



SCA
Care of Life



Annual Report 2016

SCA Hygiene AB (publ)

Board of Directors' report



BOARD OF DIRECTORS' REPORT

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Operations and structure

The Board of Directors and the President submit the following consolidated financial statements for the 2016, 2015 and 2014 fiscal years and the annual report for the Parent Company SCA Hygiene AB (publ) with the corporate registration number 556325-5511 and domiciled in Stockholm as a wholly-owned subsidiary of the Parent Company of the Group Svenska Cellulosa Aktiebolaget SCA (publ) with the corporate registration number 556012-6293 and domiciled in Stockholm.

The company was previously called Investment Aktiebolaget Inslaget and had conducted no operations for some time. In 2016, the company changed category from private to public company, and in conjunction with this the company also changed name to SCA Hygiene AB.

Svenska Cellulosa Aktiebolaget SCA announced in 2016 that work had begun to divide the company into two new companies; one company for hygiene products operations and one for forest operations. Such a split, which requires the approval of the Svenska Cellulosa Aktiebolaget SCA's 2017

Annual General Meeting (AGM), is planned to take place through a distribution of shares in SCA Hygiene AB to Svenska Cellulosa Aktiebolagets SCA's shareholders.

On December 30, 2016, as part of preparations ahead of the separation of the Group, SCA Hygiene AB entered into a transfer of ownership agreement, which includes the transfer of all assets and liabilities attributable to the hygiene business to SCA Hygiene AB. In addition, external loans, such as issued bonds and credit facilities, have been transferred to SCA Hygiene AB.

In October 2016, all Board members elected at Svenska Cellulosa Aktiebolaget SCA's AGM were also elected as Board members of SCA Hygiene AB, and the President of Svenska Cellulosa Aktiebolaget SCA, Magnus Groth, was appointed President of the company, among other preparations that were conducted.

Due to the fact that all subsidiaries of Svenska Cellulosa Aktiebolaget SCA's hygiene business as of December 30, 2016 were transferred to SCA Hygiene AB, SCA Hygiene AB is submitting consolidated finan-

cial statements for the acquired operations. Refer to "Basis for preparation" on page 39 for further information.

The SCA Hygiene Group divides and reports its operations according to two business areas – Personal Care and Tissue. Personal Care includes incontinence products, baby diapers and feminine care products. Tissue includes consumer tissue and Away-from-Home tissue (AfH tissue).

Europe is the SCA Hygiene Group's largest market. The Group also holds strong positions in North America, Latin America and Asia. Expansion takes place through organic growth and acquisitions, both within Personal Care and Tissue.

Organization

The SCA Hygiene Group has the following four business units:

- SCA Incontinence Care, which offers incontinence products in Europe and North America.
- SCA Consumer Goods, which offers personal care products and tissue in Europe, the Middle East and Africa.



- SCA Latin America, which offers personal care products and tissue in Latin America.
- SCA AfH Professional Hygiene, which offers AfH tissue in Europe and North America.

In addition to the business units, the SCA Hygiene Group has established three global units:

- Global Hygiene Category (GHC), with global responsibility for customer and

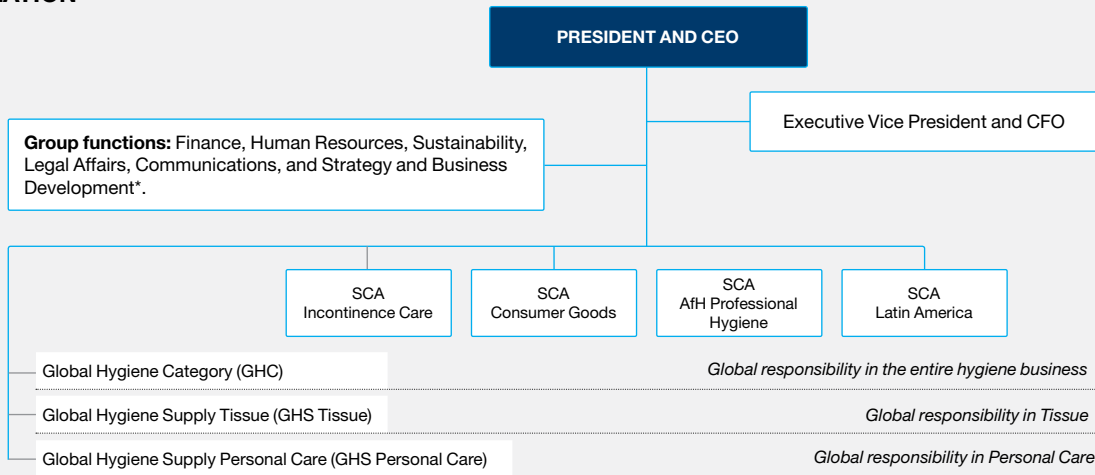
consumer brands and innovation in the hygiene area.

- Global Hygiene Supply Tissue (GHS-T), with global responsibility for sourcing, production, logistics and technology in Tissue.
- Global Hygiene Supply Personal Care (GHS-PC), with global responsibility for sourcing, production, logistics and technology in Personal Care.

The organization has six Group functions: Finance, Human Resources, Sustainability,

Legal Affairs, Communications, and Strategy and Business Development. Strategy and Business Development is also responsible for the Group's Global Business Services (GBS) and IT Services. GBS has global responsibility for providing professional and transactional services in finance, HR administrative support, organization of master data, and office-related support and service to all units within the SCA Hygiene Group.

ORGANIZATION



* The Strategy and Business Development Group function is also responsible for Global Business Services (GBS) and IT Services. GBS has global responsibility for providing professional and transactional services in finance, HR administrative support, organization of master data, and office-related support and service to all units within SCA.



Events during the year

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

¹⁾ Estimated as of December 31, 2016.

The acquisition of Wausau Paper Corp., a leading North American AfH tissue company, was completed. Following the acquisition, SCA Hygiene Group is the second largest player in the AfH tissue segment in the North American market.

The divestment of the hygiene business in Southeast Asia, Taiwan and South Korea for integration with Vinda was closed. The SCA Hygiene Group is the majority shareholder in Vinda, one of China's largest hygiene companies.

A new production facility for incontinence products in Brazil was inaugurated.

Decision was taken on restructuring measures in tissue production in France and Spain.

The baby diaper business in Mexico was closed as part of the work to address weak market positions with inadequate profitability.

Decision was taken to discontinue the hygiene business in India as a result of the SCA Hygiene Group's conclusion that profitability cannot be achieved within a reasonable time frame. Discontinuation will take place during the first quarter of 2017.

Acquisitions, investments and divestments



Initiated work in order to be able to propose to the Annual General Meeting 2017 to decide on a split of the Svenska Cellulosa Aktiebolaget SCA Group into two listed companies: hygiene and forest products

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

in SCA has proposed to the 2017 AGM a distribution of all shares in and listing of the company's hygiene business. Distribution to shareholders is planned in proportion to their holdings of Class A and Class B shares. If shareholders approve the proposal, the new hygiene company is planned to be distributed and listed on Nasdaq Stockholm no later than in the second half of 2017.

Acquisition of BSN medical, a leading medical solutions company

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

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

The BSN medical acquisition is an excellent strategic fit for the SCA Hygiene Group and supports the company's vision to improve well-being through leading hygiene and health solutions, two closely interlinked areas. BSN medical has leading market positions in several attractive medical product categories and provides a new growth platform with future industry consolidation opportunities. The SCA Hygiene Group's incontinence business, with the globally leading TENA brand, shares similar positive market characteristics, customers and sales channels with BSN medical, which will provide opportunities for accelerated growth through cross-selling.

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

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

In relation to the acquisition, SCA expects to realize annual synergies of at least EUR 30m with full effect three years after closing. Restructuring costs are expected to amount to approximately EUR 10m and are expected to be incurred in the first three years following completion. Transaction costs amount to approximately EUR 25m, of which approximately EUR 15m is recognized as an item affecting comparability in the fourth quarter of 2016. The remaining costs will be recognized as an item affecting comparability in the second quarter of 2017. Intangibles related to the acquisition are expected to amount to approximately EUR 2.7bn. The acquisition will be fully debt-funded, and the SCA Hygiene Group has committed credit facilities in place. The SCA Hygiene Group remains fully committed to retaining a solid investment grade rating.

¹⁾ Estimated as of December 31, 2016

²⁾ Excluding items affecting comparability

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

During 2016, the acquisition was completed of Wausau Paper Corp., a North American AfH tissue company

In 2016, it was announced that the acquisition of Wausau Paper Corp., a leading North American AfH tissue company, had been completed for a total purchase price of USD 513m in cash. The company manufactures and markets AfH towel and tissue products, along with soap and dispensing systems. The combined operations provide customers with access to a comprehensive portfolio of food service offerings, premium tissue and washroom products. The acquisition is expected to generate annual synergies of approximately USD 40m, with full effect three years after closing. Synergies are expected in sourcing, production, logistics, reduced imports, increased volumes of premium products and reduced SG&A costs. Restructuring costs are expected to amount to approximately USD 50m.

