017. Other provisions mainly comprised provisions in connection with withdrawal from pension plans.

D8. TRADE PAYABLES

SCA's trade payables amounted to **BS** SEK 2,900m (15,750) on December 31, 2017. SEK 1,193m (1,091) of the trade payables consisted of standing timber. The seller of standing timber has the right to almost immediate payment once the timber is harvested, though a payment plan can be used to spread payments over a longer period.

E. CAPITAL STRUCTURE AND FINANCING**E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL****AP ACCOUNTING PRINCIPLES**

Financial instruments recognized in the balance sheet include cash and cash equivalents, securities, other financial receivables, trade receivables, trade payables, loans and derivatives.

Current investments and derivatives are recognized on the trade date. Available-for-sale financial assets and loans are recognized on the settlement date. Trade receivables and trade payables are recognized in the balance sheet once the invoice has been sent or paid, respectively.

Financial assets are initially recognized at cost including transaction costs relating to the acquisition. Financial assets measured at fair value do not include transaction costs. Financial assets are recognized in the balance sheet until the rights in the agreement have been realized or the company no longer has the rights to the asset. Impairment of financial assets takes place when there is objective proof of impairment, such as cessation of an active market or where it is probable that the debtors cannot meet their commitments.

Financial liabilities are recognized at amortized cost, except in cases where they are recognized at fair value using hedge accounting, refer to Note E4. Financial liabilities are derecognized from the balance sheet when SCA has met its commitments.

For disclosures in a note relating to interest-bearing loans and investments, current market interest rates are taken into account in fair value calculations.

SCA recognizes financial instruments with a remaining maturity of less than 12 months as current assets and liabilities. Financial instruments that exceed 12 months, and where the company has the unconditional right to postpone settlement of the asset and liability for at least 12 months, are recognized as non-current assets and liabilities.

Classification and subsequent recognition

On the acquisition date, SCA classifies financial instruments into the following categories.

Financial assets measured at fair value through profit or loss

Assets are classified in this category when the intention is to sell in the short term and, if such is the case, they are recognized continuously at fair value through profit or loss. This category also includes derivatives with positive market values not recognized using hedge accounting.

Only financial derivatives were classified in this category during the year.

Financial liabilities measured at fair value through profit or loss

This category includes derivatives with negative fair values that are not used for hedge accounting and financial liabilities held for trading. Liabilities in this category are continuously measured at fair value and changes in value are recognized in the income statement.

Loan and trade receivables

This category comprises loan receivables that have determinable payments and are not quoted in an active market, as well as trade receivables. Receivables arise when SCA provides money, goods or services directly to another party without any intention of conducting trading in the receivables. Assets in this category are measured at amortized cost less a potential provision for impairment.

Available-for-sale financial assets

This category includes assets that are available for sale or that have not been classified in any of the other categories. These assets are measured at fair value under other comprehensive income less any impairment. In 2017, available-for-sale financial assets were transferred from Level 2 to Level 3. Refer to below explanation of the measurement levels.

Financial liabilities measured at amortized cost

This category includes financial liabilities that are not held for trading. These are recognized initially at fair value, net after transaction costs, and subsequently at amortized cost according to the effective interest method, meaning the estimated change in value (effective interest) is recognized as interest income or interest expense in the income statement.

Derivatives used for hedge accounting

All derivatives are initially and continuously recognized at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized in accordance with the accounting principles stated in Note E6. In 2017, electricity derivatives were transferred from Level 2 to Level 1.

Measurement levels

Level 1: Quoted prices on an active market for identical assets or liabilities, such as shares or bonds quoted on the stock exchange.

Level 2: Other observable inputs for the asset or liability than quoted prices included in Level 1, either directly (price quotations) or indirectly (obtained from price quotations), such as currency forward contracts or interest rate swaps.

Level 3: Inputs for the asset or liability not fully based on observable market data.

Financial instruments by category and measurement level

SEKm	Note	Measurement level	2017	2016
Financial assets measured at fair value through profit or loss				
Derivatives – Non-current financial assets	E2	2	4	52
Derivatives – Current financial assets	E2	2	9	169
Derivatives – Other non-current assets		2	3	–
Derivatives – Other current receivables	D5	2	11	92
Total			27	313
Financial liabilities measured at fair value through profit or loss				
Non-current financial liabilities	E4	2	–	16,021
Current financial liabilities	E4	2	–	424
Derivatives – Non-current financial liabilities	E4	2	–	19
Derivatives – Current financial liabilities	E4	2	1	502
Derivatives – Other non-current liabilities	D6	2	–	–
Derivatives – Other current liabilities	D6	2	4	46
Total			5	17,012
Loan and trade receivables				
Non-current financial assets	E2	–	–	24
Current financial assets	E2	–	–	385
Trade receivables	E3	–	2,299	17,811
Cash and cash equivalents	E2	–	538	4 482
Total			2,837	22,702
Available-for-sale financial assets				
Non-current financial assets	E2	3	20	90
Current financial assets	E2	–	–	–
Total			20	90
Financial liabilities measured at amortized cost				
Non-current financial liabilities	E4	–	3,675	15,317
Current financial liabilities	E4	–	3,501	4,328
Trade payables	D8	–	2,900	15,750
Total			10,076	35,395
Derivatives used for hedge accounting				
Non-current financial assets	E2	2	4	556
Other non-current assets		1,2	39	154
Other current receivables	D5	1,2	101	222
Current financial assets	E2	2	–	14
Total			144	946
Non-current financial liabilities	E4	2	–	3
Other non-current liabilities	D6	2	–	2
Current financial liabilities	E4	2	–	103
Other current liabilities	D6	2	4	30
Total			4	138

Financial instruments are measured at fair value, with the exception of loan and trade receivables and financial liabilities measured at amortized cost. According to SCA's assessment, the fair value essentially corresponds to the carrying amount, with the exception of non-current liabilities, the fair value of which is shown in Note E4.

Financial instruments in other notes to the balance sheet

SEKm	Note	2017		2016	
		Financial instruments	Of which derivatives	Financial instruments	Of which derivatives
Assets					
Financial assets, cash and cash equivalents	E2	575	13	5,772	791
Other non-current assets		42	42	154	154
Trade receivables	E3	2,299	–	17,811	–
Other current receivables	D5	112	112	314	314
Total		3,028	167	24,051	1,259
Liabilities					
Financial liabilities	E4	7,177	1	36,717	627
Other non-current liabilities	D6	–	–	2	2
Trade payables	D8	2,900	–	15,750	–
Other current liabilities	D6	8	8	76	76
Total		10,085	9	52,545	705

E2. FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

AP ACCOUNTING PRINCIPLES

Note E2 summarizes the assets that SCA has chosen to define as financial assets in the balance sheet. Cash and cash equivalents are defined as cash and bank balances as well as short-term investments with a maturity of less than three months from the acquisition date. Loan receivables are recognized at amortized cost. Available-for-sale financial assets are measured at fair value. Changes in value are recognized in equity under other comprehensive income, while exchange gains are recognized in the income statement.

Financial assets, cash and cash equivalents

SEKm	Carrying amount	
	2017	2016
Non-current financial assets		
TE2:1 Available-for-sale financial assets	20	90
Derivatives	4	608
Capital investments, other	4	–
Loan receivables, other	–	24
BS Total	28	722
Current financial assets		
Derivatives	9	183
Financial assets, other	–	19
Loan receivables, other	–	366
BS Total	9	568
Cash and cash equivalents		
Cash and bank balances	460	3,126
Short-term investments < 3 months	78	1,356
BS Total	538	4,482
Total financial assets, cash and cash equivalents	575	5,772

Of the Group's cash and cash equivalents, SEK 0m (1,683) is not fully available for use by the Group or for which other limitations exist, primarily cash and cash equivalents in countries that are subject to exchange restrictions or other legal restrictions.

TE2:1 Available-for-sale financial assets

SEKm	2017	2016
Value, January 1	90	83
Investments	3	4
Remeasurement taken to equity, net	–5	–1
Other reclassifications	13	–
Discontinued operations	–82	–
Translation differences	1	4
Value, December 31	20	90

Distribution of available-for-sale financial assets

SEKm	2017	2016
Pension assets not included in IAS 19 calculation	–	82
Shares – Investa Företagskapital AB	5	–
Shares – Shore Link AB	3	–
Shares – Sundsvalls Hamn AB	4	–
Shares – Bioenergi i Luleå AB	3	–
Other	5	8
Total	20	90

During 2017, SEK 13m was reclassified from shares and participations, refer to Note F3. Pension assets not included in IAS 19 calculation in 2016 pertains in its entirety to discontinued operations.

E3. TRADE RECEIVABLES

AP ACCOUNTING PRINCIPLES

Trade receivables are recognized at amortized cost after a provision is made for doubtful trade receivables. The provision for doubtful trade receivables is based on an individual assessment of each customer. Any impairment of trade receivables affects SCA's other operating expenses. Translation differences on trade receivables are recognized on the line net sales in 2017 and amounted to SEK -9m (17). The translation differences on trade receivables are recognized as Other operating income as of 2018.

SCA's trade receivables are generally current and are not discounted.

Trade receivables

SEKm	2017	2016
Trade receivables, gross	2,355	18,195
Provision to reserves for doubtful trade receivables	-56	-384
BS TE3:1 Total	2,299	17,811

TE3:1 Analysis of credit risk exposure in trade receivables

SEKm	2017	2016
Trade receivables neither overdue nor impaired	1,883	15,834
Trade receivables overdue but not impaired		
< 30 days	393	1,439
30-90 days	17	297
> 90 days	6	241
Total trade receivables overdue but not impaired	416	1,977
Total	2,299	17,811

SCA's customer structure is dispersed, with customers in many different areas of business. In 2017, SCA's ten largest customers accounted for 29 percent of SCA's sales. More information is available in the section on credit risks on page 53.

Provision to reserves for doubtful trade receivables

SEKm	2017	2016
Value, January 1	-384	-303
Provision for possible loan losses	-13	-159
Confirmed losses	56	27
Decrease due to reversal of provisions for possible loan losses	12	56
Translation differences	-	-5
Discontinued operations	273	0
Value, December 31	-56	-384

The expense for the period for doubtful trade receivables amounted to SEK -1m (-103).

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

The main principle for recognition of SCA's financial liabilities is that they are initially measured at fair value, net after transaction costs, and subsequently at amortized cost according to the effective interest method. Transaction costs are accrued over the term of the loan. In cases where loans with fixed interest rates are hedged using derivatives, both the loan and the derivative are measured at fair value through a fair value hedge. The cash flows from the interest rate derivative are discounted to the same market interest rate as the loan and the changes in value are recognized in the income statement.

Financial liabilities

SEKm	2017	2016
Current financial liabilities		
Amortization within one year	-	256
Derivatives	1	604
Loans with maturities of less than one year	3,493	4,400
Accrued financial expenses	8	97
BS Total	3,502	5,357
Non-current financial liabilities		
Bond issues	-	18,708
Derivatives	-	23
Other long-term loans with maturities > 1 year < 5 years	2,675	8,139
Other long-term loans with maturities > 5 years	1,000	4,490
BS Total	3,675	31,360
Total financial liabilities	7,177	36,717
Fair value of financial liabilities	7,187	37,047

Borrowing

SCA has a Swedish commercial paper program to the amount of SEK 5,000m, which can be utilized for current borrowing.

Commercial paper program¹⁾

Program size	Issued SEKm
Commercial paper SEK 5,000m	3,500
Total	3,500

1) Included in Loans with maturities of less than one year in the Financial liabilities table above.

SCA has syndicated bank facilities to limit the refinancing risk and maintain a liquidity reserve. The larger of the credit facilities constitutes a bridge to be replaced with other long-term financing, such as bilateral loans or additional capital market financing.

Credit facilities

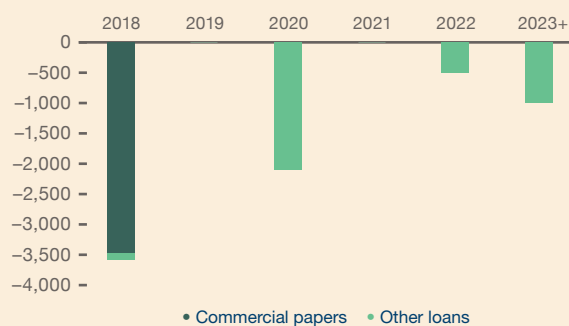
	Nominal SEKm	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facility B	4,500	2020	4,500	2,100	2,400
Syndicated credit facility A	3,500	2022	3,500	-	3,500
Total			8,000	2,100	5,900

Bilateral loans

	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Swedish export credit corporation	SEK 500m	2022	500	500	–
Swedish export credit corporation	SEK 500m	2023	500	500	–
Swedish export credit corporation	SEK 500m	2024	500	500	–
European Investment Bank ¹⁾	EUR 150m	–	1,476	–	1,476
Total			2,976	1,500	1,476

1) The bilateral loan from EIB has not yet been utilized and the credit facility period matures at the end of 2018. Possible maturity periods of up to ten years.

Maturity profile of gross debt



After additions for net pension provisions and deductions for cash and cash equivalents, interest-bearing receivables and capital investment shares, net debt amounted to SEK 5,966m (35,361). For a description of the methods used by SCA to manage its refinancing risk, refer to page 53.

Changes in liabilities from financial activities

SEKm	IB 2017	Discontinued operations	Cash flow	Reclassification	Market value changes	Other	UB 2017
Current financial liabilities	4,753	-4,486	6,755	-3,530	–	9	3,501
Non-current financial liabilities	31,337	-29,559	-1,633	3,530	–	–	3,675
Derivatives	627	-626	-2	–	2	–	1
Total liabilities from financing activities	36,717	-34,671	5,120	0	2	9	7,177

As a consequence of the distribution of shares in Essity, SCA's total debt was reduced from SEK 36,717m to SEK 7,177m during the year. During the second half of the year, SEK 3,530m of current liabilities was reclassified as non-current liabilities.

E5. LIQUIDITY RISK

The table below shows the Group's liquidity risk regarding financial liabilities (including interest payments), and negative cash flows from gross settled derivatives. For a description of how SCA manages its liquidity risk, refer to page 53.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 5 years	More than 5 years
2017			
Loans including interest	3,575	2,803	1,006
Net settled derivatives	5	–	–
Energy derivatives	4	–	–
Trade payables	1,753	1,147	–
Total	5,337	3,950	1,006
Gross regulated derivatives	5,265	1,047	–
2016			
Loans including interest	5,059	21,094	11,475
Net settled derivatives	–6	–27	–
Energy derivatives	29	1	–
Trade payables	14,519	1,231	–
Total	19,601	22,299	11,475
Gross regulated derivatives	38,315	2,443	1,373

The liquidity risk in 2016 includes discontinued operations.

E6. DERIVATIVES AND HEDGE ACCOUNTING**AP ACCOUNTING PRINCIPLES****Accounting for derivatives used for hedging purposes**

All derivatives are initially and continuously recognized at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized as described below. When using hedge accounting, the relationship between the hedge instrument and the hedged item is documented. Assessment of the effectiveness of the hedge is also documented, both when the transaction is initially executed and on an ongoing basis. Hedge effectiveness is the extent to which the hedging instrument offsets changes in value in a hedged item's fair value or cash flow. The ineffective portion is recognized directly in the income statement.

Cash flow hedges

Gains and losses on remeasurement of derivatives intended for cash flow hedging are recognized in equity under other comprehensive income and reversed to the income statement at the rate at which the hedged cash flow affects the income statement. If a hedge relationship is interrupted and cash flow is still expected, the result is recognized in equity under other comprehensive income until the cash flow affects the result. If the hedge pertains to a balance sheet item, the result is transferred from equity to the asset or liability to which the hedge relates when the value of the asset or liability is determined for the first time. In cases in which the forecast cash flow that forms the basis of the hedging transaction is no longer assessed as probable, the cumulative gain or loss that is recognized in equity under other comprehensive income is transferred directly to the income statement. Cash flow hedges relating to energy affect the energy costs, that is, cost of goods sold. Transaction exposure's cash flow hedges affect consolidated net sales and expenses. Cash flow hedges relating to interest expenses affect net financial items.

Hedges of net investments in foreign operations

Gains and losses on remeasurement of derivatives intended to hedge SCA's net investments in foreign operations are recognized in equity under other comprehensive income. The cumula-

tive gain or loss in equity is recognized in the income statement in the event of divestment of the foreign operation.

Fair value hedges

The gain or loss from remeasurement of a derivative relating to fair value hedges is recognized in the income statement with changes in fair value of the asset or liability exposed to the hedged risk. For SCA, this means that non-current loans that are subject to hedge accounting are discounted without a credit spread, since the credit spread is deemed to have a marginal impact on the calculation, to market interest rates and meet inherent interest rate derivatives' discounted cash flows at the same rate.

Financial hedges

When SCA conducts financial hedges and the transactions do not meet requirements for hedge accounting according to IAS 39, changes in fair value of the hedging instrument are recognized directly in the income statement.

Outstanding derivatives

SEKm	Currency	Interest	Energy	Total
2017				
Nominal	6,356	700	422	7,478
Asset	88	4	74	166
Liability	5	–	4	9
2016				
Nominal	38,695	16,094	1,810	56,599
Asset	351	561	347	1,259
Liability	664	11	30	705

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
December 31, 2017¹⁾		
Gross amount	166	9
Offsettable amount	–	–
Net amount recognized in the balance sheet	166	9
ISDA agreements whose transactions are not offset in the balance sheet ²⁾	–9	–9
Net after offsetting in accordance with ISDA agreements	157	–
December 31, 2016¹⁾		
Gross amount	2,394	1,840
Offsettable amount	–1,135	–1,135
Net amount recognized in the balance sheet	1,259	705
ISDA agreements whose transactions are not offset in the balance sheet	–288	–288
Net after offsetting in accordance with ISDA agreements	971	417

1) Outstanding derivatives gross without consideration of the right of set-off in accordance with ISDA agreements.