In 2016, the divestment of the hygiene business in Southeast Asia, Taiwan and South Korea to Vinda was completed

In 2016, the completion of the divestment of hygiene operations in Southeast Asia, Taiwan and South Korea for integration with Vinda International Holdings Limited ("Vinda") was announced. The SCA Hygiene Group is the majority shareholder in Vinda, one of China's largest hygiene companies. As part of the transaction, the SCA Hygiene Group and Vinda have signed an agreement regarding the exclusive license to market and sell the SCA Hygiene Group brands: TENA (incontinence products), Tork (AfH tissue), Tempo (consumer tissue), Libero (baby diapers), and Libresse (feminine care) in Southeast Asia, Taiwan and South Korea. Under the agreement, Vinda holds the rights to these product brands in these Asian markets. Vinda also acquired the brands Drypers, Dr.P, Sealer, Prokids, EQ Dry and Control Plus in these markets. The purchase consideration amounted to HKD 2.8bn on a debt-free basis. Vinda is listed on the Hong Kong Stock Exchange.

Divestment of holding in the recycling company IL Recycling

During 2016, the Group sold its 33.33% shareholding in the recycling company IL

Recycling for a purchase consideration of SEK 236m. 50% of the Svenska Cellulosa Aktiebolaget SCA Group's holding is attributable to the SCA Hygiene Group.

Closure of tissue production plant in Spain

An announcement was made in 2016 that a tissue production plant in Sant Joan de Mediona, Spain, will be closed. The decision is in line with the company's strategy to optimize its geographic production footprint in order to drive cost and capital efficiency and increase value creation in the Tissue business area. The production plant has an annual capacity of 45,000 tons.

Restructuring measures at tissue production plants in France

In 2016, a decision was announced that to further improve efficiency and strengthen the competitiveness of the tissue operations, restructuring measures will be implemented at the Hondouville and Saint-Etienne-du-Rouvray production plants in France. In Saint-Etienne-du-Rouvray, a decision has been taken to divest production of tabletop products for consumers to focus on the plant's core operation: household towel and toilet paper production.

Closure of baby diaper business in Mexico

During 2016, it was announced that the baby diaper business in Mexico will be closed as part of the work to address weak market positions with inadequate profitability. The baby diaper business in Mexico had net sales of approximately SEK 340m in 2015.

Discontinuation of hygiene business in India

In 2016, the decision was announced to discontinue the hygiene business in India. Four years after entering the Indian market, the SCA Hygiene Group's conclusion is that profitability cannot be achieved within a reasonable time frame. The SCA Hygiene Group prioritizes growth in selected emerging markets such as China, Southeast Asia, Latin America, Eastern Europe and Russia, where the company already holds strong market positions. The hygiene business in India reported total net sales of approximately SEK 110m in 2015, the majority of which was

related to baby diapers. Discontinuation of the hygiene business will take place during the first quarter of 2017.

**EVENTS AFTER THE END OF THE YEAR
Strengthening the tissue business in the UK**

On January 26, 2017, it was announced that the SCA Hygiene Group is investing in a through-air drying (TAD) machine at its tissue plant in Skelmersdale in order to meet the growing demand for high-quality tissue and strengthen the product offering in the UK. It was also decided to close an older tissue machine in Stubbins and an agreement was signed to divest the tissue plant in Chesterfield to Sidcot Group Limited. These measures are part of the SCA Hygiene Group's Tissue Roadmap and are aligned with the company's strategy to streamline production and secure capacity for future growth in order to increase value creation in the Tissue business area. Both initiatives are subject to customary consultation with employee representatives.

Following the investment in the tissue plant in Skelmersdale of approximately SEK 160m, production capacity for TAD mother reels will amount to 28,000 tons. The cost for closing the older tissue machine in Stubbins, with an annual production capacity of 20,000 tons, is expected to amount to approximately SEK 120m and will be recognized as an item affecting comparability, most of which in the first quarter of 2017. Of these costs, approximately SEK 70m is expected to affect cash flow.

Sidcot Group Limited will pay a consideration of approximately GBP 3m (about SEK 35m) for the production facility in Chesterfield. The facility produces mother reels but has no converting capacity. The SCA Hygiene Group will have no internal need for the type of mother reels produced at the plant. The annual production capacity is 31,000 tons. An impairment loss of about SEK 10m is recognized as an item affecting comparability in the fourth quarter of 2016. Closing of the transaction is expected in the first quarter of 2017.

Other Group information

Parent Company

SCA Hygiene AB (publ) is a wholly-owned subsidiary of Svenska Cellulosa Aktiebolaget SCA (publ). The company was previously called Investment Aktiebolaget Inslaget and had conducted no operations for some time. On December 30, 2016 Svenska Cellulosa Aktiebolaget SCA and SCA Hygiene AB entered into a transfer of ownership agreement, which includes the transfer of all assets and liabilities attributable to the hygiene business to SCA Hygiene AB. In addition, external loans, such as issued bonds and credit facilities, have been transferred to SCA Hygiene AB.

Research and development

Research and development (R&D) costs during the year amounted to SEK 1,211m (1,055), corresponding to about 1.2% of consolidated net sales. R&D is coordinated and conducted from a global perspective. Product development is carried out in close cooperation with the local units, as well as through direct collaboration with customers. A slightly more long-term approach is adopted when it comes to R&D in the fields of materials and technology.

Holdings of treasury shares

SCA Hygiene AB holds no treasury shares.

Share distribution

In 2016, SCA Hygiene AB implemented a new share issue of SEK 400,000, which increased share capital to SEK 500,000. At year-end 2016, the number of shares amounted to 5,000 with a quotient value of SEK 100.

Dividend

The Board of Directors proposes no dividend for the fiscal year.

Environmental impact in Sweden

The SCA Hygiene Group is conducting one operation in Sweden for which a permit is required relating to paper manufacturing. This operation impacts the environment through emissions to air and water, solid waste and noise.

Guidelines for remuneration of senior executives

Senior executives of the SCA Hygiene Group comprise the senior executives of the Svenska Cellulosa Aktiebolaget SCA Group, with the exception of the President of Forest Products. The guidelines approved by the 2016 AGM of Svenska Cellulosa Aktiebolaget SCA have thus been applied to senior executives of the SCA Hygiene Group and the Board of Svenska Cellulosa Aktiebolaget SCA has decided to propose to the 2017 AGM the following guidelines for determining salaries and other remuneration for senior executives to apply for the period following the AGM.

Remuneration of senior executives will be a fixed salary, variable remuneration, additional benefits and pension. Senior executives include the President, the Executive Vice President, Business Unit Presidents and equivalents, and the Central Staff Managers. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession and linked to the manager's responsibility and authority. Variable remuneration is to be limited and linked to the fixed remuneration, based on performance 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 contribution

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. Matters of remuneration to senior executives are to be dealt with by the remuneration committee and, as regards to the President, be resolved by the Board of Directors.

For information concerning the company's application of previously agreed guidelines and information on the company's calculated expenses for remuneration of senior executives, see Note C3 on pages 53–54.

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

In July 2016, the European Securities and Market Authority (ESMA) issued guidelines for reporting alternative performance measures in company financial statements and prospectuses. Alternative performance measures related to performance measures not included within the framework of IFRS. These performance measures have been developed to help users of financial statements, investors and management to analyze the company's operations, and several of these are generally accepted financial key figures.

These alternative performance measures can be found in the Board of Directors' Report, the financial statements and the notes. A description of the performance measures and how they are used is presented in Note A2, Use of non-International Financial Reporting Standards (IFRS) performance measures.

Sales and earnings

The SCA Hygiene Group's adjusted operating profit¹⁾ for 2016 rose 13% compared with previous year (14% excluding currency translation effects, acquisitions and divestments). Higher volumes, better price/mix, cost savings, lower raw material and energy costs, and acquisition contributed to the earnings increase.

Net sales

The SCA Hygiene Group's net sales for 2016 increased 3% compared with the preceding year and amounted to SEK 101,238m (98,519). Organic sales, which exclude exchange rate effects, acquisitions and divestments, increased by 3%, of which volume accounted for 2% and price/mix for 1%. Organic sales were in line with the previous year in mature markets but increased by 7% in emerging markets.

Profit

The SCA Hygiene Group's adjusted operating profit for 2016, excluding items affecting comparability totaling SEK -2,825m (-786), increased 13% compared with the preceding year and amounted to SEK 11,833m (10,470).

Financial items increased to SEK -835m (-828). Adjusted profit before tax¹⁾ rose 14% to SEK 10,998m (9,642). The average tax rate for the year's profit, excluding items affecting comparability, was 39.6%. The tax rate excluding items affecting comparability and excluding a tax provision of approximately SEK 1.3bn, in part related to ongoing tax cases in Sweden and Austria, was 27.4%. Adjusted profit for the period, excluding items affecting comparability after tax totaling SEK -2,401m (-319), amounted to SEK 6,643m (6,897). Profit for the period amounted to SEK 4,242m (6,578). Adjusted earnings per share¹⁾ attributable to owners of the Parent company amounted to SEK 8.83 (9.18). Earnings per share amounted to SEK 5.41 (8.73).

Key figures

The Group's adjusted gross margin¹⁾ amounted to 28.4% (27.0) and the adjusted operating margin¹⁾ was 11.7% (10.6). Adjusted return on capital employed¹⁾ improved to 16.2% (14.9). Adjusted return on equity¹⁾ was 14.5% (14.5). The interest coverage ratio decreased to 10.8 (11.7).

¹⁾ Excluding items affecting comparability.

Summary income statement

SEKm	2016	2015	2014
Net sales	101,238	98,519	87,997
Adjusted operating profit¹⁾	11,833	10,470	9,369
Items affecting comparability ²⁾	-2,825	-786	-1,009
Operating profit	9,008	9,684	8,360
Financial items ³⁾	-835	-828	-740
Profit before tax	8,173	8,856	7,620
Adjusted profit before tax¹⁾	10,998	9,642	8,629
Tax ⁴⁾	-3,931	-2,278	-1,939
Profit for the period	4,242	6,578	5,681

¹⁾ Excluding items affecting comparability.

²⁾ Includes the sale of securities, SEK 970m for 2015

³⁾ Excludes the sale of securities, SEK 970m for 2015.

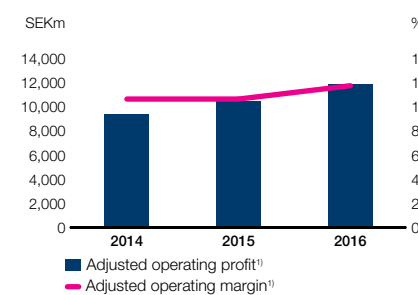
⁴⁾ Including provision of approximately SEK 1,300m for 2016 and approximately SEK 300m for 2015.

Net sales, share of Group



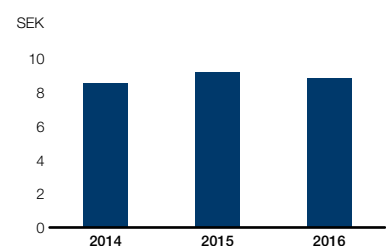
■ Personal Care, 33%
■ Tissue, 67%

Adjusted operating profit and adjusted operating margin¹⁾



¹⁾ Excluding items affecting comparability.

Adjusted earnings per share after dilution effects¹⁾



¹⁾ Excluding items affecting comparability.

Operating cash flow

A high level of control of the operating cash flow is a key part of the SCA Hygiene Group's long-term competitiveness strategy. Operating cash flow amounted to SEK 13,031m (10,440). The increase is primarily attributable to changes in working capital and a higher operating cash surplus compared with the preceding year.

The operating cash surplus rose 11% to SEK 16,759m (15,051). Working capital decreased due to a reduction in inventory and higher operating liabilities. Working capital in proportion to net sales amounted to 4% (5). Current capital expenditures increased SEK 929m during the year and amounted to SEK 4,222m (3,293), corresponding to 4% (3) of net sales. Operating cash flow increased to SEK 13,031m (10,440).

Financial items increased SEK 7m to SEK -835m (-828). Tax payments totaled SEK 3,782m (2,194). Cash flow from current operations amounted to SEK 8,563m (7,550).

Strategic capital expenditures in non-current assets made to strengthen organic

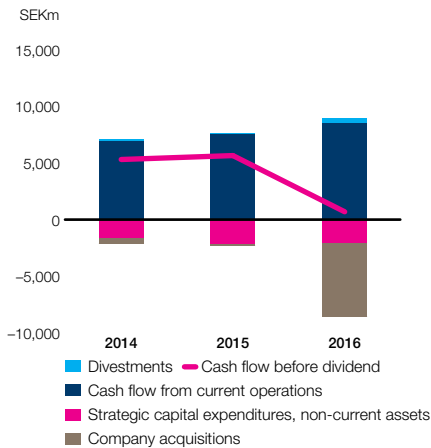
growth totaled SEK 2,033m (2,179). The year's expense for strategic capital expenditures was mainly related to investments in a new production plant for incontinence products in Brazil.

Net debt increased SEK 16,155m during the year to SEK 35,173m at year-end. Net cash flow increased net debt by SEK 13,967m. Fair value measurement of pension assets and an update of the assumptions and assessments that influence the valuation of pension obligations, net, together with fair valuation of financial instruments, increased net debt by SEK 1,570m. The effect of fair value measurement is largely attributable to assumptions of a lower discount rate that

increases pension liabilities. Exchange rate movements increased net debt by SEK 578m.

The debt/equity ratio amounted to 0.89 (0.39). Excluding pension liabilities, the debt/equity ratio was 0.76 (0.34). The debt payment capacity was 41% (53).

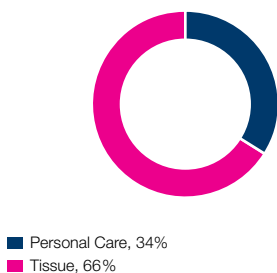
The Group's cash flow



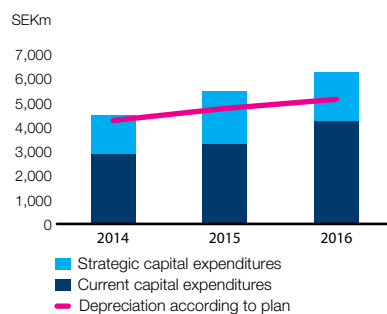
Summary operating cash flow statement

SEKm	2016	2015	2014
Operating cash surplus	16,759	15,051	13,521
Change in working capital	1,596	-517	-147
Current capital expenditures, net	-4,222	-3,293	-2,861
Restructuring costs, etc.	-1,102	-801	-799
Operating cash flow	13,031	10,440	9,714
Financial items	-835	-828	-740
Income taxes paid, etc.	-3,633	-2,062	-2,074
Cash flow from current operations	8,563	7,550	6,900
Company acquisitions	-6,540	-92	-492
Strategic capital expenditures in non-current assets	-2,033	-2,179	-1,632
Divestments	369	49	205
Cash flow before dividend	359	5,328	4,981

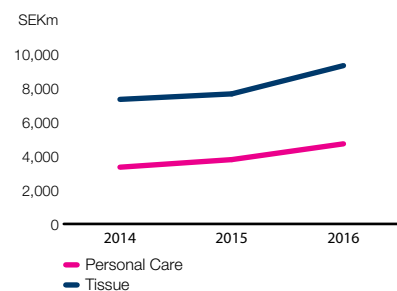
Operating cash flow, share of Group



Capital expenditures



Operating cash flow by business area



Financial position

Assets and capital employed

The Group's total assets declined 1% compared with the preceding year, amounting to SEK 114,284m (115,351). Non-current assets rose SEK 10,041m compared with the preceding year to SEK 78,290m, of which property, plant and equipment increased SEK 5,092m to SEK 47,494m and intangible assets increased SEK 4,155m to SEK 26,918m. Current and strategic capital expenditures in property, plant and equipment amounted to SEK 6,250m and depreciation for the year to SEK 4,764m.

Current assets decreased SEK 11,108m to SEK 35,994m (47,102). Working capital amounted to SEK 4,143m (5,165). Capital employed was 11% higher and totaled SEK 74,753m (67,333). The distribution of capital employed per currency is shown in the table below.

The value denominated in SEK of the Group's foreign net assets amounted to SEK 54,568m at year end. In 2015, the Group's foreign net assets totaled SEK 46,575m.

Equity

The Group's consolidated equity amounted to SEK 39,580m (48,275) at year end. Profit for the period increased equity by SEK 4,242m (6,578), while shareholder dividends to non-controlling interests reduced equity by SEK 190m. Equity was reduced due to the fair value measurement of pension assets, and an update of the assumptions and assessments that influence the valuation of pension obligations, net, by SEK 1,148m after tax. The measurement of financial instruments to fair value increased equity by SEK 392m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, increased equity by SEK 2,402m. Equity increased as a result of a private placement to non-controlling interests in Vinda by SEK 431m and decreased due to the acquisition of non-controlling interests by SEK 156m. Other comprehensive income in associates increased equity by SEK 11m after tax, while transactions with SCA's forest products operation reduced equity by SEK 14,679m.

Financing

The Group's interest-bearing gross debt amounted to SEK 36,873m (34,716) at year-end. The maturity period was 4.0 (3.5) years.

Net debt amounted to SEK 35,173m (19,058) at year-end. Net cash flow increased net debt by SEK 13,967m. Fair value measurement of pension assets and an update of the assumptions and assessments that influence the valuation of pension obligations, net, together with fair valuation of financial instruments, increased net debt by SEK 1,570m. The effect of fair value measurement is largely attributable to assumptions of a lower discount rate that increases pension liabilities. Exchange rate movements increased net debt by SEK 578m.

Key figures

The debt/equity ratio was 0.89 (0.39). Excluding pension liabilities, the debt/equity ratio was 0.76 (0.34). The visible equity/assets ratio was 29% (37). Adjusted return on capital employed and equity¹⁾ was 16.2% (14.9) and 14.5% (14.5) respectively. The capital turnover rate was 1.38 (1.41). At year-end, working capital amounted to 4% (5) of net sales.

¹⁾ Excluding items affecting comparability.