2) ISDA entails framework agreements for financial transactions.

Balance sheet

SCA uses financial derivatives to manage currency, interest rate and energy price risks. For a description of how SCA manages these risks, refer to the Board of Directors' Report. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2017. For more information relating to derivatives in the balance sheet, refer to Note E1.

Income statement

Hedges pertaining to transaction exposure had an impact of SEK -9m (-47) on operating profit for the period. At year-end, the net market value amounted to SEK 37m (45). Currency hedges reduced the cost of non-current assets by SEK 18m (19). At year-end, the net market value amounted to SEK 29m (24). The net market value for interest rate risk hedges amounted to SEK 4m (0).

Energy derivatives had an impact of SEK 49m (14) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 70m (317) at year-end. Interest rate derivatives impacted net interest items in an amount of SEK -2m (0). For further information relating to net financial items, refer to Note E7.

Sensitivity analyses

SCA has performed sensitivity analyses on the financial instruments' risk exposure at December 31, 2017 using assumptions on market movements that are regarded as reasonable in one

year's time. If the Swedish krona had unilaterally weakened/strengthened by 5 percent against all currencies, outstanding financial hedges, trade payables and trade receivables would have decreased/increased profit for the period before tax by SEK 137m (113). Financial hedges with maturities of more than one year would have increased/decreased equity by SEK 46m (0).

If the Swedish krona had unilaterally weakened/strengthened by 5 percent, currency hedges relating to the cost of non-current assets would have increased/decreased equity by SEK 33m (46).

If energy prices had increased/decreased by 20 percent, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have decreased/increased energy costs for the period by SEK 56m (259). In addition to the earnings impact, equity would have increased/decreased by SEK 36m (136). However, the total energy cost for the Group would have been affected differently if the price risk related to supply contracts was taken into account.

Outstanding derivatives with hedge accounting¹⁾

SEKm	Assets	Liabilities	Net	Tax	Hedge reserve after tax
2017					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	68	-4	64	-14	50
Currency risk	66	-	66	-15	51
Interest rate risk	4	-	4	-1	3
Total	138	-4	134	-30	104
2016					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	329	-23	306	-78	228
Currency risk	45	-10	35	-8	27
Total	374	-33	341	-86	255
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk ²⁾	704	-537	167		
Fair value hedges					
Interest rate risk	561	-8	553		
Total	1,639	-578	1,061	-86	255

1) Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives on page 102.

2) Derivatives before offsetting.

The results from fair value hedges are recognized directly in the income statement.

Hedge reserve in equity

Currency derivatives relating to hedging of transaction exposure mature mainly in 2018 and during the first quarter of 2019. With unchanged exchange rates, profit after tax will be affected in an amount of SEK 32m (9). Currency derivatives relating to hedging of the cost of non-current assets have a maturity spread until June 2019. With unchanged exchange rates, the cost of non-current assets will decrease by SEK 19m (18) after tax.

The derivatives intended to hedge energy costs in the Group mature during 2018 and 2019. With unchanged prices, the Group's profit after tax will be affected positively in an amount of SEK 50m (228).

E7. FINANCIAL INCOME AND EXPENSES**Financial income and expenses¹⁾**

SEKm	2017	2016
Results from shares and participations in other companies		
Dividend	1	–
Interest income and similar profit items		
Interest income, investments	10	39
Other financial income	18	1
IS Total financial income	29	40
Interest expenses and similar loss items		
Interest expenses, borrowing	–72	–109
Interest expenses, derivatives	–2	–
Other financial expenses	–48	–15
IS Total financial expenses	–122	–124
Total	–93	–84

1) Other financial income and expenses include an exchange difference of SEK 3m (1).

Sensitivity analysis

If interest rate levels had been 1 percentage point higher, with unchanged fixed-interest terms and volumes in the net debt, interest expenses for the period would have been SEK 47m (103) higher. Sensitivity analysis has been performed on the risk to which SCA was exposed at December 31, 2017 using assumptions on market movements that are regarded as reasonable in one year's time. For a description of how SCA manages its interest rate risk, refer to page 53.

E8. EQUITY

AP ACCOUNTING PRINCIPLES

Transaction costs directly relating to the issue of new shares or options are recognized, net after tax, in equity as a reduction in the issue proceeds. Expenditure for the purchase of SCA's treasury shares reduces retained earnings in equity in the Parent

Company and the portion of consolidated equity that pertains to owners of the Parent. When treasury shares are sold, the sales proceeds are included in retained earnings in the equity pertaining to owners of the Parent.

Equity totaled SEK 36,753m (79,519) at December 31, 2017. The following tables show the distribution and profit for the period.

SEKm	Share capital	Other capital provided	Reserves ¹⁾	Retained earnings	Equity attributable to SCA's shareholders	Non-controlling interests	Total equity
Value, January 1, 2017	2,350	6,830	400	63,562	73,142	6,377	79,519
IS Profit for the period recognized in the income statement				141,828	141,828	327	142,155
Other comprehensive income for the period							
Items that cannot be transferred to profit for the period							
Remeasurement of defined benefit pension plans ²⁾				1,025	1,025		1,025
Income tax attributable to components in other comprehensive income				-283	-283		-283
				742	742	-	742
Items that have been or can be transferred to profit for the period							
Available-for-sale financial assets:							
Result from measurement at fair value recognized in equity				1	1		1
Cash flow hedges:							
Result from remeasurement of derivatives recognized in equity				-100	-100		-100
Transferred to the income statement for the period				-48	-48		-48
Transferred to cost of hedged investments				-27	-27		-27
Translation differences in foreign operations				772	772	-159	613
Result from hedging of net investments in foreign operations				-958	-958		-958
Other comprehensive income from associates				-1	-1		-1
Tax on items recognized directly in/transferred from equity ³⁾				260	260		260
Discontinued operations				-420	-420		-420
Other comprehensive income for the period, net after tax				-520	741	221	-159
ISC Comprehensive income for the period				-520	142,569	142,049	168
Private placement to non-controlling interests				499	499	462	961
Private placement to non-controlling interests, dilution				-287	-287	287	-
Acquisition of non-controlling interests				15	15	80	95
Remeasurement effect upon acquisition of non-controlling interests				-5	-5		-5
Dividend, SEK 6.00 per share ⁴⁾				-4,214	-4,214	-130	-4,344
Discontinued operations				-99	99		
Distribution of shares in Essity				-174,448	-174,448	-7,242	-181,690
BS Value, December 31, 2017	2,350	6,830	-219	27,790	36,751	2	36,753

1) Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Provisions line in the balance sheet, refer to specification on page 107.

2) Including payroll tax.

3) For a specification of income tax attributable to components in other comprehensive income, refer to page 107.

4) Dividend SEK 6.00 (5.75) per share pertains to owners of the Parent. For the 2017 fiscal year, the Board has decided to propose a dividend of SEK 1.50 per share to the Annual General Meeting.

For further information regarding equity, refer to Parent Company Note PC10.

SEKm	Share capital	Other capital provided	Reserves ¹⁾	Retained earnings	Equity attributable to SCA's shareholders	Non-controlling interests	Total equity
Value, January 1, 2016	2,350	6,830	-2,242	63,463	70,401	5,290	75,691
IS Profit for the period recognized in the income statement				5,570	5,570	442	6,012
Other comprehensive income for the period							
Items that cannot be transferred to profit for the period							
Remeasurement of defined benefit pension plans ²⁾				-1,526	-1,526	1	-1,525
Income tax attributable to components in other comprehensive income				411	411	-	411
				-1,115	-1,115	1	-1,114
Items that have been or can be transferred to profit for the period							
Available-for-sale financial assets:							
Result from measurement at fair value recognized in equity				-1	-1		-1
Cash flow hedges:							
Result from remeasurement of derivatives recognized in equity				495	495		495
Transferred to the income statement for the period				274	274		274
Transferred to cost of hedged investments				-19	-19		-19
Translation differences in foreign operations				2,418	2,418	234	2,652
Result from hedges of net investments in foreign operations				-437	-437		-437
Other comprehensive income from associates				12	12		12
Tax on items recognized directly in/transferred from equity ³⁾				-88	-89		-89
Other comprehensive income for the period, net after tax				2,642	-1,104	235	1,773
ISC Comprehensive income for the period				2,642	4,466	677	7,785
Private placement to non-controlling interests				240	240	199	439
Private placement to non-controlling interests, dilution				-110	-110	110	-
Issue expenses, private placement				-4	-4	-4	-8
Acquisition of non-controlling interests				-799	-799	643	-156
Acquisition of non-controlling interests, dilution				348	348	-348	-
Remeasurement effect upon acquisition of non-controlling interests				-4	-4		-4
Dividend, SEK 5.75 per share				-4,038	-4,038	-190	-4,228
BS Value, December 31, 2016	2,350	6,830	400	63,562	73,142	6,377	79,519

1) Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Provisions line in the balance sheet, refer to specification on page 107.

2) Including payroll tax.

3) For a specification of income tax attributable to components in other comprehensive income, refer to page 107.

For further information regarding equity, refer to Parent Company Note PC10.

Equity, specification of reserves

SEKm	Revaluation reserve ¹⁾		Hedge reserve ²⁾		Available-for-sale assets		Translation reserve	
	2017	2016	2017	2016	2017	2016	2017	2016
Value, January 1	107	107	255	-310	6	7	32	-2,046
Available-for-sale financial assets:								
Result from measurement at fair value recognized in equity					1	-1		
Cash flow hedges:								
Result from remeasurement of derivatives recognized in equity			-100	495				
Transferred to the income statement for the period			-48	274				
Transferred to cost of hedged investments			-27	-19				
Translation differences in foreign operations ³⁾				-1			772	2,419
Result from hedges of net investments in foreign operations							-958	-437
Tax on items recognized directly in/transferred from equity			49	-184			211	96
Discontinued operations	-107		-26		-7		-379	
Other comprehensive income for the period, net after tax	-107		-152	565	-6	-1	-354	2,078
Value, December 31	-	107	103	255	-	6	-322	32

1) Revaluation reserve includes effect on equity of step acquisitions.

2) For details of when profit or loss is expected to be recognized, refer to Note E6.

3) Transfer of realized exchange gains relating to divested companies to the income statement is included in the amount of SEK 0m (-13).

Specification of income tax attributable to other comprehensive income for the period

SEKm	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurement of defined benefit pension plans	1,025	-283	742	-1,525	411	-1,114
Available-for-sale financial assets	1		1	-1		-1
Cash flow hedges	-175	49	-126	750	-184	566
Translation differences in foreign operations	613		613	2,652		2,652
Other comprehensive income from associates	-1		-1	12	-1	11
Result from hedges of net investments in foreign operations	-958	211	-747	-437	96	-341
Discontinued operations	-407	-13	-420			
Other comprehensive income for the period	98	-36	62	1,451	322	1,773

At December 31, 2017, the debt/equity ratio amounted to 0.16. Change in liabilities and equity is described on page 48 under Financial position. SCA aims to establish an effective capital structure, while at the same time ensuring long-term access to loan financing. Cash flow in relation to net debt shall take into account the target to maintain a credit rating corresponding to investment grade rating. SCA has a credit rating for long-term debt of BBB from Standard & Poor's. SCA's financial risk management is described in the Risk and risk management section on page 53.

F. GROUP STRUCTURE

F1. SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

Subsidiaries

The companies over which the SCA Group has a controlling influence are consolidated as subsidiaries. Controlling influence means that SCA has sufficient influence to control the activities of the subsidiary, has the right to its returns and has control over its exposure, and is able to impact the return of the company through its influence. Most of the Group's subsidiaries are wholly owned.

Gällö Timber AB and its wholly owned subsidiary Gällö Skog AB is 50 percent owned by SCA and 50 percent owned by AB Persson Invest. SCA is considered to have a controlling influence over the Gällö companies, despite the fact that SCA does not hold a majority of shares in the companies. SCA is deemed to have a controlling influence since it has control over the activities with the significant impact on the Gällö companies' return. Gällö Timber AB sells solid-wood products and sales total SEK 582m (488). SEK 20m (20) was paid in dividends by the company. Gällö Skog AB buys and sells solid-wood products and sales total SEK 255m (284). The company has not paid a dividend.

The SCA Group consolidates 100 percent of Gällö Timber AB and Gällö Skog AB.

Non-controlling interests

Non-controlling interests are recognized as a separate item in the Group's equity. Profit or loss and every component of other comprehensive income are attributable to the owners of the Parent and to non-controlling interests. Losses attributable to non-controlling interests are recognized even if this results in a negative balance for the interest. In connection with acquisitions of less than 100 percent when a controlling influence is achieved, non-controlling interests are determined either as a proportional share of the fair value of identifiable net assets excluding goodwill or at fair value. Subsequent acquisitions up to 100 percent and divestments of participations in a subsidiary that do not lead to a loss of controlling influence are recognized as an equity transaction.

Impairment testing

Testing means the carrying amount of shares in subsidiaries is compared with consolidated equity. The annual impairment testing of the carrying amount of shares in subsidiaries resulted in an impairment loss of SEK -12m (-10).

List of major subsidiaries

The Group's participations in major subsidiaries at December 31, 2017. The following selection of wholly owned subsidiaries and subsidiaries with significant non-controlling interests

includes companies with external sales in excess of SEK 100m in 2017.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2017	Share of equity at December 31, 2016
SCA Graphic Sundsvall AB	556093-6733	Sundsvall, Sweden	100	100
SCA Munksund AB	556237-4859	Piteå, Sweden	100	100
SCA Obbola AB	556147-1003	Umeå, Sweden	100	100
SCA Timber AB	556047-8512	Sundsvall, Sweden	100	100
SCA Timber France	440341527	La Rochelle, France	100	100
SCA Timber China & S.E. Asia Ltd	1134245	Hong Kong, China	100	100
SCA Timber Supply Ltd	2541468	Stoke-on-Trent, UK	100	100
SCA Timber Supply Skandinavien AB	556302-0667	Sundsvall, Sweden	100	100
SCA Japan K.K.	0104-01-109101	Tokyo, Japan	90	90
Gällö Timber AB	556801-1786	Bräcke, Sweden	50	50

F2. JOINT VENTURES AND ASSOCIATES

AP ACCOUNTING PRINCIPLES

Joint ventures

Joint ventures are defined as companies in which SCA together with other parties through an agreement, has shared control over operations. A joint venture entitles the joint owners to the net assets of the company. Joint ventures are recognized in accordance with the equity method, meaning that a net item including the goodwill will be recognized for each joint venture in the balance sheet. A share in profits is recognized in the income statement as a component of Result from joint ventures and participations in associates. Share in profits is calculated on the basis of SCA's share of equity in the respective joint venture. Measurement of acquired assets and liabilities is carried out in the same way as for subsidiaries.

Associates

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary. Normally, this means that the Group owns between 20 percent and 50 percent of the votes. Accounting for associates is carried out according to the equity method and they are initially measured at cost. Valuation of acquired assets and liabilities is performed in the same manner as for subsidiaries and the carrying amount for associates includes any goodwill and other Group adjustments.

The Group's share of profit after tax arising in the associates after the acquisition is recognized on the line Result from joint ventures and participations in associates in the consolidated income statement. Share in profits is calculated on the basis of SCA's share of equity in the respective associate.

At year-end 2017, SCA had no joint ventures. Holding in associates amounted to **BS** SEK 28m.

F3. SHARES AND PARTICIPATIONS

SEKm	2017	2016
Value, January 1	46	45
Investments during the year	-	1
Divestments	-	-1
Other reclassifications	-13	-
Impairment	-	-
Translation differences	-1	1
Discontinued operations	-32	-
BS Value, December 31	-	46

Shares and participations pertain to holdings in other companies that are not classified as subsidiaries or associates. The holdings have been reclassified as available-for-sale financial assets, refer to Note E2.

The reclassification has not had any significant impact on the financial statements.

F4. ACQUISITIONS AND DIVESTMENTS

AP ACCOUNTING PRINCIPLES

Acquisition of subsidiaries

SCA applies IFRS 3 Business Combinations in connection with acquisitions. In business combinations, acquired assets and assumed liabilities are identified and classified at fair value on the date of acquisition (also known as an acquisition analysis). The acquisition analysis also includes an assessment of whether there are any assets that are intangible in nature, such as trademarks, patents, customer contracts or similar assets that were not recognized in the acquired unit. If the cost is higher than the net value of the acquired assets, assumed liabilities and identified intangible assets, the difference is recognized as goodwill. Any surplus value on property, plant and equipment is depreciated over the estimated useful life of the asset. Goodwill and strong trademarks with indefinite useful lives are not amortized; instead, they are subjected to annual impairment testing. Some trademarks and customer contracts are amortized over their estimated useful lives.

If the transferred consideration is contingent on future events, it is measured at fair value. Any change in value is recognized in profit for the period.

Transaction costs in conjunction with acquisitions are not included in cost, but rather expensed directly.

Companies acquired during the period are included in the consolidated financial statements as of the acquisition date. Divested companies are included in the consolidated financial statements until the divestment date.

Non-controlling interests

Acquisitions of non-controlling interests are measured on an acquisition-by-acquisition basis, either as a proportional share of the fair value of identifiable net assets excluding goodwill (partial goodwill) or at fair value, which means that goodwill is also recognized on non-controlling interests (full goodwill).

In step acquisitions in which a controlling influence is achieved, any net assets acquired earlier in the acquired units are remeasured at fair value and the result of the remeasurement is recognized in the income statement. If the controlling influence is lost upon the divestment of an operation, the result is recognized in the income statement. The portion of the divested operation that remains in the Group is measured at fair value on the divestment date, with the remeasurement effect recognized in the income statement.

Acquisitions in which a controlling influence is achieved are recognized as an equity transaction, meaning a transfer between equity attributable to owners of the Parent and non-controlling interests. The same applies for divestments that take place without the loss of a controlling influence.

Acquisitions and divestments

No significant acquisitions have taken place in the continuing operations during 2016 or 2017. In 2016, ownership in IL Recycling was divested. In the discontinued operation, Wausau Paper Corp. was acquired in 2016 and BSN Medical in 2017.

G. OTHER

G1. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

AP ACCOUNTING PRINCIPLES

Non-current assets held for sale and discontinued operations

Assets are classified as held for sale if their value, within one year, will be recovered through a sale and not through continued use in the operations. On the reclassification date, the assets and liabilities are measured at the lower of fair value minus selling costs and the carrying amount. The assets are no longer depreciated after reclassification. The gain is limited to the amount equivalent to previously made impairment charges. Gains and losses recognized on remeasurement and divestment are recognized in the income statement for the period.

When an independent business segment or a significant operation within a geographic area is divested, it is classified as a discontinued operation. The divestment date, or the point in time when the operation fulfills the criteria for classification as held for sale, determines when the operation should be classified as a discontinued operation.

Profit or loss after tax for the period from discontinued operations is recognized on a separate line in the income statement. The income statement is adjusted for the comparative period as though the discontinued operation had already been disposed of at the start of the comparative period. The structure of the balance sheet for the current and previous year is not adjusted in the same manner.

Shares in the discontinued operation Essity (the hygiene business) were distributed to SCA's shareholders in the second quarter. The discontinued operation is recognized as discontinued operations in accordance with IFRS 5. Essity's profit until the date of distribution and the capital gain generated by the distribution of Essity was recognized on a separate line – Profit for the period, discontinued operations. Essity has been excluded in the comparative year to notes relating to the income statement.

Non-current assets held for sale

SEKm	2017	2016
Buildings	–	59
Land	–	31
Machinery and equipment	–	66
Total	–	156

No property, plant and equipment held for sale was recognized in 2017. The value for 2016 pertains in its entirety to the discontinued operation.

Discontinued operations

Essity

Shares in Essity were distributed to SCA's shareholders in a fixed ratio of 1:1, whereby shareholders received one Class A share in Essity for every Class A share in SCA, and one Class B share in Essity for every Class B share in SCA. Essity's first day of trading on Nasdaq Stockholm was June 15, 2017 and the closing price was SEK 247.20 for the Class A share and SEK 248.50 for the Class B share. This represents a market capitalization of about SEK 174,448m for Essity.

Profit from discontinued operations comprises Essity's profit for the period January 1–June 13, 2017, and a remeasurement of assets and liabilities at fair value on the date of distribution. No impairment was carried out in conjunction with the distribution of the hygiene business.

Income statement

SEKm	2017 Jan– June 13	2016 Jan–Dec
Net sales	47,854	101,238
Operating profit	4,965	9,008
Financial items	–487	–835
Profit before tax	4,478	8,173
Tax	–1,111	–3,931
Profit for the period, discontinued operations	3,367	4,242
Capital gains on the distribution of Essity	136,914	
ISC Profit for the period, discontinued operations	140,281	
Earnings per share	199.27	5.41

Balance sheet

SEKm	2017	2016
ASSETS		
Non-current assets		
Goodwill	–	19,253
Other intangible assets	–	7,665
Buildings, land, machinery and equipment	–	47,494
Participations in joint ventures and associates	–	1,096
Shares and participations	–	32
Surplus in funded pension plans	–	335
Non-current financial assets	–	717
Deferred tax assets	–	1,457
Other non-current assets	–	241
Total non-current assets	–	78,290
Current assets		
Inventories	–	10,944
Trade receivables	–	15,843
Current tax assets	–	740
Other current receivables	–	2,390
Current financial assets	–	1,677
Non-current assets held for sale	–	156
Cash and cash equivalents	–	4,244
Total current assets	–	35,994
Total assets discontinued operations	–	114,284
LIABILITIES		
Non-current liabilities		
Non-current financial liabilities	–	31,299
Provisions for pensions	–	5,273
Deferred tax liabilities	–	3,872
Other non-current provisions	–	1,407
Other non-current liabilities	–	120
Total non-current liabilities	–	41,971
Current liabilities		
Current financial liabilities	–	5,574
Trade payables	–	12,972
Current tax liabilities	–	915
Current provisions	–	1,409
Other current liabilities	–	11,863
Total current liabilities	–	32,733
Total liabilities discontinued operations	–	74,704
Net assets discontinued operations	–	39,580

Cash flow

SEKm	2017 Jan– June 13	2016 Jan–Dec
Cash flow for the period, discontinued operations:		
Cash flow from operating activities	4,517	12,779
Investing activities	–15,591	–10,120
Financing activities	11,022	–
Cash flow for the period, discontinued operations	–52	–

Cash flow from financing activities cannot be recognized separately from discontinued operations since the financing was not recognized separately on that date.

G2. LEASING

AP ACCOUNTING PRINCIPLES

Lease agreements are classified and recognized as either operating or finance leases.

In cases where a lease agreement essentially entails that the risks and rewards normally associated to ownership have been transferred to SCA, the lease agreement is classified as a finance lease. The leased asset is recognized as a non-current asset with a corresponding interest-bearing liability. The initial value of both these items comprises the lower of the fair value of the assets or the present value of the minimum lease payments. Future lease fees are divided between amortization and interest, so that each reporting period is charged with an interest amount that corresponds to a fixed interest rate on the recognized liability for the respective period. The leased asset is depreciated according to the same principles that apply to other assets of the same nature. If it is uncertain whether the asset will be taken over at the end of the leasing period, the asset is depreciated over the lease term if this is shorter than the useful life that applies to other assets of the same nature. Lease agreements in which the risks and rewards normally associated to ownership are essentially carried by the lessor are classified as operating leases, and the lease payments are expensed on a straight-line basis over the lease term.

Leasing expenses¹⁾

SEKm	2017	2016
Operating leases	–279	–278
Finance leases, depreciation/amortization	–1	–8
Finance leases, interest expense	–	–5
Total	–280	–291

1) Both 2016 and 2017 refer to continuing operations.

Operating leases, future minimum lease payments¹⁾

SEKm	2017	2016
Within 1 year	346	196
Between 2 and 5 years	856	181
Later than 5 years	895	61
Total	2,097	438

1) Both 2016 and 2017 refer to continuing operations.

Operating lease objects comprise a large number of items, including warehouses, offices, other buildings, machinery and equipment, IT equipment, office fixtures and various transport vehicles. The assessment for a number of the objects is that, in reality, it is possible to terminate contracts early.

In conjunction with an investigation into existing rental contracts for rail transport, maritime transport and the use of terminal space, leasing components were identified and sections of contracts were reclassified as operating leasing contracts. This resulted in an adjustment of future minimum lease payments. The additional contracts increased leasing expenses by SEK 109m (107) and future minimum lease payments by SEK 1,444m (116).

Finance leases, future minimum lease payments¹⁾

SEKm	2017	2016
Within 1 year	–	259
Between 2 and 5 years	–	–
Later than 5 years	–	–
Total	–	259
Of which, interest	–	0
Present value of future minimum lease payments	–	259

1) Both 2016 and 2017 refer to continuing operations.

Other disclosures

Total payments for finance leases during the period amounted to SEK –1m (–15), of which amortization of debt accounted for SEK –1m (–10). The carrying amount of finance lease assets on the balance sheet date amounted to SEK 0m (9) relating to buildings and land and SEK 2m (261) relating to machinery. The most significant event in 2017 was the acquisition of a combined heat and power (CHP) plant for its carrying amount of SEK 258m. Only one financial leasing contract remained at the end of the year.

G3. CONTINGENT LIABILITIES AND PLEDGED ASSETS**AP ACCOUNTING PRINCIPLES**

A contingent liability is recognized when there is a potential or actual obligation arising from events that have occurred that is not recognized as a liability or provision, either because it is improbable that an outflow of resources will be required to settle the obligation or because the amount cannot be calculated in a reliable manner.

Contingent liabilities

SEKm	2017	2016
Guarantees for:		
associates	5	13
customers and others	27	55
Other contingent liabilities	283	227
Total	315	295

During 2000, SCA entered into a leasing transaction with US banks as counterparties relating to the Östrand pulp mill in Timrå, Sweden. The term of the transaction was originally 30 years. In January 2017, SCA discontinued this transaction with no resulting financial implications. The final deposited funds deposited in US securities expired on December 31, 2017 and were valued at SEK 78m.

In 2007, SCA entered into a sale and leaseback transaction with a European bank relating to the soda recovery boiler at the kraftliner plant in Obbola, Sweden. The term of the contract is 25 years and SCA has a right to terminate the transaction in 2023 without any financial consequences. The present value of SCA's future rental amounts was SEK 671m. A corresponding amount was invested in a security with an A rating issued by the counterparty and deposited in a Swedish bank assigned to handle rental payments during the term of the contract. Should the counterparty's rating fall below BBB-, SCA is entitled, without incurring any financial consequences, to terminate the transac-

tion in advance. Should SCA, as a result of extraordinary events (of a force majeure nature), elect not to fulfill, or cannot fulfill the leasing contract, SCA is liable to compensate the counterparty for any economic loss that may be incurred as a result. Compensation varies during the term and can amount to a maximum of 11 percent of the transaction amount. SCA has the use of the facility without operational restrictions. The lease and depositary arrangement have been recognized net in SCA's balance sheet since 2007.

SCA signed a ten-year fixed-price agreement with a Norwegian electricity supplier comprising electricity deliveries corresponding to approximately 25 percent of SCA Graphic Sundsvall AB's estimated consumption. The agreement became effective in 2009.

Pledged assets

SEKm	Total	
	2017	2016
Real estate mortgages	–	7
Chattel mortgages	20	55
Other	–	130
Total	20	192

Liabilities for which some of these assets were pledged as collateral amounted to SEK 0m (0).

G4. TRANSACTIONS WITH RELATED PARTIES

To the extent that transactions with related parties took place, these were based on generally accepted commercial terms and conditions and pricing in the industry and were entered into on standard commercial conditions.

For information regarding salaries and other remuneration, costs and obligations for pensions and similar benefits for the Board, President and other senior executives, refer to Notes C3 and C4.

Parent company income statement **PIS**

SEKm	Note	2017	2016
Other operating income		225	539
Other operating expenses		-655	-445
Personnel costs	PC2	-83	-514
EBITDA		-513	-420
Depreciation		-75	-72
Operating profit	PC1	-588	-492
Financial items	PC8		
Result from participations in Group companies ¹⁾		-	42,943
Interest income and similar profit items		100	266
Interest expenses and similar loss items		-87	-1,063
Total financial items		13	42,146
Profit after financial items		-575	41,654
Appropriations ¹⁾	PC3	463	1,236
Tax on profit for the period	PC3	-169	-345
Profit for the period		-281	42,545

The Parent Company income statement has been changed from a function-based income statement to a cost-based income statement. Comparative figures have been restated.

1) The Parent Company previously recognized Group contributions paid and received as financial items in accordance with the main rule in RFR 2. For the 2017 fiscal year, the company changed method to apply the alternative rule and recognizes Group contributions paid and received, net, as appropriations, meaning financial items were reduced by SEK 221m. The comparative year was adjusted, resulting in a reduction in financial items of SEK 1,248m. A corresponding increase was performed on the line for appropriations for both years.

Parent company statement of comprehensive income **PISC**

SEKm	Note	2017	2016
Profit for the period		-281	42,545
Other comprehensive income		-	-
Total comprehensive income		-281	42,545

Parent company balance sheet **PBS**

SEKm	Note	2017	2016
ASSETS			
Non-current assets			
Land and buildings	PC4	8,365	8,271
Tangible fixed assets		8,365	8,271
Participations	PC5	4,758	79,772
Other long-term receivables		137	108
Financial fixed assets		4,895	79,880
Total fixed assets		13,260	88,151
Current assets			
Receivables from subsidiaries	PC6	15,420	61,063
Current tax assets	PC3	37	26
Other current receivables	PC7	6	58
Cash and bank balances	PC8	83	–
Total current assets		15,546	61,147
Total assets		28,806	149,298
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	PC10	2,350	2,350
Revaluation reserve		1,740	1,363
Statutory reserve		7,283	7,283
Total restricted equity		11,373	10,996
Retained earnings		7,455	44,845
Profit for the period		–281	42,545
Total non-restricted equity		7,174	87,390
Total equity		18,547	98,386
Untaxed reserves	PC3	0	242
Provisions			
Provisions for pensions	PC2	28	24
Provisions for taxes	PC3	1,578	1,303
Other provisions		–	3
Total provisions		1,606	1,330
Non-current liabilities			
Non-current interest-bearing liabilities	PC8	3,600	2,272
Other non-current liabilities		–	–
Total non-current liabilities		3,600	2,272
Current liabilities			
Liabilities to subsidiaries	PC6	1,378	46,558
Current interest-bearing liabilities	PC8	3,472	217
Trade payables		5	60
Other current liabilities	PC9	198	233
Total current liabilities		5,053	47,068
Total equity, provisions and liabilities		28,806	149,298

Parent company statement of change in equity PEQ

SEKm	Share capital ¹⁾	Revaluation reserve	Statutory reserve	Retained earnings and profit for the period	Total equity
Value, January 1, 2017	2,350	1,363	7,283	87,390	98,386
Revaluation forest land		377			377
Distribution of shares in Essity				-75,598	-75,598
Listing costs				-123	-123
Dividend, SEK 6.00 per share				-4,214	-4,214
Profit for the period				-281	-281
Value, December 31, 2017	2,350	1,740	7,283	7,174	18,547
Value, January 1, 2016	2,350	1,363	7,283	48,883	59,879
Dividend, SEK 5.75 per share				-4,038	-4,038
Profit for the period				42,545	42,545
Value, December 31, 2016	2,350	1,363	7,283	87,390	98,386

1) Refer also to Note PC10.

Parent company cash flow statement PCF

SEKm	Note	2017	2016
Operating activities			
Profit after financial items ¹⁾		-575	41,654
T:1 Adjustment for non-cash items ¹⁾		708	-31,839
Total operating activities		133	9,815
Paid tax		-11	-
Cash flow from operating activities before changes in working capital		122	9,815
Change in operating receivables ²⁾		45,695	128
Change in operating liabilities ²⁾		-45,273	-258
Cash flow from operating activities		544	9,685
Investing activities			
Acquisition of subsidiaries		-	-1
Capitalization of subsidiaries		-598	-75,000
Divestment of subsidiaries		14	167,601
Acquisition of fixed assets		-173	-139
Acquisition of financial assets		-4	-
Divestment of financial assets		-	6
Sale of tangible fixed assets		44	24
Cash flow from investing activities		-717	92,491
Financing activities			
Loans raised		7,100	-
Amortization of debt		-2,526	-98,138
Dividend		-4,214	-4,038
Listing costs		-104	-
Cash flow from financing activities		256	-102,176
Cash flow for the period		83	0
Cash and cash equivalents, January 1		0	0
Cash and cash equivalents, December 31 ³⁾		83	0

1) The Parent Company previously recognized Group contributions paid and received as financial items in accordance with the main rule in RFR 2. For the 2017 fiscal year, the company changed method to apply the alternative rule and recognizes Group contributions paid and received, net, as appropriations. The comparative year was restated, which resulted in a change to the amount on the lines Profit after financial items and Adjustment for non-cash items of SEK 1,248m. A corresponding increase was performed on the line for appropriations for both years.

2) Dealings of the Parent Company with the Swedish subsidiaries relating to tax are recognized as Change in operating receivables or Change in operating liabilities, respectively.

3) At the start of the fiscal year, the company's current account was a sub-account in the Group's account structure and is classified in the balance sheet as a liability to subsidiaries. In May 2017, the Group's new Treasury operations were established in the Parent Company, as part of preparations to list Essity AB, which means a share of the Group's cash and cash equivalents were as of 2017 transferred to the Parent Company and classified as cash and bank balances.

T:1 Adjustment for non-cash items

SEKm	2017	2016
Depreciation/amortization of fixed assets	75	72
Change in accrued items	-	-632
Impairment of shares in subsidiaries	-	681
Non cash flow-impacting dividend/group contribution	221	-31,245
Capital gain on sale of properties	443	-44
Unrealized exchange rate effects/changes in value of receivables and financial assets	-16	-
Listing costs	-19	-
Change in provisions	4	-671
Total	708	-31,839

Supplementary disclosures to the cash-flow

SEKm	2017	2016
Interest and dividends paid and received		
Dividends received	-	43,623
Group contribution received	1,120	1,548
Group contribution paid	-64	-64
Interest paid	-105	-1,233
Interest received	122	427
Total	1,073	44,301

PC. PARENT COMPANY NOTES

PC1. OPERATING PROFIT OR LOSS

Operating profit/loss by type of cost

SEKm	Note	2017	2016
Other operating income		225	539
Other external costs		-526	-310
Personnel and Board costs		-83	-514
Depreciation of tangible fixed assets	PC4	-75	-71
Other operating expenses excluding depreciation/amortization		-129	-136
PIS Total		-588	-492

The item Other external costs for 2017 includes capital losses of SEK -483m attributable to intra-Group transfers of forest land. The item also includes consultancy fees, travel expenses, leasing expenses, management costs, and so forth.