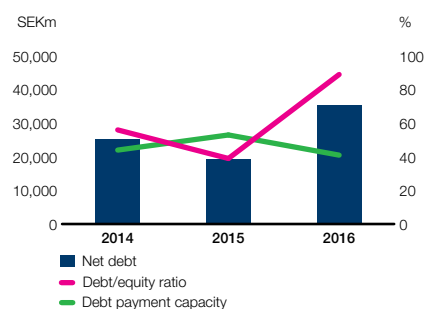
Consolidated capital employed by currency, SEKm

	2016	%	2015	%	2014	%
EUR	25,016	33	22,843	34	29,351	42
USD	14,419	19	7,124	11	7,192	10
CNY	13,402	18	14,140	21	12,905	18
MXN	4,309	6	4,591	7	4,975	7
GBP	4,306	6	4,332	6	4,832	7
Other	13,301	18	14,303	21	10,736	16
Total	74,753	100	67,333	100	69,991	100

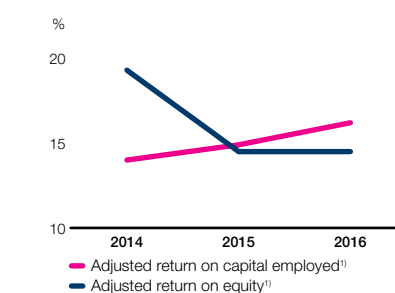
Consolidated balance sheet

SEKm	2016	2015	2014	Jan 1, 2014
Intangible assets	26,918	22,763	23,555	21,775
Property, plant and equipment	47,494	42,402	43,599	39,909
Other non-current assets	3,878	3,084	5,214	5,135
Total non-current assets	78,290	68,249	72,368	66,819
Current assets	35,994	47,102	46,097	44,655
Total assets	114,284	115,351	118,465	111,474
Equity	39,580	48,275	44,925	42,431
Non-current liabilities	41,971	29,170	33,068	36,288
Current liabilities	32,733	37,906	40,472	32,755
Total equity and liabilities	114,284	115,351	118,465	111,474
Working capital	4,143	5,165	5,232	5,011
Capital employed	74,753	67,333	69,991	63,902
Net debt	35,173	19,058	25,066	21,471

Net debt, debt/equity ratio and debt payment capacity

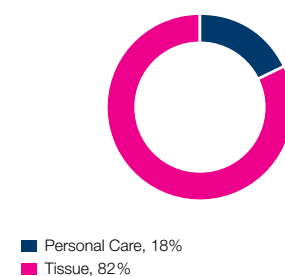


Adjusted return on capital employed and equity¹⁾



¹⁾ Excluding items affecting comparability.

Capital employed, share of Group



The SCA Hygiene Group's business areas



PERSONAL CARE

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

Pages **12–17**



TISSUE

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

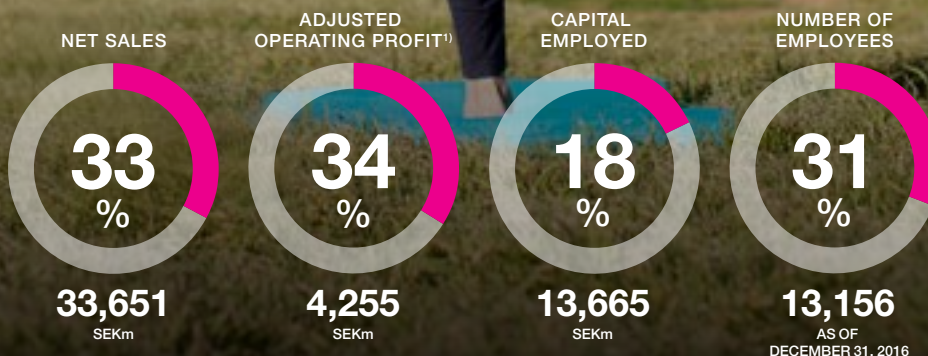
Pages **18–23**

Personal Care

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



Share of Group 2016



¹⁾ Excluding items affecting comparability.

Operations in 2016

Net sales

SEK 33,651m

Adjusted operating profit¹⁾

SEK 4,255m

Adjusted operating margin¹⁾

12.6%

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

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

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

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

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

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

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

¹⁾ Excluding items affecting comparability.

Targets

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

Outcome 2016

Organic sales

+3%

Adjusted return on capital employed¹⁾

31.8%

Net sales by product segment



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

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

Net sales by region



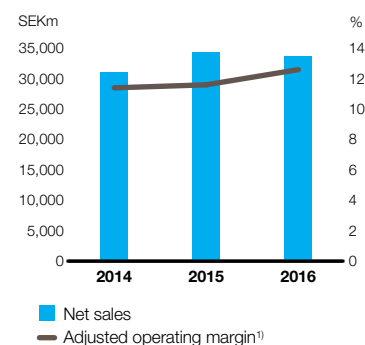
- Europe, 59%
- Latin America, 19%
- Asia, 11%
- Other, 3%

Key figures

SEKm	2016	2015
Net sales	33,651	34,344
Operating cash surplus	5,314	5,018
Change in working capital	289	-314
Current capital expenditures, net	-805	-840
Other operating cash flow	-75	-72
Operating cash flow	4,723	3,792
Adjusted operating profit ¹⁾	4,255	3,990
Adjusted operating margin, % ¹⁾	12.6	11.6
Capital employed	13,665	13,148
Adjusted return on capital employed, % ¹⁾	31.8	29.2
Strategic capital expenditures		
plant and equipment	-1,091	-903
company acquisitions/divestments	197	23
Average number of employees	13,237	12,779
No. of employees at Dec. 31	13,156	12,775

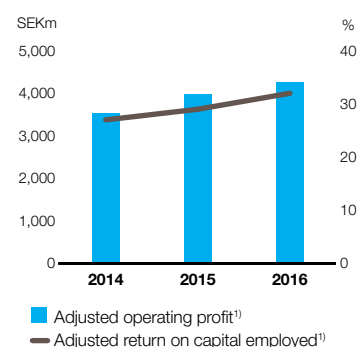
¹⁾ Excluding items affecting comparability.

Net sales and adjusted operating margin¹⁾



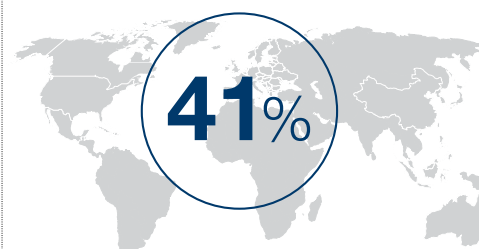
¹⁾ Excluding items affecting comparability.

Adjusted operating profit and adjusted return on capital employed¹⁾



¹⁾ Excluding items affecting comparability.

Emerging markets accounted for



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



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

Market

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

in mature markets is still low for certain product segment, particularly among men.

Market growth is positively impacted by global hygiene and health trends and increased awareness of the importance of hygiene to improve health and avoid diseases, especially in emerging markets.

Incontinence, which is classed as a disease by the World Health Organization (WHO), affects 4-8% of the world’s population, corresponding to approximately 400 million people. Many indicators point to the proportion of people affected increasing on a global scale as a result of an aging population. By 2020, the population of the world over the age of 60 is expected to have increased by 13% and pass the one billion mark. The occurrence of incontinence among people over the age of 65 is expected to be between 15 and 20%.

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

SCA Hygiene Group’s competitors

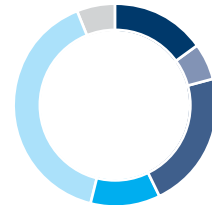
in personal care include Kimberly-Clark, Procter & Gamble and Unicharm.

SCA Hygiene Group’s market positions

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

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

Personal care products – global market



- Western Europe, 15%
- Eastern Europe, 6%
- North America, 22%
- Latin America, 11%
- Asia, 40%
- Other, 6%

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



Examples of brands



SCA Hygiene Group's business

INCONTINENCE PRODUCTS

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

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

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

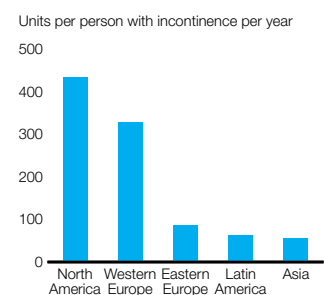
services and develop the offering to further increase customer satisfaction and brand loyalty. In North America, the situation for the SCA Hygiene Group's TENA brand has been more challenging and the priority has been to achieve satisfactory profitability ahead of sales growth. Actions have been taken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

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

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



Use of incontinence products



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

Greater digital focus

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

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





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



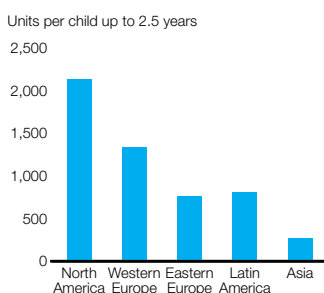
BABY DIAPERS

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

Strategy: The SCA Hygiene Group works to strengthen its branded positions in both mature and emerging markets and to improve the profitability in the baby diapers segment. The strategy is to hold the

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

Use of baby diapers



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



FEMININE CARE

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

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

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

Examples of innovations in 2016

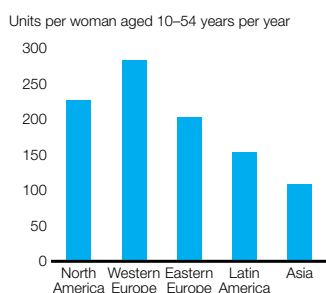
The SCA Hygiene Group invests to promote awareness of hygiene

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

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



Use of feminine care products



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

INCONTINENCE PRODUCTS



TENA Lady Mini and Maxi Night

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

Lights by TENA

Ultra thin pads are body-shaped to offer a better fit. A top-sheet that dries rapidly for lasting dryness and freshness. It offers optimal protection without compromising on discretion. FeelFresh Technology quickly encapsulates moisture and controls odors from unexpected little leaks, to help consumers feel fresh and secure all day long.



BABY DIAPERS

Libero Comfort

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

The new Libero Comfort is also dermatologically tested.



Libero Newborn

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

The new Libero Newborn is also dermatologically tested.