Auditing expenses

SEKm	2017 ¹⁾	2016
EY		
Audit assignments	-4	-10
Auditing activities other than the audit assignment	-1	-1
Other assignments	-	-2
Total	-5	-13
Other		
Auditing activities other than the audit assignment	-	-1
Tax consultancy services	-	-7
Other assignments	-1	-19
Total	-1	-27

1) In addition there are costs for audit advice in connection with the distribution of Essity by SEK 9m from EY and SEK 28m from other auditors. These costs are not included in operating expenses but have been recognized against equity.

PC2. PERSONNEL AND BOARD COSTS

Personnel and administrative expenses include remuneration to senior executives, the Board and other employees of SCA for work in this company in 2016. During 2017, remuneration was paid to the Board and the current President and CEO for the entire year. Remuneration to other senior executives in the current SCA is included as of June 15, 2017 and the following period. For the period up to June 14, 2017, Essity AB (publ) has paid compensation to senior executives other than those mentioned above.

Salaries and remuneration

SEKm	2017	2016
Board of Directors ¹⁾ , CEO and other senior executives (12 (6))	-56	-73
of which variable remuneration	-16	-31
Other employees	-	-129
Total	-56	-202

1) Salaries and remuneration include Board fees of SEK -9m (-8). For further information, refer to Note C4.

Social security costs

SEKm	2017	2016
Total social security costs	-26	-299
of which pension costs ¹⁾	-10	-235

1) Of the Parent Company's pension costs, SEK -10m (-101) pertain to the Board, President and CEO, and senior executives. Former Presidents, senior executives and their survivors are also included.

The company's outstanding pension obligations as per the balance sheet on December 31, 2017 relate to the President and CEO. On December 30, 2016, the Parent Company's hygiene operations were transferred to what is now Essity. In conjunction with the transfer of operations, the majority of the at the time existing pension obligations were transferred.

Pension costs

SEKm	2017	2016
Self-administered pension plans		
Costs excluding interest expense	-3	-152
Interest expense (recognized in personnel costs)	-	-6
	-3	-158
Retirement through insurance		
Insurance premiums	-5	-24
Other	-	-3
	-8	-185
Special payroll tax on pension costs	-2	-47
Cost of credit insurance, etc.	-	-3
Pension costs for the period	-10	-235

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK 0m (-3). Premiums for 2018 are expected to amount to SEK 0m, also refer to Provisions for pensions in this note. Personnel costs also include other personnel costs in the amount of SEK -1m (-13).

Average number of employees

	2017	2016
Sweden	8	120
of whom women, in percent	9	50

Provisions for pensions

AP ACCOUNTING PRINCIPLES

The Parent Company applies the regulations in the Pension Obligations Vesting Act (Tryggandlagen). The main difference compared with IAS 19 is that Swedish practice disregards future increases in salaries and pensions when calculating the present value of the pension obligation. This present value includes, however, a special reserve for future payments of pension supplements indexed for inflation. Both defined contribution and defined benefit plans exist in the Parent Company.

PRI pensions

The capital value of the pension obligations at December 31, 2017 amounted to SEK 0m (125). Pension payments of SEK 0m (-7) were made in 2017. In conjunction with the transfer of operations on December 30, 2016, the majority of the at the time existing pension obligations were transferred to Essity AB.

Other pension obligations

The Group's Note C3 describes the other pension plans of the Parent Company. The table below shows the change between the years.

Capital value of pension obligations relating to self-administered pension plans

SEKm	2017	2016
Value, January 1	24	713
Compensation received for the takeover of pension obligations	-	24
Compensation paid the surrender of pension obligations	-	-839
Costs excluding interest expense	4	152
Interest expense (recognized in personnel costs)	-	6
Payment of pensions	-	-32
PBS Value, December 31	28	24

External actuaries have carried out capital value calculations pursuant to the provisions of the Pension Obligations Vesting Act (Tryggandelagen). The discount rate is 0.7 percent (0.8). The defined benefit obligations are based on salary levels on the respective balance sheet dates. In conjunction with the transfer of business on December 30, 2016, the majority of the at the time existing pension obligations were transferred to Essity AB. The pension obligations were formally transferred in 2017 when the County Administrative Board granted its approval. Next year's expected pension payments for the above defined benefit pension plans are expected to amount to SEK 0m. Part of the pension obligations are covered by capital redemption policies. The capital redemption policies are reported as other long-term receivables in the balance sheet.

PC3. TAXES**AP ACCOUNTING PRINCIPLES**

Due to the links between accounting and taxation, the deferred tax liability on untaxed reserves in the Parent Company is recognized as a component of untaxed reserves.

Tax expense (+), tax income (-)

SEKm	2017	2016
TPC3:1 Deferred tax	168	345
Current tax	1	0
PIS Total	169	345

Explanation of tax expense

Reconciliation	2017		2016	
	SEKm	%	SEKm	%
Profit before tax	-112		42,890	
PIS Tax expense/income	169	-150.8	345	0.8
Expected tax	-25	22.0	9,436	22.0
Difference	194	-172.8	-9,091	-21.2
The difference is due to:				
Taxes related to prior periods	1	0.0	0	0.0
Non-taxable dividends from subsidiaries	-	0.0	-9,597	-22.4
Non-taxable Group contributions from subsidiaries ¹⁾	-130	116.0	-49	-0.1
Non-deductible Group contributions to subsidiaries ¹⁾	303	-271.0	394	0.9
Other non-taxable/non-deductible items	20	-17.8	161	0.4
Total	194	-172.8	-9,091	-21.2

1) Non-taxable and non-deductible Group contributions, respectively, consist of the repayment from/to the respective subsidiary, which amounts to 78 percent of the Group contribution.

The expected tax expense is calculated based on profit before tax multiplied by the current tax rate.

The Parent Company participates in the Group's tax pooling arrangement and pays the majority of the Group's total Swedish taxes. These are recognized in the income statement as Group contributions paid and received. The net of Group contributions paid and received per subsidiary amounts to 22 percent and consists of the respective subsidiary's share of the Group's total tax expense.

Current tax liability (+), tax asset (-)

SEKm	2017	2016
Value, January 1	-26	-26
Current tax expense	1	0
Paid tax	-12	0
PBS Value, December 31	-37	-26

TPC3:1 Deferred tax expense (+), tax income (-)

SEKm	2017	2016
Changes in temporary differences	168	345
Adjustments for prior periods	-	0
Total	168	345

Provisions for taxes

SEKm	Value, January 1	Deferred tax expense	Value, December 31
Land and buildings	1,536	71	1,607
Provisions for pensions	5	-11	-6
Tax loss carryforward	-194	169	-25
Other	-44	46	2
PBS Total	1,303	275	1,578

Appropriations and untaxed reserves

Accumulated depreciation in excess of plan totaling **PBS** SEK 0m (242) is included in the Parent Company's untaxed reserves. In 2017, all untaxed reserves pertaining to land and buildings were reversed in the accounts and are only treated for tax purposes.

PC4. TANGIBLE FIXED ASSETS

AP ACCOUNTING PRINCIPLES

The Parent Company's tangible fixed assets are recognized in accordance with the Group's accounting principles. The Parent Company recognizes standing timber as a tangible fixed asset at historical cost. No systematic depreciation or changes in value in conjunction with felling is carried out in the Parent Company. Collective revaluation of forest assets has occurred and the revaluation amount was placed in a revaluation reserve in equity.

Tangible fixed assets

SEKm	Buildings		Land and land improvements		Machinery and equipment		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Accumulated costs	165	166	3,873	4,186	5	5	4,043	4,357
Accumulated depreciation	-115	-110	-1,047	-977	-5	-5	-1,167	-1,092
Accumulated write-ups	-	-	5,489	5,006	-	-	5,489	5,006
Residual value according to plan	50	56	8,315	8,215	-	-	8,365	8,271
Value, January 1	56	60	8,215	8,122	0	8	8,271	8,190
Investments	-	1	173	164	-	-	173	165
Sales and disposals	-	-	-487	-7	-	-6	-487	-13
Write-ups for the period	-	-	483	-	-	-	483	-
Depreciation for the period	-6	-5	-69	-64	-	-2	-75	-71
PBS Value, December 31	50	56	8,315	8,215	0	0	8,365	8,271

In 2017, an intra-Group transfer of forest land took place, which resulted in a capital loss of SEK -483m in the Parent Company. A revaluation by a corresponding amount was recognized, which meant the total carrying amount for forest assets remained unchanged.

Land includes forest land in the amount of SEK 7,460m (7,393).

PC5. PARTICIPATIONS

AP ACCOUNTING PRINCIPLES

The Parent Company recognizes all holdings in Group companies at cost after deduction for any accumulated impairment losses.

Participations in group companies

SEKm	Subsidiaries		Other companies		Total	
	2017	2016	2017	2016	2017	2016
Accumulated costs	4,758	79,772	0	0	4,758	79,772
Carrying amount	4,758	79,772	0	0	4,758	79,772
Value, January 1	79,772	139,880	-	6	79,772	139,886
Investments	598	108,174	-	-	598	108,174
Divestments and discontinuations	-75,612	-167,601	-	-6	-75,612	-167,607
Impairment for the period	-	-681	-	-	-	-681
PBS TPC5:1 Value, December 31	4,758	79,772	0	0	4,758	79,772

During 2017, the Parent Company provided a capital contribution to the then subsidiary Essity AB of SEK 598m. On June 15, 2017, shares in Essity AB were distributed to SCA's shareholders and Essity was listed on Nasdaq Stockholm. Shares were divested at the carrying amount of SEK 75,598m. As per December 30, 2016, all shares in six subsidiaries were transferred at the carrying amount via a transfer of ownership agreement with Essity AB. The shares in SCA Försäkringsaktiebolag were included in the transfer, however, pending the approval of the Swedish Financial Supervisory Authority, the holding was recognized among participations in subsidiaries in 2016. During 2017, the Swedish Financial Supervisory Authority approved the transfer and the shares have thereby been divested at the carrying amount of SEK 14m.

TPC5:1 Parent Company's holdings of shares in subsidiaries, December 31, 2017

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
SCA Graphic Holding AB	556479-2058	Sundsvall, Sweden	1,000	100	4,758
SCA Skogsfastigheter AB	556207-6256	Sundsvall, Sweden	1,000	100	–
SCA Kraftfastigheter AB	556449-7237	Sundsvall, Sweden	1,000	100	–
Total carrying amount of subsidiaries					4,758

PC6. RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

Receivables from and liabilities to subsidiaries

SEKm	2017	2016
Current assets		
Interest-bearing receivables	15,028	59,604
Other receivables	392	1,459
PBS Total	15,420	61,063
Current liabilities		
Interest-bearing liabilities	1,116	45,766
Other liabilities	262	792
PBS Total	1,378	46,558

PC7. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2017	2016
TPC7:1 Prepaid expenses and accrued income	3	22
Other receivables	3	36
PBS Total	6	58

TPC7:1 Prepaid expenses and accrued income

SEKm	2017	2016
Other items	3	22
Total	3	22

PC8. FINANCIAL INSTRUMENTS

Financial items

SEKm	2017	2016
Result from participations in Group companies		
Dividends from subsidiaries	–	43,624
Group contributions received from subsidiaries ¹⁾	–	–
Group contributions paid to subsidiaries ¹⁾	–	–
Impairment of shares in subsidiaries	–	–681
Interest income and similar profit items		
Interest income, subsidiaries	100	266
Interest expenses and similar loss items		
Interest expenses, external	–53	–419
Interest expenses, subsidiaries	–1	–537
Other financial expenses ²⁾	–33	–107
PIS Total	13	42,146

1) The Parent Company previously recognized Group contributions paid and received as financial items in accordance with the main rule in RFR 2. For the 2017 fiscal year, the company changed method to apply the alternative rule and recognizes Group contributions paid and received, net, as appropriations. The comparative year was adjusted, resulting in a reduction in financial items of SEK 1,248m.

2) The item includes exchange rate differences amounting to SEK –4m (5).

Interest-bearing liabilities

Non-current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2017	2016	2017	2016
Non-current loans with a term > 1 year < 5 years	2,600	1,149	2,604	1,171
Non-current loans with a term > 5 years	1,000	1,123	1,003	1,175
PBS Total	3,600	2,272	3,607	2,346

Current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2017	2016	2017	2016
Loans with maturities of less than one year	3,472	217	3,475	217
PBS Total	3,472	217	3,475	217

In conjunction with the listing of Essity AB, a new loan structure was established. As of 2017, the Group's external borrowing is conducted in the Parent Company. For further information about borrowing activities during the year, refer to Note E4.

Financial instruments by category

AP ACCOUNTING PRINCIPLES

The Parent Company has chosen, in accordance with Paragraph 3 of RFR 2, not to apply IAS 39. The Parent Company recognizes financial fixed assets at cost less any impairment and financial current assets according to the lower of cost or market. For derivatives used for hedging purposes, recognition is determined by the hedged item. Currency derivatives used to hedge foreign receivables and liabilities are remeasured at the closing day rate to match the currency remeasurement in the receivable/liability. Interest rate derivatives used to hedge interest rate exposure in financial receivables or liabilities are recognized at amortized cost. Energy derivatives used to manage energy price risks are recognized at amortized cost.

The accounting policies for financial instruments are applied for the items below. The financial instruments in the Parent Company are classified as loan and trade receivables for assets, and financial liabilities measured at amortized cost for liabilities.

Loan and trade receivables

SEKm	2017	2016
Assets		
<i>Financial fixed assets</i>		
Interest-bearing receivables	137	108
Interest-bearing receivables from subsidiaries	–	–
<i>Current assets</i>		
Receivables from subsidiaries ¹⁾	15,031	59,943
Other current receivables	2	34
PBS Cash and bank balances ²⁾	83	–
Total	15,253	60,085

Financial liabilities measured at amortized cost

SEKm	2017	2016
Liabilities		
<i>Non-current liabilities</i>		
Liabilities to subsidiaries	–	–
Interest-bearing liabilities	3,600	2,272
<i>Current liabilities</i>		
Interest-bearing liabilities	3,472	217
Liabilities to subsidiaries ¹⁾	1,211	45,829
Trade payables	5	60
Other current liabilities	3	16
Total	8,291	48,394

1) The item Receivables from subsidiaries includes the carrying amount of derivatives in respect of subsidiaries of SEK 0m (6). The item Liabilities to subsidiaries includes the carrying amount of financial derivatives in respect of subsidiaries of SEK 0m (35). The net fair value of these derivatives amounts to SEK –78m (–18). The nominal value of the derivatives is SEK 5,720m (2,548).

2) In conjunction with the discontinuation of Essity, the Group's new Treasury operations were established in the Parent Company, meaning that part of the Group's cash and cash equivalents were recognized in the Parent Company and classified as cash and bank balances in the company as of 2017.

PC9. OTHER CURRENT LIABILITIES

Other current liabilities

SEKm	2017	2016
TPC9:1 Accrued expenses and prepaid income	65	179
Other operating liabilities	133	54
PBS Total	198	233

TPC9:1 Accrued expenses and prepaid income

SEKm	2017	2016
Accrued interest expenses	3	16
Accrued social security costs	9	5
Accrued vacation pay liability	1	1
Other liabilities to personnel	24	1
Other items	28	156
Total	65	179

PC10. SHARE CAPITAL

The change in equity is shown in the financial report relating to Equity presented under Financial statements, Parent Company. The share capital and number of shares have changed since 1993 on account of new issues, conversions, splits, and the cancellation of treasury shares as set out below:

Year	Event	No. of shares	Increase in share capital	Cash payment, SEKm
1993	Number of shares, January 1, 1993	172,303,839		
1993	Conversion of debentures and new subscription through Series 1 warrants	4,030,286	40.3	119.1
	New issue 1:10, issue price SEK 80	17,633,412	176.3	1,410.7
1994	Conversion of debentures	16,285	0.2	–
1995	Conversion of debentures	3,416,113	34.2	–
1999	New issue 1:6, issue price SEK 140	32,899,989	329.0	4,579.0
2000	Conversion of debentures	101,631	1.0	15.0
2001	New issue, private placement	1,800,000	18.0	18.0
2002	New subscription through IIB warrants	513	–	0.1
2003	Conversion of debentures	1,127,792	11.3	288.4
	New subscription through IIB warrants	1,697,683	17.0	434.5
2004	Conversion of debentures	9,155	0.1	1.1
2007	Split 3:1	470,073,396	–	–
2017	Cancellation of treasury shares	–2,767,605	–	–
2017	Number of shares, December 31, 2017	702,342,489		

SCA's share capital, December 31, 2017

	No. of votes	No. of shares	Share capital, SEKm
Class A shares	10	64,587,991	216
Class B shares	1	637,754,498	2,134
Total		702,342,489	2,350

The quotient value of the Parent Company's shares amounts to SEK 3.35. Treasury shares at the beginning of the year amounted to 2,767,605 shares. In the second quarter of 2017, these shares were withdrawn, following a decision by the Annual General Meeting. The Parent Company has not thereafter held any shares in treasury.

PC11. CONTINGENT LIABILITIES AND PLEDGED ASSETS**Contingent liabilities**

SEKm	2017	2016
Guarantees for subsidiaries	564	76,476
Other contingent liabilities	238	17
Total	802	76,493

During 2017, contingent liabilities relating to the discontinued hygiene business were gradually transferred to Essity AB.

Pledged assets

SEKm	2017	2016
Chattel mortgages	20	20
Other	–	130
Total	20	150

PC12. PROPOSED DISPOSITION OF EARNINGS**Annual accounts 2017****Disposition of earnings, Parent Company (SEK)**

Non-restricted equity in the Parent Company:	
Retained earnings	7,454,477,505
Net profit for the year	–280,515,201
Total	7,173,962,304

The Board of Directors and the President propose:

- to be distributed to shareholders, a dividend of SEK 1.50 per share	1,053,513,734
- to be carried forward	6,120,448,570
Total	7,173,962,304

The Annual accounts are subject to adoption by SCA's Annual General Meeting and will be presented for approval at the Annual General Meeting on March 23, 2018.

Sustainability notes

SCA's sustainability work is integrated into the Group's central processes and business decisions. As a result, SCA's 2017 Sustainability Report is an integrated part of the Annual and Sustainability Report 2017. The following pages present supplementary sustainability information, such as background information to the report, detailed information about stakeholder dialogues, materiality analysis, material topics, sustainability targets, calculation methods and multi-year summary of the Group's sustainability data.

About the Sustainability Report

SCA publishes a sustainability report each year, the latest of which was published in March 2017. In June 2017, the SCA Group was divided into two listed companies: the forest products company SCA and the hygiene and health company Essity. This is therefore SCA's first Sustainability Report as a dedicated forest products company. Therefore, it is not possible to compare data for the present company SCA with previous years' reports. Comparable sustainability data from 2016 and previous years in this report originates from the business unit SCA Forest Products in the former SCA, which corresponds to today's SCA. However, due to the distribution of the hygiene business, comparable data for all sustainability data cannot be reported.

SCA's sustainability work is integrated into the Group's operations and the Sustainability Report therefore constitutes part of SCA's Annual and Sustainability Report 2017. Areas covered by the Swedish Annual Accounts Act are clarified in the Board of Directors' Report on page 54. The Sustainability Report was submitted to the external auditor together with the Annual Report, refer to the auditor statement on page 54.

SCA's 2017 Sustainability Report is prepared in accordance with the Global Reporting Initiative (GRI) Standards, Core option. The sustainability information in the Annual and Sustainability Report was reviewed by external auditors, see the Auditor's Report on page 140. The report also contains information about how SCA works with the UN Global Compact's Ten Principles in the areas of human rights, labor law, the environment and anti-corruption.

Boundary of the report

The Annual and Sustainability Report covers the SCA Group, including wholly owned subsidiaries and subsidiaries in which SCA owns at least 50 percent, see Note F1 on page 108. If SCA's ownership of a company is 50 percent or more, the entire company is included.

Environmental data and resource use is stipulated for the Swedish manufacturing units, meaning for pulp and paper mills and for sawmills, construction materials and pellets manufacturing. Social data is stipulated for the entire Group and pertains to own employees unless otherwise stated.

As the Report is prepared in accordance with GRI Standards, the materiality principle has had great significance. This means that the Report's content is determined by the issues that are most relevant to SCA and its stakeholders, and that the content provides a complete view of the operations. The material areas have been matched with the relevant GRI topics and indicators. More information about our materiality analysis can be found on page 125.

Data collection

Data provided in the Report is compiled through various systems, primarily the Group's accounting system, Resource Management System (RMS), SCA's HR system and Afa's health and safety information systems (the IA systems). The Resource Management System (RMS) enables SCA to analyze data, describing how the company uses energy, water, transport and raw materials, as well as waste and emissions levels. The RMS data is used for internal control and monitoring, external benchmarking and evaluating acquisitions and major investments.

Energy consumption is calculated in various ways, such as through direct measurements of consumption or by calculating based on fuel consumption. The conversion factors used are obtained from suppliers or from literature.

For most CO₂ emission calculations, SCA applies the global standard Greenhouse Gas Protocol to measure, manage and report CO₂ emissions. For other environment data, SCA applies recognized measurement and calculation standards, including the Swedish Standards Institute, the Swedish Environmental Protection Agency and the International Energy Agency's factors.

Personnel-related data is provided by SCA's HR system and other qualitative data is gathered in SCA's database for social data. The IA system is used for reporting and following-up work-related injuries and incidents at every unit within the Group. This system is also used for preventive reporting of risk observations. The statistics are aggregated to Group level.

When adjustments have been made compared with earlier years, a note is appended directly beside the chart or table.

External initiatives and membership in organizations and certifications

SCA is a member of the UN Global Compact, an initiative established in 1999 aimed at convincing companies to take responsibility for the UN's ten principles in the areas of human rights, labor law, the environment and anti-corruption.

SCA is also active in a number of international, national and regional industry organizations.

Stakeholder dialogues

Stakeholder groups	How we conduct dialogues	Main topics	How we address the issues
Customers and consumers	Customer visits, interviews, website, participation in customer events and seminars, mailings, Facebook	Environmental impact, ecobelling, fiber sourcing, forestry, human rights, health and safety, customer focus, resource efficiency, innovation, product safety	<ul style="list-style-type: none"> • Customer surveys • Visits by customers to show our value chain • Education/training in the Code of Conduct and anti-corruption, supplier standard, climate footprint, FSC and PEFC certifications, product safety • LCA analyses of products • Development of new products together with customers • Technical visits to customers • Established a customer service center for containerboards in Obbola • Membership in trade organizations at national and European levels
Employees	Performance reviews, workplace meetings, work councils, online surveys, intranet, internal courses, management meetings	Health and safety, skills development recruitment and succession planning, compensation and benefits, gender equality, business ethics, working conditions, resource efficiency, environmental impact, product development	<ul style="list-style-type: none"> • Training in the Code of Conduct, introductory course for new employees, skills-enhancement activities • Program ZERO for developing an health and safety culture, OHSAS 18001 certification • Business council meetings, employee surveys, gender equality plans, change management training
Investors and owners	Investor meetings in conjunction with, for example, interim reports, capital market days, the AGM, interviews, website	Dividends targets, financial targets, areas of growth, forest valuation, risk management, health and safety, ethics, human rights, climate impact, resource efficiency	<ul style="list-style-type: none"> • Investor/analyst meetings, Investor Day May 31, 2017 • Roadshows in conjunction with quarterly accounts • Risk management as part of the Board of Directors' Report in the annual report
Suppliers	Follow-up meetings, request for tenders and procurements, forest owner meetings, interviews	Supplier audits, business ethics, human rights, health and safety, forestry, energy consumption, resource efficiency, climate impact	<ul style="list-style-type: none"> • Reviewing SCA's Global Supplier Standard, supplier assessments • Customer satisfaction interviews with private forest owners
NGOs	Meetings concerning specific issues, interviews, website	Forest management, biodiversity, climate and environmental issues, resource efficiency, green energy, human rights	<ul style="list-style-type: none"> • Stakeholder dialogue, memberships and involvement in organizations such as the Swedish Forest Industries Federation, the Confederation of European Paper Industries (CEPI), FSC and PEFC
Society	Dialogue meetings, local events, public consultation, interviews, website	Health and safety, environmental issues, local issues, renewable energy, labor market, community involvement, diversity issues, human rights	<ul style="list-style-type: none"> • Public affairs, dialogues with regulators, government authorities, lobbyists, and local communities, consultation concerning investments, permits, and other local issues • Participation in the Chamber of Commerce, Skogen i skolan. Board representation in Mid Sweden University and Sundsvall Timrå Airport

SCA is committed to responsible forest management, and supports the two international certification systems for forests and forest raw materials, the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). SCA is represented at both international and national levels within FSC. Furthermore, SCA works to raise awareness of how active forest management and increasing the use of forest products can help to combat climate change. SCA's other operations are certified in accordance with ISO 14001, 50001, 9001 and OHSAS 18001, see sca.com.

SCA wants to contribute to the transformation to a fossil free society and is a member of the Fossil Free Sweden initiative.

SCA participates in the WWF Environmental Paper Company Index, and is a member of the WWF Global Forest & Trade Network (GFTN) for responsible trade.

Stakeholder dialogue and materiality analysis

Stakeholder dialogues

SCA continuously carries out dialogues with different stakeholder groups. SCA identifies its primary stakeholders based on their interests and potential influence on the Group, and their material impact on the Group's business.

The business units maintain a close dialogue with their customers and follow up

customer satisfaction through surveys, face-to-face meetings and third-party assessments. SCA regularly meets investors and analysts, and the Group performs employee surveys and has annual target and performance management reviews for its employees. Moreover, SCA communicates with other groups and individuals in matters that have a major impact on society in general and local communities in particular, and regularly holds meetings with NGOs and individuals living near SCA's operations. Stakeholder dialogues provide insights into the expectations of various interest groups, help to cultivate long-standing relationships and continuously improvement of the Group's operations. In addition, the dialogues provide valuable information when the Group's assesses its sustain-

ability program and prioritizes sustainability initiatives. The table above is a summary of the year's dialogues.

Materiality analysis

The materiality analysis is based on stakeholder dialogues, market trends and the company's strategic priorities, and forms the basis for SCA's strategic direction and focus for its sustainability work.

In 2017, SCA held stakeholder dialogues aimed at laying the foundation for SCA's materiality analysis. In-depth interviews of investors and owners, analysts, customers/consumers, suppliers, NGOs and the community were carried out. SCA's employees were also given the opportunity to participate through an online survey. More than 370 stakeholders took part. Each stakeholder prioritized a number of material sustainability topics identified by SCA based on the Global Reporting Initiative (GRI), the UN's 17 Sustainable Development Goals, the UN Global Compact, SCA's Code of Conduct and global trends. Health and safety, responsible forestry, low climate-impact products as well as ethics and values were topics that the stakeholder groups prioritized highest.

SCA's management also completed a survey in which they prioritized the identified sustainability topics. The combined results of the stakeholders' and man-

agement's priorities are the basis for the materiality analysis. The materiality analysis illustration shows the topics that are of greatest strategic significance for SCA's business and core values program based on the materiality analysis conducted. The illustration also links SCA's material areas to the Group's four focus areas.

Sustainability governance

SCA's President bears the overall responsibility for the governance of SCA's business in the field of sustainability. The main purpose of all governance at SCA is to guarantee the Group's commitments to its stakeholders. A description of governance within the SCA Group, including sustainability, can be found in the Corporate Governance Report on page 55. The sustainability agenda is headed by the Group's Sustainability Director via SCA's Sustainability Councils and a number of cross-functional networks, such as the environmental network. The sustainability agenda is based on SCA's core values and regulated through the Group's policies. The Group's sustainability targets are formulated based on the materiality analysis and on strategic priorities. These are supplemented at local level with unit-specific targets.

Risks linked to the field of sustainability are included in the Group's total risk management. A description of the most significant risks and how these risks are

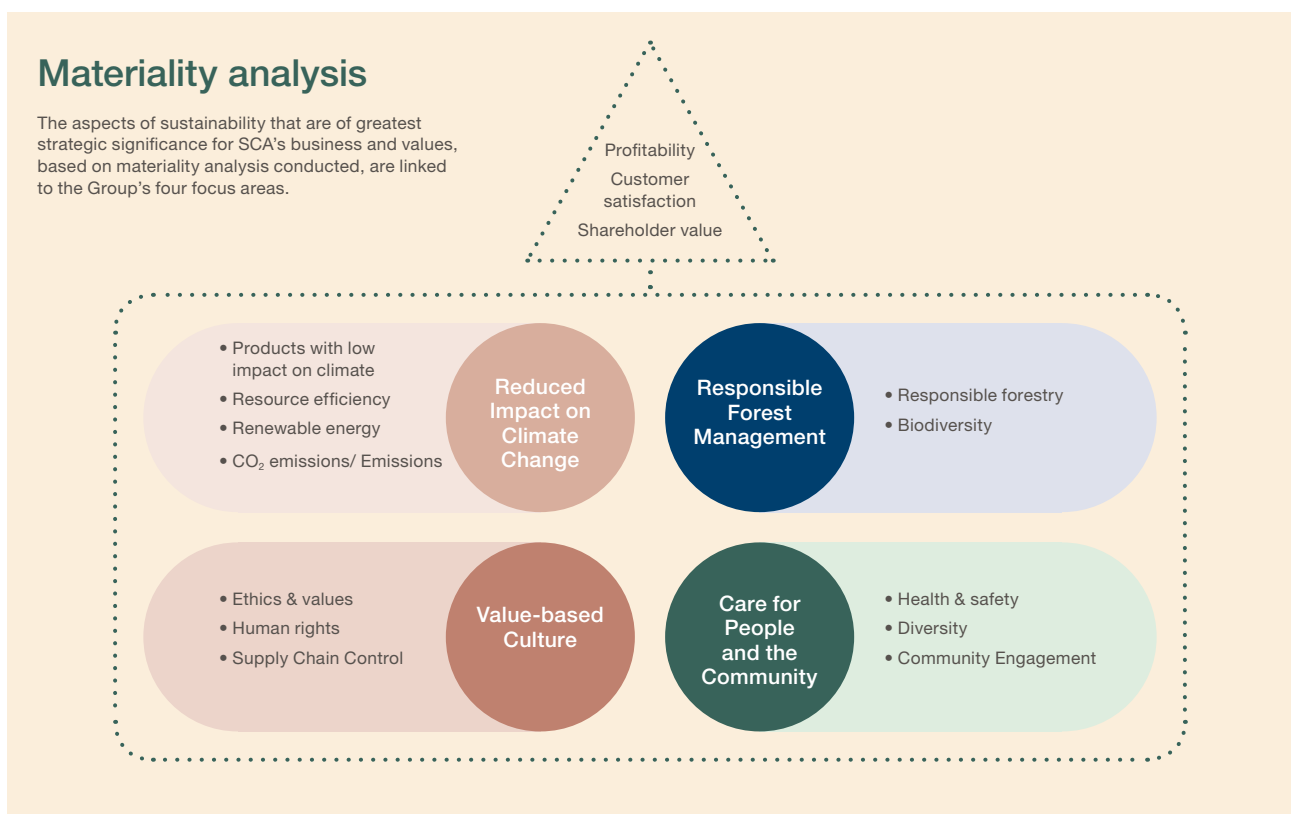
managed can be found on pages 50-53. In product and process development, the precautionary approach is used.

Follow-up of sustainability work

Follow-up and evaluation of sustainability work complies with SCA's procedures for self-assessment, internal control and audits, as described under internal audits in the Corporate Governance Report on pages 56 and 59. In addition, the Group's sustainability targets and priorities are also monitored through the Sustainability Councils.

Code of Conduct

SCA's Code of Conduct is a framework for putting the Group's core values – responsibility, excellence and respect – into practice. The Code is the Group's foremost steering document in terms of sustainability and constitutes, together with SCA's Sustainability Policy, the basis of the Group's sustainability agenda. The Code, which is adopted by the Board of Directors, details the guidelines for business ethics (including anti-corruption), health and safety, employee relations, respecting human rights, the environment and society which every employee is to follow. The Code was adopted in 2004 and is based on the UN Declaration of Human Rights, the International Labour Organisation's (ILO) Core Conventions, the Organisation for Economic Coopera-



tion and Development's (OECD) Guidelines for Multinational Enterprises, and the Ten Principles of the UN Global Compact. More about SCA's Code of Conduct can be found at sca.com and on page 42.

Code of Conduct compliance

All new employees are to receive training in the Code of Conduct as part of the introduction course. Every third year, all employees take a refresher course. Additionally, discussions regarding issues related to the Code are carried out in various forums. The Code of Conduct is a policy document and all policy documents are reviewed annually.

Human rights

Human rights is one important aspect of SCA's Code of Conduct, which forms the basis of the Group's company culture and business relationships. SCA does not tolerate child labor or any form of forced labor. SCA complies with applicable national and international laws on minimum age. SCA promotes fair working conditions, health and safety, the trade union rights of employees and the right to collective bargaining. All forms of violations of human rights are taken very seriously and dealt with in the same manner as other suspected violations of SCA's Code of Conduct. SCA has been a member of the UN Global Compact since 2008. Risks linked to human rights have primarily been identified in business relationships, health and safety and the use of land, refer to the section on risks in the Board of Directors' Report on pages 50-53.

Anti-corruption

Anti-corruption is included in SCA's Code of Conduct. SCA must conduct all activities in accordance with applicable laws

and regulations, and all corrupt activity is strictly prohibited.

All of SCA's employees are trained in the Group's Code of Conduct, which includes a section dealing with business ethics. Employees in a senior position and/or with external contacts are given training in anti-corruption. In addition to training in the Code of Conduct, 130 new employees received training in anti-corruption during 2017. See also page 42.

Supplier standard

SCA's suppliers must meet SCA's supplier standard, which is based on the Group's Code of Conduct, see sca.com, human rights and international standards. Following the distribution of the hygiene business in 2017, both the supplier standard and the audit process of how suppliers meet the standard are being reviewed. There is well-established procedures for supplier control and visits on site in regard to felling and silvicultural services contractors.

Whistleblower system

Every employee can report violations of the Code of Conduct. The violation can be reported to a line manager, human resources manager, legal counsel or union representative. There is also a separate e-mail address managed by the Group's Human Resources function. Complaints are treated anonymously and investigated confidentially, quickly and professionally. If an allegation is substantiated, the appropriate Human Resources function will review the findings and determine whether action should be taken. Even if an allegation cannot be substantiated, preventive actions may be implemented. The scope, outcome and actions taken concerning reported cases

are followed up by SCA's Compliance Council which is headed by the Group's Sustainability Director. See also page 43.

Community involvement

In accordance with SCA's guidelines for community involvement, the company prioritizes initiatives with a clear link to SCA's values, strategic priorities, expertise, operations and geographic presence. SCA's community involvement shall be politically and religiously neutral.

Resource management

This section describes SCA's use of raw materials, water, energy, emissions, transportation and waste management. Data is presented in tables and charts on pages 131-132 and 134-135.