FEMININE CARE

Libresse ProSkin Formula

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



Ultra thin pads

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

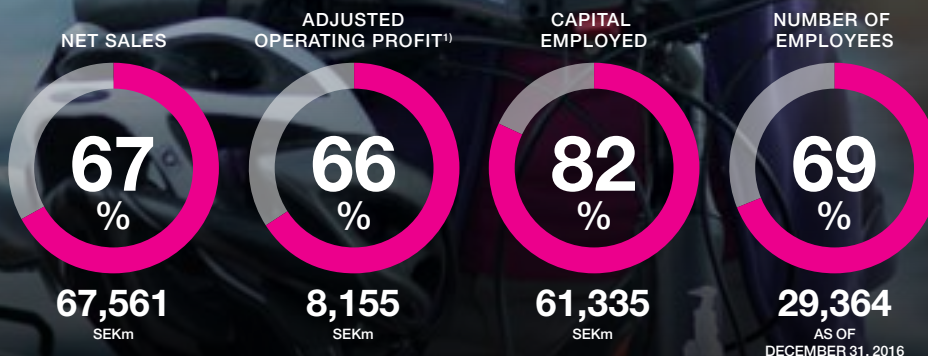


Tissue

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



Share of Group 2016



¹⁾ Excluding items affecting comparability.

Operations in 2016

Net sales

SEK 67,561m

Adjusted operating profit¹⁾

SEK 8,155m

Adjusted operating margin¹⁾

12.1%

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

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

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

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

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

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

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

¹⁾ Excluding items affecting comparability.

Targets

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

Outcome 2016

Organic sales

+3%

Adjusted return on capital employed¹⁾

13.5%

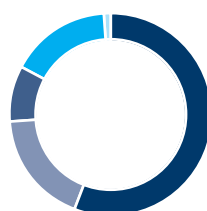
Net sales by product segment



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

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

Net sales by region



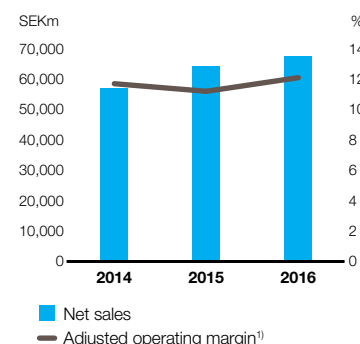
- Europe, 56%
- North America, 18%
- Latin America, 9%
- Asia, 16%
- Other, 1%

Key figures

SEKm	2016	2015
Net sales	67,561	64,184
Operating cash surplus	11,970	10,703
Change in working capital	861	-285
Current capital expenditures, net	-3,159	-2,260
Other operating cash flow	-338	-491
Operating cash flow	9,334	7,667
Adjusted operating profit ¹⁾	8,155	7,217
Adjusted operating margin, % ¹⁾	12.1	11.2
Capital employed	61,335	55,053
Adjusted return on capital employed, % ¹⁾	13.5	12.9
Strategic capital expenditures		
plant and equipment	-942	-1,276
company acquisitions/divestments	-6,395	0
Average number of employees	28,912	27,172
No. of employees at Dec. 31	29,364	27,372

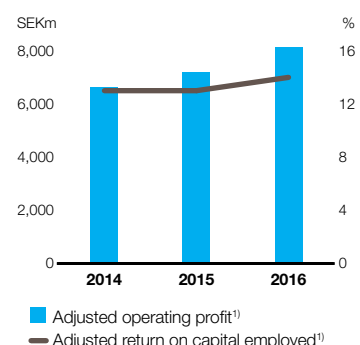
¹⁾ Excluding items affecting comparability.

Net sales and adjusted operating margin¹⁾



¹⁾ Excluding items affecting comparability.

Adjusted operating profit and adjusted return on capital employed¹⁾



¹⁾ Excluding items affecting comparability.

Emerging markets accounted for



of the business area's sales in 2016. In emerging markets, organic sales increased by 10% in 2016.



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

Market

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

and avoid diseases, especially in emerging markets.

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

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

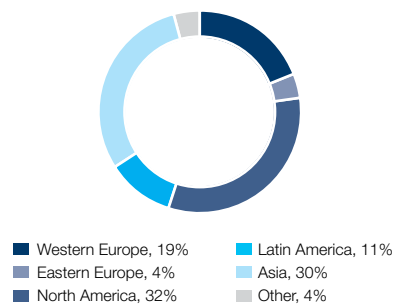


The SCA Hygiene Group's market positions

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

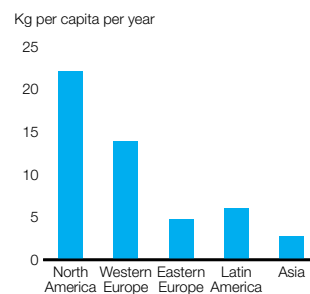
Data is based on market data and SCA's estimates.

Tissue – global market



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

Use of tissue



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

Examples of brands



SCA Hygiene Group's business

CONSUMER TISSUE

Offering and market position:

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

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

Products sold under the SCA Hygiene Group's own brands account for 64% of sales, while the remaining 36% is sold under retailers' brands. The SCA Hygiene Group's brand portfolio comprises several strong regional and local brands. Tempo, Zewa and Lotus are leading brands in large areas of Europe. Cushelle, Velvet and Plenty are strong brands in the UK and Ireland, and Edet in the Nordic region and the Netherlands. In Hong Kong and Morocco, Tempo is the mar-

ket leader in handkerchiefs. In South America, the SCA Hygiene Group markets products under the Familia and Favorita brands, and holds strong positions in emerging markets including Colombia, Chile and Ecuador. In the Mexican market, the SCA Hygiene Group occupies a strong position with the Regio brand. Vinda is the leading brand in China.

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

Tissue Roadmap:

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





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

AFH TISSUE

Offering and market position:

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

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

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

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

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

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



Examples of innovations in 2016

CONSUMER TISSUE



New Okay® Compressed household towels

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



Lotus Moist toilet paper

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



AFH TISSUE



Tork Washstation Dispenser

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



New global visual identity for household towels

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

Tork Easy Handling™ packaging for toilet paper

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



Corporate Governance

Principles for corporate governance

SCA Hygiene AB is encompassed by the framework for corporate governance applied by Svenska Cellulosa Aktiebolaget SCA ("SCA"). SCA applies the Swedish Code of Corporate Governance and does not deviate from this code in any respect. The framework for corporate governance is described in more detail in SCA's corporate governance report and on SCA's website, www.sca.com.

Important features of the company's internal control and risk management in conjunction with the financial reporting

SCA Hygiene AB's systems and processes for financial reporting are included in the overarching system for internal control and risk management that is applied in SCA.

The key features of this system comprise the work of the Board of SCA's Audit Committee in reviewing issues concerning quality assurance of the financial reporting, issues relating to internal control and regulatory compliance, control of recognized values, estimates, 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 with the rules for internal control, both general and detailed. In addition to the audit of the annual accounts, a review of the six-month report and the company's administration and internal control is carried out.

Regarding the financial reporting to the Board, the formal work plan for the Board of SCA and the corresponding plan for the Board of SCA Hygiene AB stipulate which information of a financial nature is to be submitted to the Board of the respective company at each scheduled meeting.

The quality of external financial reporting is guaranteed via a number of actions and procedures. 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 Committees and the Boards of Directors of SCA and SCA Hygiene AB, respectively.

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 for accounting, procedures for annual accounts and follow-up of reported annual accounts. There is also a Group-wide system for reporting annual accounts. SCA and SCA Hygiene AB's Boards of Directors and management assess the financial reporting from a risk perspective on an ongoing basis. To provide support for this assessment, income statements and balance sheet items are compared with earlier reports, budgets and other planned figures. Control activities that are significant to financial reporting are carried out using an IT system. For further information, see Risks and risk management on pages 25-31.

Control activities and follow-up

Significant instructions and guidelines related to financial reporting are prepared and updated regularly by the Group Function Finance in the SCA Group, including SCA Hygiene AB. The Group Function Finance is responsible for ensuring compliance with instructions and guidelines. Process managers at various levels are responsible for

carrying out the necessary control measures with respect to financial reporting.

An important role is played by the business unit's controller organizations, which are responsible for ensuring that financial reporting from each unit is correct, complete and delivered in a timely manner. In addition, each business unit has a Finance Manager with responsibility for the individual business unit's financial reporting. The company's control activities are supported by the budgets prepared by each business unit and updated during the year through continuous forecasts. The SCA Group has introduced a standardized system of control measures involving processes that are significant to the company's financial reporting that are applied throughout the Group. 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 through self-evaluation followed up by the internal audit unit. In some cases, external help is enlisted to validate these control measures.

The Board of SCA and the Board of SCA Hygiene AB ensure that the internal control and reporting to the Board functions through regular reports received from the CEO and CFO and through reporting from the internal audit unit within the scope of the audit plan set annually.

The SCA Group's internal audit function 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 SCA's Board through the Audit Committee and to the Board of SCA Hygiene AB.

Direct and indirect shareholdings

All shares in SCA Hygiene AB are owned by SCA. SCA Hygiene AB has issued only one class of share.

On December 31, 2016, AB Industrivärden owned 29.7% of all shares in SCA, and was

thus the only shareholder to indirectly own more than 10% of the votes in SCA Hygiene AB.

Limitation of voting rights

SCA Hygiene AB does not have any limitations in respect of the number of votes that may be cast by a shareholder at general meetings.

Articles of association

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

Authorization regarding own shares

The general shareholders meeting has not granted any authorization regarding trading in the company's own shares.

General shareholder meetings

SCA Hygiene AB complies with the provision in Swedish law concerning general shareholder meetings.

The Board of Directors

All Board members elected at the Annual General Meeting (AGM) also comprise the Board of SCA Hygiene AB since October 2016. The company has decided that the Board of Directors will fulfill the statutory duties incumbent upon the Audit Committee.

Diversity policy

SCA Hygiene AB applies the basis for item 4.1 in the Swedish Code of Corporate Governance concerning the Board's composition. In 2016, this policy was applied in connection with the election of Board members that took place in October, and that resulted in SCA Hygiene AB being given the same Board composition as the Parent Company of the Group in terms of AGM-elected Board members.

Risks and risk management

The SCA Hygiene Group is exposed to a number of risks that could exert a greater or lesser material impact on the Group. These risks are generally defined as factors that impact the SCA Hygiene Group's ability to achieve established targets for the Group. This applies to both financial targets and targets in other areas.

Many of the risks described could have a positive or negative impact on the company. This implies that if a risk develops in a favorable manner or if risk management is successful in counteracting the risk, target fulfillment could exceed expectations. From this perspective, risk could also entail opportunities for the SCA Hygiene Group. Examples include the GDP trend and the economic situation, the cost of input goods, customer and consumer patterns, and movements in market prices.

The description in this section relates to the structure that the SCA Hygiene Group had at year-end 2016.

The SCA Hygiene Group's structure and value chain

The SCA Hygiene Group's structure and geographically dispersed business entails in itself a certain degree of risk reduction. The SCA Hygiene Group conducts operations in two business areas that deliver to entirely or partially different customer segments and

end-users. The operations are influenced to varying degrees by the business cycle and general economic prosperity and their competitive situations also differ. The SCA Hygiene Group's products are sold through many different channels and distribution paths.

The operation has a large geographical spread. Sales are conducted in about 100 countries worldwide and manufacturing is pursued at a number of production units in some 30 countries. Sales are often based on local manufacturing.

Processes for risk management

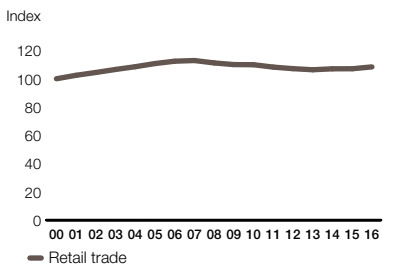
The Board of Directors of Svenska Cellulosa Aktiebolaget SCA, which comprises the same individuals as those on SCA Hygiene AB's Board, determines the Group's strategic direction based on recommendations from the Executive Management Team. The responsibility for long-term and overall management of strategic risks follows the company's delegation scheme, from the Board to the President, and from the President to the Business Unit Presidents. This implies that most operational risks are managed by the SCA Hygiene Group's business units at a local level, but are coordinated when deemed necessary. The tools for this work primarily comprise continuous reporting by the business units and the annual strategy

process, which includes risk assessment and risk management as 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 the SCA Hygiene Group's goal fulfillment. The outcome of this evaluation constitutes a part of the assessment of risks described in this section.

The SCA Hygiene Group's financial risk management is centralized, as is the case for the corporate internal bank for financial transactions of Group companies and management of the Group's energy risks. The financial risks are managed in accordance with the finance policy adopted by the Board of Svenska Cellulosa Aktiebolaget SCA which, together with the energy risk policy that has been approved by Svenska Cellulosa Aktiebolaget SCA, comprises a framework for management activities. The risks are grouped and followed up on a regular basis to ensure compliance with these guidelines. The SCA Hygiene Group has also centralized the management of other risks.

The Svenska Cellulosa Aktiebolaget SCA Group has established a corporate internal audit unit, which ensures that the units that make up the SCA Hygiene Group comply with the set policies.

Risks that impact the SCA Hygiene Group

Risk	Policy/Action																																				
GDP trend and economic conditions																																					
<p>The SCA Hygiene Group's volume development is linked to the development of GDP and related factors, including industrial production, in countries representing the SCA Hygiene Group's core markets. Movements in the GDP trend influence demand for some of the SCA Hygiene Group's products.</p> <p>Development within the SCA Hygiene Group's key customer segments (Europe, Index year 2000 = 100)</p>  <table border="1"> <caption>Development within the SCA Hygiene Group's key customer segments (Europe, Index year 2000 = 100)</caption> <thead> <tr> <th>Year</th> <th>Index</th> </tr> </thead> <tbody> <tr><td>00</td><td>100</td></tr> <tr><td>01</td><td>105</td></tr> <tr><td>02</td><td>108</td></tr> <tr><td>03</td><td>110</td></tr> <tr><td>04</td><td>112</td></tr> <tr><td>05</td><td>114</td></tr> <tr><td>06</td><td>115</td></tr> <tr><td>07</td><td>115</td></tr> <tr><td>08</td><td>114</td></tr> <tr><td>09</td><td>113</td></tr> <tr><td>10</td><td>112</td></tr> <tr><td>11</td><td>111</td></tr> <tr><td>12</td><td>110</td></tr> <tr><td>13</td><td>110</td></tr> <tr><td>14</td><td>111</td></tr> <tr><td>15</td><td>112</td></tr> <tr><td>16</td><td>112</td></tr> </tbody> </table> <p>— Retail trade</p>	Year	Index	00	100	01	105	02	108	03	110	04	112	05	114	06	115	07	115	08	114	09	113	10	112	11	111	12	110	13	110	14	111	15	112	16	112	<p>Sales to the retail market, which accounts for the bulk of sales of hygiene products, are more dependent on established consumption patterns and distribution than the economic climate. The institutional care and homecare facilities segment for incontinence products is also relatively unaffected by the business cycle, although it can be impacted by the public budget situation in certain countries. The business area in the SCA Hygiene Group that is most sensitive to economic movements is AfH tissue, which is affected by the consumption of tissue outside the home, for example, within industry and offices, as well as in the hotel and restaurant industry.</p> <p>For all businesses, it is important that the SCA Hygiene Group manages the effects of the economic movements that occur by taking actions to reduce costs and by reviewing the capacity and production structure.</p>
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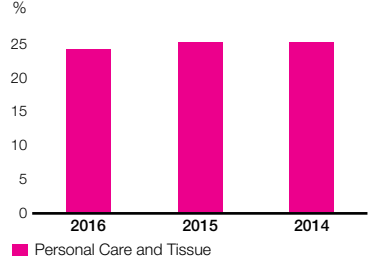
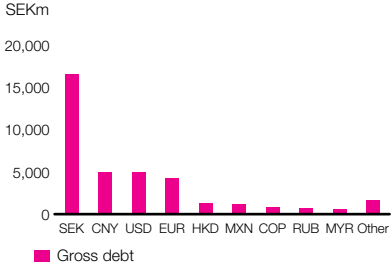
Risk	Policy/Action	
Environmental impact and climate change		
<p>The SCA Hygiene Group's operation have an impact on air, water, land and biological processes. These effects could lead to costs for restoring the environment or other kinds of negative effects. The matter of the economic impact of climate change is also growing in significance.</p>	<p>The SCA Hygiene Group is encompassed by Svenska Cellulosa Aktiebolaget SCA's 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 the SCA Hygiene Group'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.</p> <p>Through its Resource Management System (RMS), the SCA Hygiene Group monitors how the company utilizes energy, water, transport activities and raw</p>	<p>materials. The data is used for internal control and follow-up of established targets. The SCA Hygiene Group works proactively to decrease its carbon footprint by reducing its energy consumption and emissions of greenhouse gases. Continuous efforts are conducted to increase the proportion of renewable energy and biofuel. The SCA Hygiene Group also works to reduce the volume of production waste. A comprehensive description of the SCA Hygiene Group's work and governance in this area is provided in the Sustainability Report prepared by Svenska Cellulosa Aktiebolaget SCA.</p>
Impact of political decisions		
<p>The SCA Hygiene Group's activities are affected by political decisions and administrative regulations in the approximately 100 countries in which the Group conducts operations. These relate to general regulations, such as taxation and financial reporting. The SCA Hygiene Group is also impacted by more specific regulations, such as the granting of permits in accordance with the Environmental Code and reimbursement of expenses in the healthcare system.</p>	<p>Through the SCA Hygiene Group's Public Affairs unit, the company works to monitor and evaluate changes in its surroundings, including amended legislation, and to identify actions that lead to improvements of the policy areas/regulations for the benefit of all relevant stakeholder groups. The SCA Hygiene Group is also a member of national and international trade associations, which comprise the primary bodies for participation in current public debates.</p> <p>A key area for the SCA Hygiene Group is global energy and environmental legislation. Because the SCA Hygiene Group has major operations in Europe and the EU plays a leading role in developing environmental legislation, the SCA Hygiene Group is focusing its activities on the various EU institutions. For example, the SCA Hygiene Group monitors developments in policy areas of major importance to the company, including resource consumption in general and, more</p>	<p>specifically, issues relating to water, air, for example relating to EU trade in emission rights, the EU waste regulations and circular economy initiatives.</p> <p>Since the public sector is both a significant customer and stakeholder group for the SCA Hygiene Group, the health debate is important to the company, especially with regard to the development of systems for healthcare with greater patient benefit and greater cost efficiency. The SCA Hygiene Group also works actively to disseminate knowledge and solutions regarding various national systems to decision-makers in countries where new structures are being built up. Examples include the development of systems for cost-free or subsidized prescription of incontinence aids in countries where such benefits were not offered in the past.</p>
Impact of substitutes		
<p>Other product solutions (substitutes) can replace products that are included in the SCA Hygiene Group's offering and thereby reduce sales. By offering competitive products, the SCA Hygiene Group can also capture market shares from the substitute. The issue of substitutes is also linked to changes in the patterns and attitudes of customers and consumers that affect demand for certain products and thus profitability.</p>	<p>Substitutes exist for virtually all of the SCA Hygiene Group's products. This may involve different products with a similar function, such as cloth diapers or cloth rags for household or industrial cleaning, or completely different solutions to meet the needs of customers and consumers, such as electric hand dryers. The SCA Hygiene Group's focus on customer and consumer insight guides its innovation activities, ensuring that new products and services provide competitiveness and that the company's offering continuously evolves to meet customer and consumer needs. New technological solutions are developed through the company's own research and development activities and in cooperation with suppliers. Development work is thus often conducted in direct cooperation with customers and suppliers of material and machinery to provide a direct link to requirements and feedback from customers at the</p>	<p>same time as more efficient processes and products are developed.</p> <p>An increasingly important factor is greater focus on sustainability with respect to environmental, economic and social factors. Other demands imposed on the SCA Hygiene Group's innovation include the desire to create profitable differentiation for the company's product offering and generate value and growth, both for customers and for the SCA Hygiene Group. In many countries, the degree of penetration is low, meaning only a small proportion of the population uses the SCA Hygiene Group's products, compared with more developed countries. To increase acceptance of its products, the SCA Hygiene Group focuses on matters that influence attitudes and on breaking taboos. This also applies in Europe and North America with regard to such items as incontinence products.</p>