Raw materials

The foundation for SCA's products is fresh wood fiber. In addition, smaller quantities of recovered fiber and inorganic material is used in the form of kaolin clay and calcium carbonate in the manufacturing of various paper products. Moreover, a small amount of fossil organic material is used in chemical additives. 55 percent of the wood fiber used is harvested in SCA's own environmentally certified forest. The remainder is sourced with the requirements that the forest raw material is from responsible sources that are certified in accordance with FSC, PEFC or, at the very least, fulfil FSC's standard for controlled wood. Recovered fiber is sourced via SCA's central purchasing function.

Water

SCA's plants are mainly supplied with water in the form of surface water. The remaining water is from municipal water

Community Engagement

Examples of community involvement in which SCA has been engaged

Description of engagement

- Member of the Fossil Free Sweden initiative to contribute to the transformation to a fossil free society
- Participation in the Swedish Government's collaboration program for circular and bio-based economy
- Support innovations through involvement in Åkroken Science Park, for example Forest Business Accelerator together with BizMaker and IBM
- Representation on the Board of Sundsvall-Timrå Airport to support regional development
- Representation on the Board of Mid Sweden University to support regional development
- Junior Achievement Sweden, to encourage young people's entrepreneurship
- Tekniksprånget, to strengthen interest in science and engineering educations among young people
- Sponsorship of local associations and clubs to support sports and community associations
- Representation on the Board of FSC International
- Participation at national, regional and local levels in Skogen i skolan (The forest in school) to spread awareness of, and interest in, our Swedish forests.
- SCA's conservation parks. Large sections of the landscape where at least half of the forestland areas are set-aside or managed in a manner that promotes nature and cultural values

systems. SCA is monitoring water consumption and origin as well as the quality of its effluent water. Most of the water is used to transport fibers during the production process and the remainder is mainly used as cooling water. SCA's plants are located in areas with plentiful supply of water. Effluent water from pulp and paper mills is, after treatment, discharged into the Baltic Sea. See also page 35.

Energy

Calculations for energy use at a production facility includes purchased energy (heating, electricity and fuel), energy generated from wood, liquor, bark, sludge and waste paper, and electricity generated on site. A large portion of the energy used by SCA comes from the incineration of wood residuals and from on-site co-generation of electricity. Fuel consumption at SCA is 95 percent fossil free. Any self-produced electricity that is not used internally is supplied to the national grid. SCA delivers energy to the district heating system by utilizing secondary heat from the process and in this way replaces fossil fuels at municipal energy plants. Since 2003, SCA's ESAVE energy-efficiency program has contributed to energy savings and improved efficiency. ESAVE comprises investing in energy-efficient technical solutions, focusing on continuous improvements and increasing awareness among employees. All new equipment should be energy efficient by design. SCA has seven units subject to the EU Emissions Trading System (EU ETS).

Transportation

Raw materials are transported to SCA's production plants and finished products are delivered to SCA's customers. SCA uses ships, rail and road transportations depending on distance and the transport systems accessibility, in order to minimize the climate impact. The largest share of transportation is conducted by ship with SCA-owned RoRo vessels, chartered container ships or other cargo ships. SCA uses external suppliers for most of its road transports. SCA is engaged in collaboration projects to cut transport emissions, including tests of 74-ton vehicles and tests using bio-based fuels. Transportation by rail is a carbon-efficient, prioritized mode of transport, where this is possible to use. However, access to a reliable railway network limits options.

Emissions to air and water

The company's total emissions are influenced by level of production and product mix.

Air emissions comprise all combustion units at SCA's production sites, regardless of fuel, and emissions from pur-

chased electricity and thermal energy. When energy is supplied to an external facility, air emissions are reduced in relation to the energy amount delivered and the reduction is distributed among SCA's main products. Emissions to air are reported as NO_x, SO₂ and fossil CO₂.

A large portion of air emissions is generated by transportation. Emissions from transportation are calculated based on total transport performed per mode of transport for finished products and raw materials. Emissions are calculated by multiplying transportation per transport mode (expressed as ton kilometers) by typical emission factors for the different modes of transportation. The emission factors used are based on data from the Network for Transportation Measures (NTM) (www.transportmeasures.org). For transportation with SCA's RoRo vessels and container-feeder, the actual fuel consumption and load utilization is used. SCA is working to reduce emissions by increasing the fill ratio, training in eco-driving, applying various techniques to reduce fuel consumption, and prioritizing transport means with less environmental impact.

SCA's effluent water is divided into cooling water and process water. Cooling water, which constitutes approximately 60 percent of water usage, has only been heated and has not been in contact with the process flow. Effluent water is mechanically treated to remove suspended solids, sand and particles, while biological treatment extracts dissolved solids and pollutants that affect chemical oxygen demand (COD). Emissions to water are reported as COD, suspended solids, nitrogen and phosphorous.

Waste

SCA takes a life cycle approach and works proactively with resource efficiency. SCA's industrial ecosystem utilizes by-products and waste streams insofar as this is possible. Most solid waste is recycled. A small quantity is sent to landfill or is hazardous waste. Recycled waste refers to material that can be used as raw materials, construction materials or for energy recovery and is primarily bio ash, sludge, organic waste and plastic. Hazardous waste is primarily waste oil as well as organic solvents, batteries and strip lights.

Environmental views from local residents and authorities

It is important to engage in active dialogue with communities that can be affected by SCA's operations. This is part of the Group's stakeholder dialogues and encompasses the entire Group's operations, refer also to page 124. Dialogue may, for example, be conducted as

public meetings or be based on opinions received. All environmental remarks are investigated accordance to SCA's procedures and measures are taken where possible. In 2017, 150 such remarks were received. These remarks most often concern noise, odors, emissions to surrounding areas or our forest operations. Employees have the opportunity to report incidents that could impact the environment. The reports are incorporated in efforts to achieve continuous improvements.

SCA's operations have been granted permits by the authorities. These permits are required by law and are associated with a number of environmental conditions. The authorities are informed in the event of exceedances. Corrective action is taken both urgently and in the longer term to reduce environmental impact. A small number of environmental matters were dealt with by the authorities. None of these resulted in penalties in 2017.

Biodiversity

As Europe's largest private forest owner, SCA takes a long-term approach to sustainable forest management. The management of SCA's forest land is certified in accordance with FSC's and PEFC's forest management standards and ISO 14001. SCA's forest land is managed in a responsible manner to promote biodiversity and nature experiences while securing access to forest raw material in the future.

Areas that provide vital habitats for sensitive fauna and flora are excluded from forest management through voluntary set-asides or using alternative forms of forest management that benefit biodiversity. SCA also takes extensive conservation measures in managing forest areas that do not contain any particular conservation value, see pages 36-37 and 131.

SCA has also established five conservation parks, where at least half of the land is set-aside or managed in a way that promotes nature and cultural values. SCA uses the knowledge it gains in these parks in its other forest operations.

Strategic priorities for sustainability work

Strategic priorities	Why material	Impact on value chain	Governance	KPI	GRI disclosure ¹	Material risks ³	SCA's materiality analysis	Sustainability topics according to the Swedish Annual Accounts Act
Profitable growth	Value creation for stakeholders and the company's long-term profitability	Shareholders, society, employees	<ul style="list-style-type: none"> Financial control Financial Policy 	<ul style="list-style-type: none"> EBITDA EBIDA-margin Return on capital employed 	201-1	<ul style="list-style-type: none"> Financial risks Demand and market price 		
Reduced impact on climate change	SCA produces and sells renewable products that can replace fossil-based alternatives and thereby contribute to reducing global warming	Growth in the forest, SCA's operations, suppliers, transports, customers	<ul style="list-style-type: none"> Sustainability Policy SCA's Environmental network ESAVE program² 	<ul style="list-style-type: none"> CO₂ emissions Net forest growth Fossil free Innovation index 	305-5	Political decisions	<ul style="list-style-type: none"> Products that have low climate impact CO₂ emissions, renewable energy 	Environment
Resource efficiency	SCA continuously strives to improve its resource efficiency, which contributes to better profitability while also being economical with the planet's resources and reducing the impact on the environment	Own operations, optimizing the value chain, customers	<ul style="list-style-type: none"> Sustainability Policy SCA's Environmental network ESAVE program² 	<ul style="list-style-type: none"> Energy consumption Resource efficiency Emissions Effluents 	302-1 306-1	Environmental impact	<ul style="list-style-type: none"> Products that have low climate impact Resource efficiency Emissions 	Environment
Responsible Forest Management	SCA conducts responsible forest management to benefit biodiversity while the use of forest raw material creates value for our customers, for the Group and ensures future access to forest raw material	SCA forests, private forest owners, community, customers	<ul style="list-style-type: none"> Forest management manual Quality manuals for Forest operations, road construction and transport activities 	<ul style="list-style-type: none"> Nature conservation area Fiber supply from responsible sources 	304-3	Risks in forest portfolio	<ul style="list-style-type: none"> Responsible forestry Biodiversity 	Environment
Carefor People and the Community	Our employees are our most important resource. SCA secures the future need of expertise by being an inclusive and attractive employer that puts health and safety first. Through our business, we generate jobs and develop together with the communities in which we are active	Employees (existing and potential), local communities	<ul style="list-style-type: none"> Sustainability Policy Health and Safety Policy HR Policy 	<ul style="list-style-type: none"> Workplace accident frequency rate Distribution women/men Sickness absence 	403-2 405-1	<ul style="list-style-type: none"> Employee-related risks Production plant-related risks 	<ul style="list-style-type: none"> Health and safety Diversity Community involvement 	Social conditions and personnel issues
Value-based Culture	To be a credible and transparent company, SCA's business is based on shared values that are described in our Code of Conduct, to which all our employees are to comply with, and which will guide us in our business relationships and how we respond to our stakeholders	Employees, suppliers, customers, society	<ul style="list-style-type: none"> Code of Conduct SCA's Global Supplier Standard SCA's Compliance Council 	<ul style="list-style-type: none"> Proportion of employees trained in the Code of Conduct Proportion of suppliers that meet SCA's Global Supplier Standard 	206-1	<ul style="list-style-type: none"> Business ethics Production plant-related risks Risks in the forest portfolio 	<ul style="list-style-type: none"> Ethics and core values Human rights Supplier audits 	<ul style="list-style-type: none"> Human rights Anti-corruption

1) GRI disclosure, in accordance with GRI Standards. GRI = Global Reporting Initiative

2) ESAVE = SCA's energy saving,

3) See section risks and risk management on pages 50-53

Sustainability targets 2014–2017

The targets for 2017 were formulated for the former SCA Group comprising of a hygiene business and a forest products business. In 2017, a new materiality analysis for the refocused forest products company SCA was carried out and, based on this, new sustainability targets were formulated, refer to the lower table.

Focus area	Target	Outcome 2017
Reduced Impact on Climate Change	We will reduce CO ₂ emissions from fossil fuels and from purchased electricity and heating by 20 percent by 2020, with 2010 as reference year	• Emissions of fCO ₂ have been reduced with 49 percent measured as emissions per ton of pulp and paper ●
	We will increase the production of wind power on SCA's forest land to 5 TWh by 2020	• Wind power production on SCA land amounted to 2.3 TWh ●
	Our mills will reduce the levels of suspended solids to water by 10 percent and phosphorous emissions to water by 10 percent by 2020, with 2014 as the base year	• Emissions of suspended solids increased 57 percent and phosphorous emissions by 5 percent, partly due to the rebuilding of effluent treatment plants ●
Responsible Forest Management	All fresh wood fiber in our products is to be FSC or PEFC certified, or at least fulfill the FSC's standard for controlled wood	• 100 percent of fresh wood fiber procurement fulfilled FSC, PEFC or FSC CW ●
	We will preserve the biodiversity of our forests. A minimum of 5 percent of our productive forest land will be set aside from forestry in our ecological landscape plans through voluntary set-asides. A further 5 percent in our managed forests will be set aside during harvesting as part of our nature considerations	• 8 percent of land is set aside as voluntary set-asides • 13 percent of land is set aside for nature considerations ●
Care for People and the Community	Our aim is zero workplace accidents, and we will decrease our accident frequency rate (FR) by 50 percent between 2014 and 2020	• Workplace accidents decreased with 9 percent measured as accident frequency rate ●
	OHSAS 18001 certification will be implemented as work environment standard at all main sites ¹ by 2016	• All main sites are OHSAS 18001 certified ¹ ●
Value-based Culture	We are to comply with SCA's Code of Conduct and all employees are to receive regular training in the Code	• Approximately 90 percent of our employees have received Code of Conduct training ●
	We evaluate all of our supply streams from a total risk perspective. By 2020, we aim to source 100 percent of our procurement spend from suppliers committed to the criteria specified in SCA's Global Supplier Standard	• Of the 28 largest suppliers, 75 percent have signed SCA's Global Supplier Standard ●

1) Main sites are SCA units with more than 100 employees.

● According to schedule ● Not according to schedule

SCA's new sustainability targets

Following the distribution of the hygiene business and the refocusing of the company, the Group formulated new sustainability targets for the forest products company SCA.

Focus area

Reduced Impact on Climate Change

Target

- Fossil free value chain
- Forests that counteract climate change as growing trees capture and bind CO₂
- Increased wind power production on SCA's land

Focus area

Responsible Forest Management

Target

- Forests as rich in biodiversity, nature experiences and timber in the future as they are today
- All fresh wood fiber in our products certified by FSC or PEFC, or as a minimum fulfill the FSC's standard for controlled wood, FSC CW

Focus area

Care for People and the Community

Target

- Zero workplace accidents
- Attractive employer where diversity is a part of our culture

Focus area

Value-based Culture

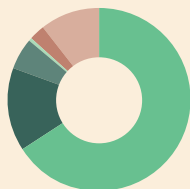
Target

- Compliance with SCA's Code of Conduct and regular training for all employees in the Code
- Purchases from suppliers that fulfill SCA's supplier standard

Value creation

ECONOMIC VALUE CREATION

Economic value



The area of the circle represents SCA's revenue, including changes in value to biological assets, totaling SEK 18,885m.

- Payments to subcontractors, including forest owners in the inland region of Norrland: SEK 12,474m (66.1%)
- Salaries, social security costs and pension provisions to SCA's employees: SEK 2,763m (14.6%)
- Dividend to shareholders: SEK 1,054m (5.6%), in accordance with Board's proposal
- Interest paid to creditors: SEK 93m (0.5%)
- Income tax to society: SEK 544m (2.9%)
- Remaining in SCA: SEK 1,957m (10.3%)

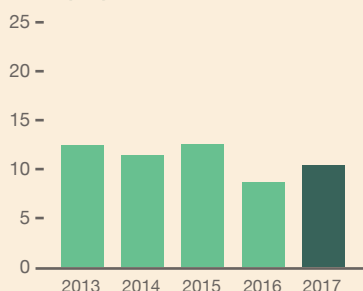
A large portion of payments to suppliers were made to suppliers in SCA's local area in northern Sweden. This is particularly the case for purchasing wood raw material and contractors' services. For payments to employees, SEK 2,486m (90 percent) pertain to employees in Sweden, almost entirely in northern Sweden. A significant share of this figure was received by municipalities and the state in Sweden, through the payment of social security costs, payment by employees of municipal and state income taxes, and through the consumption of products and services. 98 percent of the reported value of income taxes pertain to Sweden. The major part, SEK 485m, constitutes of so called deferred taxes and the rest SEK 59m of actual tax cost. The amount 'remaining in SCA' comprises profit for the period with reversed depreciation/amortization and deductions for the dividend for 2017 in accordance with the Board's proposal. Further information about the cost structure is available in the Board of Directors' Report on page 46 and regarding income taxes in Note B5 on page 86.

VALUE CREATION FOR PEOPLE

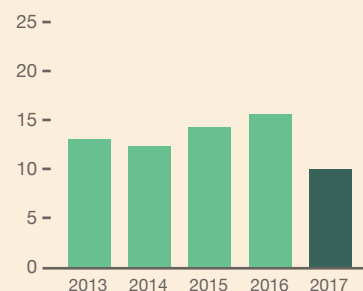
Health and safety is top priority and SCA has a vision of zero workplace accidents. The frequency rate of workplace accidents, measured as the number of workplace accidents per million hours worked, has improved. Work with the ZERO program is continuing by developing SCA's health and safety culture and to strive towards the zero vision.

The severity rate of workplace accidents, measured as the number of days of absence per accident, fell to less than 10 days of absence in 2017. A few of the accidents have resulted in longer absence during the year, while most workplace accidents resulted in shorter absence than one week.

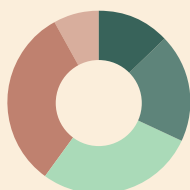
Workplace Accident Frequency Rate (FR)



Accident Severity Rate (ASR)



Employee age distribution for the Group



- <21 years 0%
- 21-30 years 13%
- 31-40 years 19%
- 41-50 years 32%
- 51-60 years 28%
- >60 years 8%

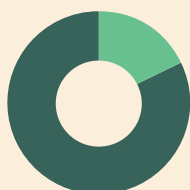
The age structure has not changed to any great extent compared with 2016 but some rejuvenation occurred.

During the year, approximately 300 new people were employed, which gives an employee turnover of about 8 percent.

All employees in Sweden, with the exception of the Executive Management Team, are covered by collective agreements. The percentage for the Group as a whole is 90 percent.

Sickness absence has fallen slightly by 0.2 percentage points, compared with 2016, to 3.8 percent.

Distribution women and men in total for the Group



- Women 18%
- Men 82%

The share of women in total in the Group amounts to 18 percent, which is a marginal increase compared with 2016.

Distribution women and men in management positions for the Group



- Women 20%
- Men 80%

The share of women in management positions amounts to 20 percent and has increased by 2 percentage points compared with 2016. Management positions refers to members of management teams.

VALUE CREATION FOR THE ENVIRONMENT

Nature conservation areas, status Dec 31, 2017

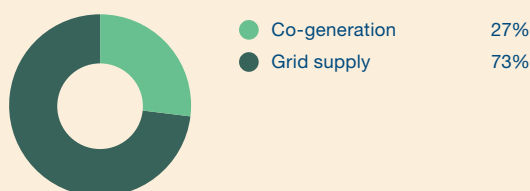
Nature conservation areas in the form of	Number of hectares	% of productive forest land
Voluntary set-asides	168,000	8.1
Nature conservation during harvesting operations	–	13
Alternative forms of forest management	60,500	2.9
Sum (over the rotation period of the forest)		24

The table shows SCA's nature conservation areas, areas intended to benefit biodiversity, as a percentage of SCA's productive forest land at the end of 2017. The assessment is subject to change and is based on continuous analyses of the nature conservation values of the forest land to identify areas with the highest conservation values. SCA is responsible for and manages the evaluation and follow-up of the nature conservation areas.

Conservation values are always considered through pre-harvest assessments and in some other forests. The Swedish Forest Agency's methods form the basis for the identification of forest with high conservation values set aside in SCA's voluntary set-asides. The voluntary set-asides are presented on skyddadskog.se. Nature conservation during harvesting operations refers to areas > 0.1 hectares of land within planned harvesting on productive forest land 2017. The sum relate to nature conservation areas over the rotation period of the forest.

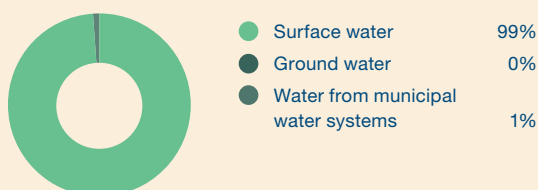
SCA's five conservation parks comprise a total of more than 10,000 hectares of forest land and are, in part, included in the voluntary set-asides. The conservation parks are large sections of the landscape where at least half of the land is set-aside or managed in a way that promotes nature and cultural values.

Distribution of electricity supply



SCA's plants in Sweden generate electricity using co-generation which is equivalent to 27 percent of the Group's electricity consumption. The remainder is from the national grid. SCA is currently a net purchaser of electricity.

Distribution of water supply



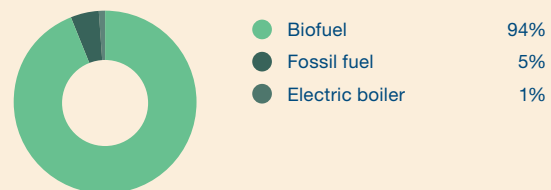
Almost all of SCA's water is from surface water sources, such as large rivers. The chart refers to the Swedish production units. Foreign units have only marginal consumption.

Measures to promote biodiversity

Measures taken in 2017	Number of hectares	% of total harvested area
Nature conservancy management (NCM) in voluntary set-asides	275	1.3%
Controlled burning and slash-and-burn clearances	112	0.5%
Alternative (continuous cover methods) forms of harvesting outside voluntary set-asides	309	1.4%

The table shows management measures conducted in 2017 that have benefited biodiversity as a share of the harvested area within SCA's forest holding. Various measures are implemented to recreate habitats, with controlled burning as one example. In 2017, it was not possible to perform controlled burning to the extent planned due to the rainy summer. Alternative forms of harvesting are primarily various continuous cover methods, such as selective harvesting and shelterwood.

Distribution of fuel supply



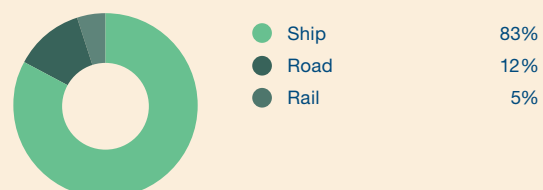
SCA's fuel consumption including purchased electricity for steam production is 95 percent fossil free. Electricity purchased from the Swedish national grid is considered 97 percent fossil free (according to IEA). Refers to Swedish production facilities.

Sold and purchased energy for heating¹

Energy	Sold external (TJ)	Purchased (TJ)
Heating	1,600	459
Steam	0	0
Cooling	0	0
Total	1,600	459

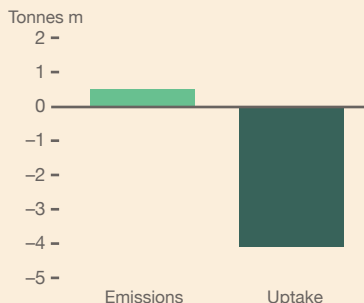
1) Refers to production facilities in Sweden

Distribution of transport usage



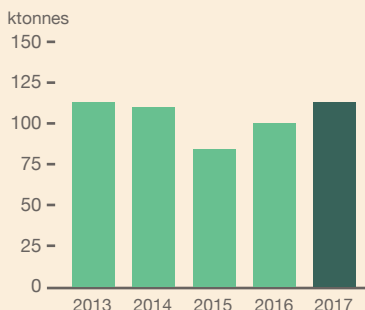
Just over 80 percent of transportation of raw materials and finished products is conducted by ship. For land transportation, approximately one-third is conducted by rail.

CO₂ emissions from production, including transportation, and uptake in SCA's forests



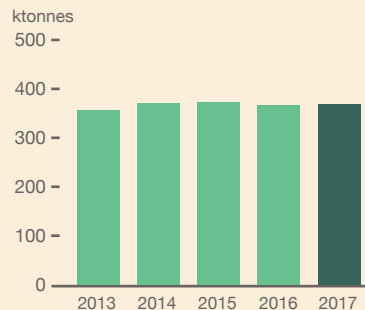
Net uptake in SCA's forests is estimated at 4 million tonnes of CO₂, which is approximately 8 times greater than the total emissions of fossil CO₂ from SCA's Swedish production facilities and transportation of raw materials and finished products.

CO₂ emissions from production, fossil CO₂



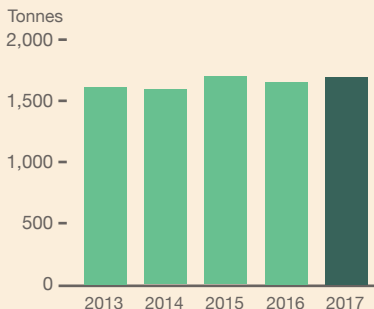
SCA is working actively to reduce emissions of fossil CO₂. Since 2010, the emissions have decreased by about 50 percent or approximately 100,000 tonnes. However, in 2017 emissions rose primarily due to production disturbances in Östrand resulting in increased oil consumption. CO₂ emissions are reported for Scope 1, "direct GHG".

CO₂ emissions from transportation, fossil CO₂



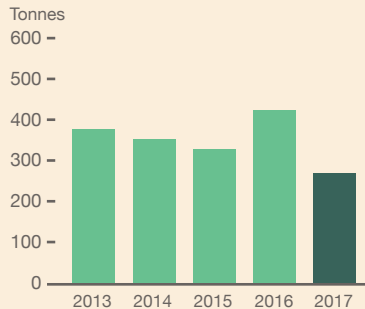
By optimizing the logistics system, CO₂ emissions from transportation have been kept at a relatively constant level at the same time as the volume of transported goods has increased.

Emissions to air from production, NO_x



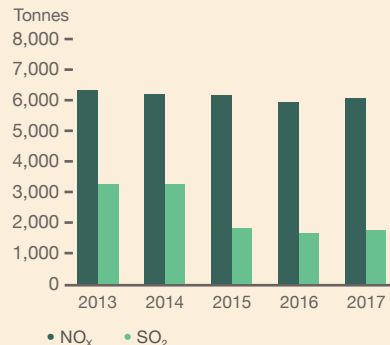
Emissions of nitrogen oxides from SCA pulp and paper mills remain at a constant level.

Emissions to air from production, SO₂



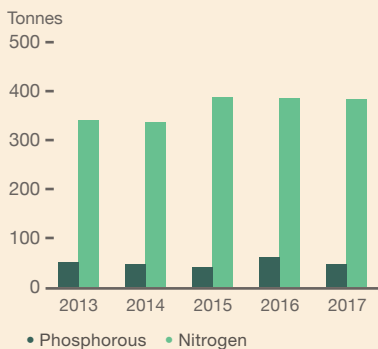
Emissions of SO₂ have fallen due to improvements in the availability of the recycling process.

Emissions from transport activities, NO_x and SO₂



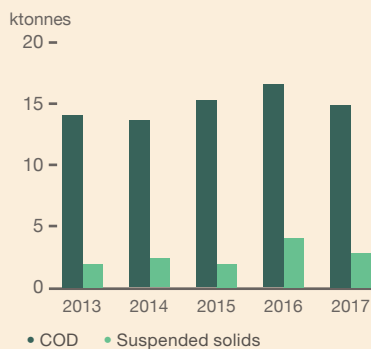
Developments in technology and fuels are resulting in lower emissions of nitrogen and sulphur compounds from transportation.

Water effluents from production, phosphorous and nitrogen



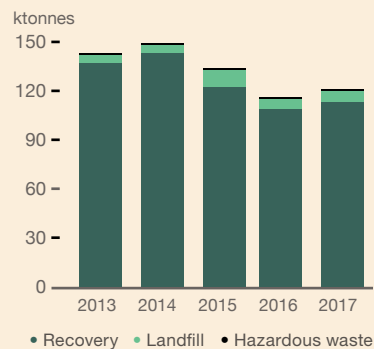
Nitrogen and phosphorous are dispensed to SCA's treatment systems to achieve a stable reduction in COD. The higher levels in 2016 and 2017 were partly a result of the rebuilding of effluent treatment plants.

Water effluents from production, COD and suspended solids



Trimming after the rebuilds of effluent treatment plants has resulted in a recovery from 2016.

Distribution of solid waste



Almost all solid waste is recycled (93 percent). A small quantity (6 percent), is sent to landfill or treated as hazardous waste (1 percent).

Social data

The table shows social data for the SCA Group. Due to the distribution of the hygiene business, comparison data for all areas cannot be reported. Data for 2017 refers to the entire Group. Data for 2016 refers to the SCA Forest Products business unit in the former SCA Group.

	2017	2016
Average number of employees	4,127	4,022
Number of employees¹	4,031	3,912
of whom men	3,318	3,231
of whom women	713	681
Number of part-time employees¹	330	329
of whom men	262	251
of whom women	68	78
Number of part-time employees¹	87	85
of whom men	56	52
of whom women	31	33
Age distribution		
<21 years old	0%	0%
21–30	13%	10%
31–40	19%	18%
41–50	28%	29%
51–60	32%	33%
61+	8%	11%
Employee turnover²	8%	10%
of which retirement and restructuring	2%	14%
of which other	6%	6%
Gender equality		
Share of women on the Board of Directors ³	4 of 9	N/A
Share of women on the Board of Directors ⁴	5 of 12	N/A
Share of women in the Executive Management Team	2 of 13	N/A
Share of women, in management positions ⁵	20%	18%
Share of women, all employees	18%	17%
Health and Safety		
Sickness absence total	3.8%	4.0%
Number of workplace accidents resulting in absence, LTA (of which foreign units)	65 (11)	58 (9)
Number of workplace accidents among contractors, CLTA ⁶	37	38
Number of working days lost due to workplace accidents, DLA ⁷	647	903
Workplace Accident Severity Rate, ASR, measured as days of absence/LTA	9.9	15.6
Workplace accident Frequency Rate, FR, (LTA/1,000,000 WH)	10.4	8.7
Fatalities	0	0

1) Refers to employees at December 31, 2017

2) Refers to permanent staff

3) Excluding members appointed by employees

4) Including members appointed by employees

5) Members of management teams

6) Including one fatal accident. Refers to contractors who perform work at SCA's facilities or in forestry operations

7) Absence from day 1 after the accident

Environmental data

The table shows environmental data for SCA's Swedish production facilities. The report is more extensive than what is covered in text and charts. Raw material consumption is only reported at Group level.

		Total SCA		Total pulp and paper mills		Total Wood		Ortviken paper mill		Östrand pulp mill		Munksund paper mill	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
PRODUCTION													
Paper, pulp and pellets	ktonnes	2,230	2,206	2,047	2,032	183	174	724	720	486	500	383	389
Timber and solid-wood products	1000 m ³	2,254	2,139			2,254	2,139						
RAW MATERIALS													
Wood and sawmill chips	ktonnes	4,649	4,183										
Purchased pulp	ktonnes	0	54										
Recovered paper	ktonnes	300	281										
Inorganic material	ktonnes	203	202										
Organic fossil material	ktonnes	11	12										
Water	Mm ³	101	105										
ENERGY													
Electricity													
Co-generation	GWh	806	709	806	709	0	0	65	66	409	326	180	175
Grid supply	GWh	2,228	2,306	2,053	2,126	175	180	1,616	1,600	88	165	165	180
TOTAL	GWh	3,034	3,015	2,859	2,835	175	180	1,682	1,666	498	492	346	355
Fuels													
Biofuel	TJ	28,143	27,636	25,436	25,108	2,706	2,528	2,786	2,857	12,347	11,997	5,951	6,063
Fossil fuel	TJ	1,482	1,315	1,411	1,245	71	70	246	269	551	418	219	199
Electric boiler/hood	TJ	221	244	221	244	0	0	95	170	0	0	126	75
TOTAL	TJ	29,845	29,195	27,068	26,597	2,778	2,598	3,127	3,295	12,897	12,415	6,296	6,336
of which co-generation	TJ	3,330	3,011	3,330	3,011	0	0	291	298	1,723	1,374	679	738
EMISSIONS													
To air													
NO _x as NO ₂	tonnes	1,696	1,654	1,580	1,544	116	110	170	185	771	758	374	340
SO ₂	tonnes	268	423	257	413	11	10	31	31	57	217	119	127
Dust	tonnes	243	175	168	92	76	83	20	20	108	33	14	20
CO ₂ fossil	ktonnes	113	100	108	94	6	5	17	19	43	33	17	15
CO ₂ fossil, grid electricity	ktonnes	25	26	23	24	2	2	18	18	1	2	2	2
CO ₂ biogenic	ktonnes	2,790	2,773	2,521	2,518	270	255	284	290	1,139	1,135	629	641
To water													
COD	tonnes	14,907	16,587	14,907	16,587	0	0	3,093	2,916	6,763	7,833	3,302	4,483
BOD	tonnes	1,719	2,942	1,649	2,873	70	69	72	49	867	1,787	513	891
Suspended solids	tonnes	2,786	4,038	2,784	4,037	2	0	120	60	687	1,473	1,180	1,948
AOX	tonnes	10	14	10	14	0	0	2	2	5	8	2	2
Phosphorous (P)	tonnes	45	60	45	60	0	0	3	2	13	19	13	23
Nitrogen (N)	tonnes	384	385	384	385	0	0	67	56	144	139	88	118
Effluent water (process water)	Mm ³	41	41	41	41	0	0	12	11	15	15	8	9
Solid waste													
Landfill	tonnes	7,175	5,793	3,612	3,389	3,564	2,404	0	1	27	118	3,200	2,876
Recovery	tonnes	113,098	108,733	101,137	86,787	11,962	21,946	28,671	28,068	42,632	26,606	9,132	10,924
Hazardous waste	tonnes	1,384	1,121	1,185	909	200	212	415	271	644	465	78	102

Definitions

AOX Absorbable organic halogens
CO₂ Carbon dioxide

COD Chemical oxygen demand
BOD Biochemical oxygen demand

NO₂ Nitrogen dioxide
NO_x Nitrogen oxides

SO₂ Sulphur dioxide

Obbola paper mill		BioNorr Härnösand		Construction materials Stugun		Construction materials Tunadal		Bollsta sawmill		Gällö sawmill		Munksund sawmill		Rundvik sawmill		Tunadal sawmill	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
454	423	166	159	17	15												
				91	88	76	71	541	546	335	306	397	389	307	306	507	434
151	141	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
183	180	32	30	2	9	3	3	41	42	15	14	26	26	21	21	35	35
334	322	32	30	2	9	3	3	41	42	15	14	26	26	21	21	35	35
4,352	4,191	568	552	73	66	3	3	655	672	226	196	495	448	228	210	458	381
395	360	2	2	1	0	0	0	48	35	0	0	16	26	4	6	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,747	4,551	570	554	74	66	3	3	703	707	226	196	511	474	232	216	459	382
636	601	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
265	262	0	0	6	7	0	0	58	55	24	21	8	5	13	15	7	6
50	38	0	0	0	0	0	0	1	1	0	0	9	9	0	0	0	0
25	20	52	45	7	0	0	0	1	1	5	24	0	0	10	12	0	0
31	28	0	0	0	0	0	0	4	3	0	0	1	2	0	0	0	0
2	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
469	452	54	54	7	6	0	0	63	65	22	19	48	43	32	33	44	37
1,749	1,354	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
197	147	0	0	0	0	0	0	70	69	0	0	0	0	0	0	0	0
798	557	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
16	16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
85	72	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
384	395	3,422	2,341	0	5	0	0	0	0	60	0	82	58	0	0	0	0
20,702	21,189	20	15	133	80	71	26	3,197	2,269	362	597	9	54	8,057	18,823	113	83
48	72	1	25	10	5	3	26	66	69	3	12	29	13	57	42	30	21

Signatures

The Board's assessment is that the dividend to shareholders in the proposed amount, in accordance with Note PC12, see page 122, is justifiable taking into account the requirements, on both the company and the Group, the nature of the business, its scope and risks place on the size of equity and also considering consolidation requirements, liquidity and other status. The financial position remains strong after the proposed dividend and is considered sufficient to ensure that the company can fulfil its short or long-term obligations, and has the opportunity to make any necessary investments.

The Annual and Sustainability Report and the consolidated financial statements have been approved for publication by the Board of Directors on February 22, 2018. The Group's income statement and balance sheet and the Parent Company's income statement and balance sheet will be presented for approval at the Annual General Meeting on March 23, 2018.