Risk	Policy/Action	
Dependence on major customers and distributors		
<p>The retail trade is the SCA Hygiene Group's single largest customer group and thus exercises considerable influence. Around 64% of the SCA Hygiene Group's net sales are made via the retail trade, under both the SCA Hygiene Group's brands and retailers' brands. The SCA Hygiene Group also uses other distributors or retailers, which could impact the SCA Hygiene Group. A general consolidation process is taking place in several of the SCA Hygiene Group's sales channels, thus increasing dependence on individual customers. This increase in dependence could result in negative consequences if the SCA Hygiene Group does not fulfill the demands imposed.</p>	<p>The SCA Hygiene Group's customer structure is relatively dispersed, with customers in many different areas of business. In the retail trade, the prevailing trend is toward increased concentration, which has mainly resulted in fewer retail companies at a national and regional level. This could also present opportunities through closer cooperation. There are still a considerable number of retail companies, which reduces the risk for the SCA Hygiene Group. The SCA Hygiene Group also uses distributors, mainly for AfH tissue. A very large number of distributors are active in this</p>	<p>segment and the international concentration is relatively low.</p> <p>The SCA Hygiene Group's ten largest customers accounted for 27% of the SCA Hygiene Group's net sales in 2016. The single largest customer accounted for 4% of net sales. Most of these customers were retail companies. The ten largest customers also include some large distributors of AfH tissue.</p> <p>Credit risk in accounts receivable is dealt with in the section Credit risk, on page 31.</p>
Movements in the market price		
<p>Movements in the market price of the SCA Hygiene Group's products could create major fluctuations in the profitability of the product in question when these movements are not linked to changes in costs for the SCA Hygiene Group.</p>	<p>Several methods can be applied to address this risk. Long-term contracts at fixed prices and price hedging only occur in exceptional cases. To reduce the impact of price movements on the SCA Hygiene Group, actions are taken to adapt the cost scenario to lower market prices, for example, by renegotiating purchasing agreements, implementing personnel and capacity reductions, and reviewing the business structure. In other cases, the product's content can be adapted to the new market price level.</p> <p>Movements in the market price in tissue are detailed in the figure to the right. The diagram specifies the average price per year (Index 100) and movements around this value over the past ten years.</p>	<p>Highest/lowest market prices (annual average) 2006–2016 per product</p>  <p>Index</p> <p>120</p> <p>100</p> <p>80</p> <p>60</p> <p>40</p> <p>20</p> <p>0</p> <p>■ Tissue</p> <p>— Average price for the period</p>
Risks at plants		
<p>The SCA Hygiene Group has a number of production facilities in some 30 countries. Many of them conduct continuous production. Fires, machinery breakdowns and other types of harmful incidents could damage the plant in question and also cause delivery problems.</p>	<p>The SCA Hygiene Group's activities in this area are governed by a Risk Management Policy established by Svenska Cellulosa Aktiebolaget SCA that controls how the SCA Hygiene Group is to manage insurable operating risks. From this perspective, the aim of risk management is to effectively and cost efficiently protect the employees, the environment, the company's assets and the business, and to minimize the SCA Hygiene Group's risk management costs. This can be achieved by creating and retaining a balance between loss prevention and insurance coverage.</p> <p>The loss-prevention work is conducted in accordance with established guidelines that include inspections by risk engineers and benchmarking with other plants, within and outside the SCA Hygiene</p>	<p>Group. Other important elements of loss-prevention activities include maintenance of plants, staff training, good orderliness, and documentation. Every year, the SCA Hygiene Group invests in loss-prevention measures and its production plants continuously work to reduce their risks. For example, new facilities are fitted with sprinkler systems as standard. All wholly owned plants are insured to replacement cost and for the loss of contribution margin. Within the EU, insurance is primarily carried out by one of the SCA Hygiene Group's own companies, with external reinsurance for major damages. Outside the EU, the SCA Hygiene Group cooperates with market-leading insurance companies.</p>

Risk	Policy/Action	
Occurrence of unethical business practices and human rights violations		
<p>The SCA Hygiene Group works in a number of countries and environments where unethical business practices and violations of human rights may occur. If the SCA Hygiene Group becomes involved in these business practices, the company's reputation in the market may be damaged. The SCA Hygiene Group may also suffer fines and other legal sanctions. The SCA Hygiene Group works together with various business partners, such as customers, distributors, partners in joint ventures, suppliers and others. Differences in culture and ways of working between the SCA Hygiene Group and these partners can increase the risk mainly with regard to business ethics and consideration of human rights.</p>	<p>To ensure that the SCA Hygiene Group's organization lives up to the company's core values and is not drawn into or tied to unethical business practices, there is an established Code of Conduct within Svenska Cellulosa Aktiebolaget SCA that encompasses the SCA Hygiene Group. This includes, for example, general rules for how the company conducts its business. The Code is revised on an annual basis to ensure that new laws and guidelines are taken into account. The Code includes principles on business ethics, relationships with the employees, respect for human rights and the environment, and other areas. The SCA Hygiene Group's starting point is that Group policies, including the Code of Conduct and Sustainability Policy, must apply to all markets in which the SCA Hygiene Group conducts operations. Training of all of the SCA Hygiene Group's employees regarding the Code of Conduct takes place continuously. To ensure that the SCA Hygiene Group works with business partners that share these values,</p>	<p>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 Svenska Cellulosa Aktiebolaget SCA's Code of Conduct, which is regulated as a part of the supplier agreements.</p> <p>The SCA Hygiene Group 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 its suppliers, and regular on-site audits of the SCA Hygiene Group's units around the world and of suppliers deemed to have a higher risk level. More detailed information on the Code of Conduct and activities in 2016 is available in Svenska Cellulosa Aktiebolaget SCA's Sustainability Report.</p>
Suppliers		
<p>The SCA Hygiene Group is dependent on a large number of suppliers. The loss of key suppliers could result in costs for the SCA Hygiene Group and problems in manufacturing. Suppliers could also cause problems for the SCA Hygiene Group through non-compliance with applicable legislation and regulations or by otherwise acting in an unethical manner.</p>	<p>To reduce this risk, the SCA Hygiene Group has supply contracts with a large number of suppliers and continuously enters into agreements with various durations. The Group has a number of suppliers for essentially all important input goods. These contracts ensure deliveries of a significant proportion of input goods at the same time as the effects of sudden cost increases are limited. The Group also has more intensive cooperation with selected suppliers that covers the development of materials and processes.</p> <p>The SCA Hygiene Group continuously assesses suppliers to ensure that they meet the standards of the SCA Hygiene Group in all respects in accordance with a risk-based methodology that places a special emphasis on suppliers in high-risk countries and</p>	<p>high-risk industries, such as fiber and cotton. The assessment may take the form of a questionnaire, an on-site visit or the use of independent auditors. For essentially all important input goods, the SCA Hygiene Group assesses the following factors among current and potential suppliers:</p> <ul style="list-style-type: none"> • Quality • Product safety • Impact on the environment, including the issue of the origin of the input goods • Use of chemicals • Compliance with Svenska Cellulosa Aktiebolaget SCA's Code of Conduct <p>More information is available in Svenska Cellulosa Aktiebolaget SCA's Sustainability Report for 2016.</p>