The Board of Directors and President declare that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the EU and that disclosures herein give a true and fair view of the Group's financial position and results of operations. The Parent Company's financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Board of Directors' Report provides a fair review of the Parent Company's and Group's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

The Annual and Sustainability Report also contains the Group's and Parent Company's sustainability reporting in accordance with the Swedish Annual Accounts Act, Chapter 6, Section 11, see page 54, and the Sustainability Report in accordance with the Global Reporting Initiative, GRI, see the GRI index on pages 141-142.

Sundsvall, February 22, 2018

Pär Boman
Chairman of the
Board

Charlotte Bengtsson
Board member

Roger Boström
Board member,
Employee representative

Lennart Evrell
Board member

Annemarie Gardshol
Board member

Martin Lindqvist
Board member

Lotta Lyrå
Board member

Bert Nordberg
Board member

Barbara Milian Thoralfsson
Board member

Hans Wentjärv
Board member,
Employee representative

Johanna Wiklund Lindén
Board member,
Employee representative

Ulf Larsson
President, CEO
and Board member

Auditor's report

To the general meeting of the shareholders of Svenska Cellulosa Aktiebolaget SCA (publ),
corporate identity number 556012-6293.

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Svenska Cellulosa Aktiebolaget SCA (publ) for the year 2017 except for the corporate governance statement on pages 55-65 and the sustainability report defined on page 54. The annual accounts and consolidated accounts of the company are included on pages 44-122 and page 136 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position

of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 55-65. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do

not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit

included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Forest Valuation

Description	How our audit addressed this key audit matter
The group's forest assets are accounted for as biological assets valued at fair value in accordance with IAS 41 Agriculture and by application of IFRS 13 Fair Value Measurement. As of 31 December 2017 the forest is accounted for at 31.4 billion SEK. The fair value of the group's forest assets is calculated as the present value of future cash flows before tax and is classified as Level 3 valuation as defined in IFRS 13. The valuation process is complex since a quoted price in an active market does not exist for these assets. As a result biological assets are valued based on the present value of future cash flows. Key assumptions are future forest prices, felling costs, volume assumptions and discount rate which all include a high degree of assumptions from the company.	In our audit we have evaluated and reviewed key assumptions, application of common valuation practice, discount rate ("WACC") and other source data that the company has used by i.e. comparing to external data sources, such as forecasted inflation, forest prices and felling costs or assumptions of future felling volumes and by evaluating the sensitivity in the company's valuation model. We have as appropriate included valuation specialists in the team performing our review. We have specifically focused on the sensitivity in the calculations. Furthermore we have evaluated the company's historical capability to forecast. Finally we have evaluated if disclosures provided in note D3 ("Biological Assets") in the company's notes are appropriate, specifically with regards to disclosure of which of the stated assumptions that are most sensitive in calculating the fair value.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-43, 123-135 and 140-148. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated

accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Svenska Cellulosa Aktiebolaget SCA (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board

of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances

that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 55-65 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Ernst & Young AB with Hamish Mabon as auditor in charge, Box 7850, 103 99 Stockholm, was appointed auditor of Svenska Cellulosa Aktiebolaget SCA (publ) by the general meeting of the shareholders on the 5 April 2017 and has been the company's auditor since the 14 April 2016.

Stockholm 22 February, 2018

Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Auditor's Limited Assurance Report on SCA's Sustainability Report

To Svenska Cellulosa Aktiebolaget SCA

Introduction

We have been engaged by the Board of Directors of Svenska Cellulosa Aktiebolaget SCA to undertake a limited assurance engagement of Svenska Cellulosa Aktiebolaget SCA's Sustainability Report for the year 2017. The company has defined the scope of the Sustainability Report to the areas referred to in the GRI Index on pages 141-142.

Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on the page 123, and are the parts of the Sustainability Reporting Guidelines published by GRI (Global Reporting Initiative) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial

information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Svenska Cellulosa Aktiebolaget SCA in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The procedures performed, consequently, do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm, February 22, 2018

Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Charlotte Söderlund
Authorized Public Accountant

GRI index 2017

General Disclosures				
GRI Standards	Disclosure number	Description	Page	Comment/Omission
		Organizational profile		
GRI 102: General Disclosures	102-1	Name of the organization	146	
	102-2	Activities, brands, products and services	13, sca.com	
	102-3	Location of headquarters	146	
	102-4	Location of operations	5, 84 (TB1:1)	
	102-5	Ownership and legal form	44-45	
	102-6	Markets served	9, 84 (TB1:1)	
	102-7	Scale of the organization	8-9, 83-85 (Note B1)	
	102-8	Information on employees and other workers	123, 133, 85 (TB1:3)	Apart from SCA's own employees, the main group that is not employed by SCA comprises contractors conducting forest services, some 900 people.
	102-9	Supply chain	43, 124, 126	
	102-10	Significant changes to the organization and its supply chain	9, 57	
	102-11	Precautionary Principle or approach	125	
	102-12	External initiatives	123-124	
	102-13	Membership of associations	123-124	
		Strategy		
	102-14	Statement from senior decision-maker	10	
		Ethics and integrity		
	102-16	Values, principles, standards and norms of behavior	39, 42-43, 125-126	
		Governance		
	102-18	Governance structure	55-56, 125	
		Stakeholder engagement		
	102-40	List of stakeholder groups	32, 124	
	102-41	Collective bargaining agreements	130	
	102-42	Identifying and selecting stakeholders	124-125	
	102-43	Approach to stakeholder engagement	124-125	
	102-44	Key topics and concerns raised	32, 124	
		Reporting practice		
	102-45	Entities included in the consolidated financial statements	108 (Note F1), 123	
	102-46	Defining report content and topic Boundaries	123	
	102-47	List of material topics	125	
	102-48	Restatements of information	123	
	102-49	Changes in reporting	123	
	102-50	Reporting period	123	
	102-51	Date of most recent report	123	
	102-52	Reporting cycle	123	
	102-53	Contact point for questions regarding the report	146	
	102-54	Claims of reporting in accordance with the GRI Standards	123	
	102-55	GRI content index	141-142	
	102-56	External assurance	54, 136, 140	

Material Sustainability Topics				
GRI Standards	Disclosure number	Description	Page	Comment/Omission
	Economic performance			
GRI 103: Management Approach	GRI 103-1	Explanation of the material topic and its Boundary	123, 125	
	GRI 103-2	The management approach and its components	125, 128	
	GRI 103-3	Evaluation of the management approach	125	
GRI 201: Economic performance	GRI 201-1	Direct economic value generated and distributed	130	
	Anti-corruption			
GRI 103: Management Approach	GRI 103-1	Explanation of the material topic and its Boundary	123, 125	
	GRI 103-2	The management approach and its components	123, 128	
	GRI 103-3	Evaluation of the management approach	125	
GRI 206: Anti-competitive Behavior	GRI 206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	42-43, 126	
	Energy			
GRI 103: Management Approach	GRI 103-1	Explanation of the material topic and its Boundary	123, 125, 127	
	GRI 103-2	The management approach and its components	125, 128	
	GRI 103-3	Evaluation of the management approach	125	
GRI 302: Energy	GRI 302-1	Energy consumption within the organization	127, 131, 134-135	
	Biodiversity			
GRI 103: Management Approach	GRI 103-1	Explanation of the material topic and its Boundary	123, 125	
	GRI 103-2	The management approach and its components	125, 128	
	GRI 103-3	Evaluation of the management approach	125	
GRI 304: Biodiversity	GRI 304-3	Habitats protected or restored	36-37, 127, 131	
	Emissions			
GRI 103: Management Approach	GRI 103-1	Explanation of the material topic and its Boundary	123, 125	CO ₂ is included in the calculations, other greenhouse gas emissions are negligible. The reduction in emissions is reported for Scope 1.
	GRI 103-2	The management approach and its components	125, 128	
	GRI 103-3	Evaluation of the management approach	125	
GRI 305: Emissions	GRI 305-5	Reduction of GHG emissions	127, 132, 134-135	
	Emissions to water and waste			
GRI 103: Management Approach	GRI 103-1	Explanation of the material topic and its Boundary	123, 125	
	GRI 103-2	The management approach and its components	125, 128	
	GRI 103-3	Evaluation of the management approach	125	
GRI 306: Effluents and Waste	GRI 306-1	Water discharge by quality and destination	126-127, 132, 134-135	
	Occupational Health and Safety			
GRI 103: Management Approach	GRI 103-1	Explanation of the material topic and its Boundary	123, 125	
	GRI 103-2	The management approach and its components	39, 125, 128	
	GRI 103-3	Evaluation of the management approach	125	
GRI 403: Occupational Health and Safety	GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	123, 130, 133	Type of workplace injury is defined as workplace injury with absenteeism. Only limited information is reported by contractors.
	Diversity and Equal Opportunity			
GRI 103: Management Approach	GRI 103-1	Explanation of the material topic and its Boundary	123, 125	
	GRI 103-2	The management approach and its components	125, 128	
	GRI 103-3	Evaluation of the management approach	125	
GRI 405: Diversity and Equal Opportunity	GRI 405-1	Diversity of governance bodies and employees	62-63, 85 (TB1:3), 130, 133	Departure for information on minority groups in accordance with Swedish law. Age distribution is reported for all employees at SCA, since a breakdown by employment category currently lacks system support.

Multi-year summary

Continuing operations (SEKm)	2017	2016 ¹⁾	2015 ¹⁾	2014 ¹⁾
INCOME STATEMENT				
Net sales	16,664	15,373	16,152	15,412
Adjusted EBITDA	3,761	3,269	3,741	3,683
Forest	1,363	1,238	1,213	1,232
Wood	670	531	478	603
Pulp	482	530	970	768
Paper	1,479	1,128	1,295	1,243
Other	-233	-158	-215	-163
Items affecting comparability	-113	116	40	-383
EBITDA	3,648	3,385	3,781	3,300
Depreciation/amortization	-1,137	-1,114	-1,197	-1,209
Items affecting comparability impairment	0	0	-1,320	-9
Operating profit	2,511	2,271	1,264	2,082
Financial items	-93	-84	-128	-221
Profit before tax	2,418	2,187	1,136	1,861
Taxes	-544	-417	-262	-482
Profit for the period	1,874	1,770	874	1,379
BALANCE SHEET				
Biological assets	31,386	30,770	30,119	29,685
Deferred tax liabilities related to biological assets	-6,905	-6,769	-6,626	-6,531
Working capital	2,861	2,740	3,002	3,118
Other capital employed	15,377	13,386	11,341	12,556
Capital employed	42,719	40,127	37,836	38,828
Equity	36,753	35,127 ²⁾	-	-
Net debt	5,966	5,000 ²⁾	-	-
Capital employed	42,719	40,127	37,836	38,828
CASH FLOW STATEMENT				
Operating cash flow	2,273	1,917	2,481	1,469
Cash flow before dividend	-754	-350	1,673	1,050
Current capital expenditures, net	-638	-959	-869	-876
Strategic capital expenditures in non-current assets	-2,863	-2,231	-946	-184
KEY FIGURES				
Adjusted EBITDA margin	22.6%	21.3%	23.2%	23.9%
EBITDA margin	21.9%	22.0%	23.4%	21.4%
Operating margin	15.1%	14.8%	7.8%	13.5%
Adjusted industrial return on capital employed, excluding capital expenditure at Östrand	13.1%	9.5%	12.7%	11.1%
Adjusted return on capital employed	6.3%	5.5%	3.3%	5.4%
Working capital as a percentage of sales	17.7%	17.8%	18.6%	20.2%
Net debt/EBITDA	1.6x	1.5x ²⁾	-	-
Net debt/Equity	16%	14% ²⁾	-	-
Data per share				
Earnings per share, SEK	2.67	2.52	1.24	1.96
Dividend per share, SEK	1.50 ³⁾	-	-	-
Operating cash flow per share, SEK	3.24	2.73	3.53	2.09

1) Restated financial information.

2) Pro forma. Pro forma net debt after reallocation to SEK 5,000m on December 31, 2016. Pro forma equity calculated as capital employed less pro forma net debt. Pro forma value of net debt and equity used in key ratios. 3) Board of Directors' proposal.

Definitions and glossary

Financial terms

Performance measures

EBITDA

Profit before depreciation, amortization and impairment, financial items and taxes.

Adjusted EBITDA

Profit before depreciation, amortization and impairment, financial items and taxes excluding items affecting comparability.

Adjusted EBITDA margin

Profit before depreciation, amortization and impairment, financial items and taxes excluding items affecting comparability as a percentage of net sales for the year.

Items affecting comparability

Profit/loss items of a non-recurring nature with a significant impact on profit and are important in understanding the underlying development of the business. See Note B4 on page 86.

Capital definitions

Capital employed

Calculated as the balance sheet's total assets excluding financial assets and pension assets, less any trade payables and other current non-interest-bearing liabilities.

Working capital

Working capital is calculated as short-term operating receivables (inventories, accounts receivable and other non-interest-bearing, current receivables) less current operating liabilities (trade payables and other non-interest-bearing, current liabilities).

Net debt

Calculated as financial liabilities and provisions for pensions with deductions for financial assets (surplus in funded pension plans, financial assets and cash and cash equivalents).

Profitability ratios

Adjusted return on capital employed

Accumulated return on capital employed is calculated as operating profit on a rolling 12-month basis, excluding items affecting comparability, as a percentage of the average of capital employed over the past five quarters. The corresponding key figure for a single quarter is calculated as operating profit for the quarter multiplied by four as a percentage of capital employed on average for the two most recent quarters.

Cash flow performance measures

Operating cash surplus

Adjusted EBITDA with deductions for capital gains and capital losses from property, plant and equipment and intangible assets and the reversal of the share of profits of associates and the result of the forest remeasurement.

Operating cash flow

Operating cash flow comprises the sum of operating cash surplus and change in working capital, with deductions for current capital expenditure and restructuring cost.

Cash flow from current operations

Operating cash flow less net financial items and tax payments and taking into account other financial cash flow.

Strategic capital expenditures in non-current assets

Strategic capital expenditures increase the company's future cash flow through acquisitions of companies, capital expenditures to expand facilities, or new technologies that boost competitiveness.

Current capital expenditures, net

Current net investments consist of investments made to maintain competitiveness, and include maintenance, rationalization and replacement measures or investments of an environmental nature with deductions for compensation from divested non-current assets aimed at preserving the value of assets.

Glossary

CTMP (Chemical thermo mechanical pulp) A high-yield pulp produced through heating and mechanical defibration in a refiner of preheated, chemically pre-treated softwood.

FSC (Forest Stewardship Council) An international organization working to ensure responsible forest management. The FSC has developed principles for responsible forestry that can be applied for certifying forest management and that facilitate FSC labeling of wood products from FSC-certified forests.

Kraftliner The surface layer of corrugated board based on fresh wood fiber.

LWC paper (Light Weight Coated) LWC paper is a coated paper with a high mechanical pulp content. Used for high-quality magazines and advertising materials with demanding color-printing requirements.

m³sub Solid cubic meter under bark. Specifies the volume of timber excluding bark and tops. Used in felling and the timber trade. 1 m³sub equals about 1.22 m³fo.

m³fo Forest cubic meter. Volume of timber including tops and bark, but excluding branches. Used to describe the forest portfolio of standing timber. Growth is also specified in forest cubic meters. 1 m³fo equals about 0.82 m³sub.

PEFC – (Programme for the Endorsement of Forest Certification) An international forest certification system.

Productive forest land Land with a productive capacity that exceeds an average of one cubic meter of forest per hectare annually.

NBSK bleached softwood kraft pulp manufactured by boiling wood fiber with chemicals.

Solid-wood products Wood sawn into various sizes used in, for example, furniture manufacturing and the joinery industry or as construction timber.

About the Annual General Meeting

The Annual General Meeting of Svenska Cellulosa Aktiebolaget SCA will be held on Friday, March 23, 2018, at 10:30 a.m. at Hotell Södra Berget, Sundsvall, Sweden. Registration for the Annual General Meeting will start at 9:00 a.m.

Notification of attendance

Shareholders who wish to attend the Annual General Meeting must be recorded in the shareholders' register maintained by Euroclear Sweden AB on Saturday, March 17, 2018 (please note that since the record date is a Saturday, shareholders must be registered in the shareholders' register at the latest already on Friday, March 16, 2018), and give notice of their intention to attend the meeting no later than Monday, March 19, 2018.

Notification may be given in any of the following manners:

– by telephone +46 60 19 33 00, week-days between 8:00 a.m. and 5:00 p.m.

– on the company's website www.sca.com

– by mail to Svenska Cellulosa Aktiebolaget SCA, Group Function Legal Affairs, "Annual General Meeting", SE-851 88 SUNDSVALL, Sweden.

The following applies to shareholders who have their shares registered through a bank or other nominee in order to be entitled to attend the meeting. Apart from giving notice of attendance, such shareholders must have their shares registered in their own names. Such registration in the shareholders' register must have been completed at the latest on Saturday, March 17, 2018 (please note that since the record date is a Saturday, shareholders must be registered in the shareholders' register at the latest already on Friday, 16

March 2018). Shareholders should in such case inform their bank or nominee of this in due time before March 16, 2018. Such registration can be temporary.

Name, personal identity number/corporate registration number, address and telephone number, and number of assistants, if any, should be stated when notification is given.

Shareholders represented by proxy should deliver a proxy in the original to the company prior to the Annual General Meeting. Proxy forms are available upon request from the company and are also available on the company's website www.sca.com. Anyone representing a legal entity must present a copy of the registration certificate, not older than one year, or equivalent authorization documents, listing the authorized signatories.

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



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