Risk	Policy/Action	
Cost of input goods		
<p>The market price of many of the input goods used in the manufacture of the SCA Hygiene Group's products fluctuates over time and this could influence the SCA Hygiene Group's earnings.</p> <p>Highest/lowest market prices (annual average) 2006–2016 per product</p>  <p>Index</p> <p>175 150 125 100 75 50 25 0</p> <p>■ Pulp (NBSK, USD) — Average price for the period ■ Recovered paper (ONP/OMG) ■ Electricity (Nordpool)</p>	<p>The risk of price movements related to input goods and the impact of these on earnings can be managed in several ways.</p> <p>One method used to manage the price risk is by availing of financial hedges and long-term contracts. The SCA Hygiene Group is an energy-intensive company and hedges the energy price risk for electricity and natural gas. More detailed information on the energy price risk and management activities related to this is presented on page 30. Under normal circumstances, no other price risks related to input goods are hedged, although this could be carried out in exceptional cases.</p> <p>A significant cost item comprises oil-based materials and other oil-related costs, such as transporta-</p>	<p>tion. The oil-based materials are principally used in Personal Care and generally as packaging material. When possible, these and other costs are managed principally through compensation in the form of raised prices for the SCA Hygiene Group's products, by adjusting product specifications or through streamlining of the company's own operation. The impact of price movements on input goods can be delayed through purchasing agreements.</p> <p>The price trend for a number of input goods over the past ten years is presented in the diagram to the left.</p>
Employee-related risks		
<p>The SCA Hygiene Group must have access to skilled and motivated employees and safeguard the availability of competent managers to achieve established strategic and operational objectives.</p>	<p>The SCA Hygiene Group 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 in several countries. The SCA Hygiene Group also places great importance on safety activities at all of its units. More information is available in Svenska Cellulosa Aktiebolaget SCA's Sustainability Report for 2016.</p> <p>The SCA Hygiene Group's strategic manpower</p>	<p>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 the SCA Hygiene Group's business priorities. An established succession planning program protects the operations. The SCA Hygiene Group strives to maintain good relationships with union organizations.</p>
Legal risks		
<p>New legislation in various countries could negatively impact the SCA Hygiene Group. Legal processes can be protracted and costly.</p>	<p>The SCA Hygiene Group monitors the development of legislation through its internal corporate legal staff and external advisors. Another important issue is the management of the SCA Hygiene Group's intellectual property rights (patents, trademarks, etc.), which is</p>	<p>largely centralized. In the approximately 100 countries in which the SCA Hygiene Group conducts operations, local legal issues and disputes are handled through an extensive network of local legal advisors.</p>
IT risks		
<p>The SCA Hygiene Group 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 of results. These risks are growing in an increasingly technically complex and interlinked world.</p>	<p>The SCA Hygiene Group applies the IT management model implemented by Svenska Cellulosa Aktiebolaget SCA. This includes governance, standardized IT processes and an organization for information security. The IT security work includes a continuous risk assessment, the introduction of preventive measures and use of security technologies. Standardized pro-</p>	<p>cesses are in place for the implementation of new systems, changes to existing systems and daily operations. The majority of the SCA Hygiene Group's system landscape is based on well-proven products, such as SAP.</p>

Risk	Policy/Action																																																																														
Energy price risk																																																																															
<p>Energy price risk is the risk that increased energy prices could adversely impact operating profit. The SCA Hygiene Group is exposed to price movements of electricity and natural gas, but the price of other energy commodities also directly and indirectly impacts the Group's operating profit.</p>	<p>The SCA Hygiene Group centrally manages the energy price risk related to electricity and natural gas in the markets that are unregulated.</p> <p>According to the SCA Hygiene Group's policy, these price risks can be hedged for a period of up to 36 months. Energy price hedging is effected through financial instruments and fixed pricing in existing supply agreements. The Group safeguards the supply of electricity and natural gas through centrally negotiated supply agreements. The portfolio of supply agreements and financial hedges shall be effectively spread to minimize the Group's counterparty risk.</p> <p>In 2016, the SCA Hygiene Group purchased about 5 TWh (5; 5) of electricity and about 8 TWh (8; 8) of natural gas.</p> <p>The graph displays the Group's price hedges in relation to forecast consumption of electricity and natural gas for the next three years. The graph</p>																																																																														
	<p>includes financial hedges and hedging effected via supply agreements. For further information concerning financial price hedges, see Note E6 Derivatives and hedge accounting.</p> <p>Energy price hedges in relation to forecast consumption, December 31, 2016</p> <table border="1"> <caption>Energy price hedges in relation to forecast consumption, December 31, 2016</caption> <thead> <tr> <th>Year</th> <th>Electricity (%)</th> <th>Natural gas (%)</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>30</td> <td>50</td> </tr> <tr> <td>2018</td> <td>15</td> <td>30</td> </tr> <tr> <td>2019</td> <td>0</td> <td>0</td> </tr> </tbody> </table>	Year	Electricity (%)	Natural gas (%)	2017	30	50	2018	15	30	2019	0	0																																																																		
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<p>Transaction exposure</p> <p>Transaction exposure is the risk that exchange rate movements in export revenues and import expenses could negatively impact the Group's operating profit and the cost of non-current assets.</p> <p>Translation exposure</p> <p>Translation exposure is the risk to which the SCA Hygiene Group is exposed when translating foreign subsidiaries' balance sheets and income statements to SEK.</p> <p>Long-term currency sensitivity</p> <p>The table below presents a breakdown of the Group's net sales and operating expenses by currency, which provides an overview of the Group's long-term currency sensitivity. The largest exposures are denominated in EUR, USD and GBP.</p>	<p>Transaction exposure</p> <p>Transaction exposure, resulting from exports and imports, can be hedged for a period of up to 18 months. Contracted future payments for non-current assets in foreign currencies can be hedged up to the full cost. The forecast net flow of currency against SEK amounts to SEK -892m (-1,586; -381). At year-end, a net flow against SEK corresponding to three months of the forecast flow for 2017 was hedged. The majority of hedges mature during the first quarter of 2017. The forecast and hedges of the 2017 flows are shown in the table to the right. For further information relating to hedging of transaction exposure, see Note E6 Derivatives and hedge accounting.</p> <p>Translation exposure</p> <p>The policy relating to translation exposure for foreign net assets is to hedge a sufficient proportion in relation to SEK so that the Group's debt/equity ratio is unaffected by exchange rate movements. Hedging takes place by financing a certain portion of capital employed in foreign currencies with loans and derivatives in corresponding currencies. The optimal degree of matching in connection with hedging depends on the current consolidated debt/equity ratio. Translation exposure in the income statements of foreign subsidiaries is not currency-hedged.</p> <p>At December 31, 2016, capital employed in foreign currency amounted to SEK 74,306m (63,895; 70,159). Distribution by currency is shown in the table to the right. At year-end, capital employed was financed in the amount of SEK 19,732m (17,315; 18,642) in foreign currency, which is equivalent to a total matching ratio of 27% (27; 27).</p>																																																																														
	<p>Forecast and hedges relating to flows in 2017</p> <table border="1"> <thead> <tr> <th>Currency</th> <th>Net flows SEKm</th> <th>Currency inflows SEKm</th> <th>Currency outflows SEKm</th> <th>Hedged inflows %</th> <th>Hedged outflows %</th> </tr> </thead> <tbody> <tr> <td>CNY</td> <td>3,697</td> <td>3,697</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>GBP</td> <td>3,210</td> <td>3,688</td> <td>-478</td> <td>0</td> <td>0</td> </tr> <tr> <td>RUB</td> <td>987</td> <td>1,039</td> <td>-52</td> <td>0</td> <td>0</td> </tr> <tr> <td>PLN</td> <td>975</td> <td>2,154</td> <td>-1,179</td> <td>2</td> <td>0</td> </tr> <tr> <td>NOK</td> <td>799</td> <td>808</td> <td>-9</td> <td>0</td> <td>0</td> </tr> <tr> <td>CHF</td> <td>761</td> <td>818</td> <td>-57</td> <td>0</td> <td>0</td> </tr> <tr> <td>MXN</td> <td>759</td> <td>1,752</td> <td>-993</td> <td>1</td> <td>0</td> </tr> <tr> <td>DKK</td> <td>595</td> <td>644</td> <td>-49</td> <td>0</td> <td>0</td> </tr> <tr> <td>Other</td> <td>2,529</td> <td>4,365</td> <td>-1,836</td> <td>2</td> <td>0</td> </tr> <tr> <td>EUR</td> <td>-382</td> <td>11,710</td> <td>-12,092</td> <td>2</td> <td>0</td> </tr> <tr> <td>SEK</td> <td>-892</td> <td>5,839</td> <td>-6,731</td> <td>0</td> <td>26</td> </tr> <tr> <td>USD</td> <td>-13,038</td> <td>3,171</td> <td>-16,209</td> <td>0</td> <td>2</td> </tr> </tbody> </table>	Currency	Net flows SEKm	Currency inflows SEKm	Currency outflows SEKm	Hedged inflows %	Hedged outflows %	CNY	3,697	3,697	0	0	0	GBP	3,210	3,688	-478	0	0	RUB	987	1,039	-52	0	0	PLN	975	2,154	-1,179	2	0	NOK	799	808	-9	0	0	CHF	761	818	-57	0	0	MXN	759	1,752	-993	1	0	DKK	595	644	-49	0	0	Other	2,529	4,365	-1,836	2	0	EUR	-382	11,710	-12,092	2	0	SEK	-892	5,839	-6,731	0	26	USD	-13,038	3,171	-16,209	0	2
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<p>Credit risk</p> <p>Credit risk refers to the risk of losses due to a failure to meet payment obligations by the SCA Hygiene Group's counterparties in financial agreements or by customers.</p>	<p>Credit risk in accounts receivable</p> <p>Credit risk in accounts receivable is managed through credit checks of customers using credit rating companies. The credit limit is 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.</p> <p>Financial credit risk</p> <p>The objective is that counterparties must have a minimum credit rating of A- from at least two of the rating institutes Moody's, Fitch and Standard & Poor's.</p> <p>The SCA Hygiene Group strives to enter into agreements that allow net calculation of receivables and liabilities. Credit exposure in derivative instruments is calculated as the market value of the instrument. At year-end, the total credit exposure was SEK 5,214m (6,591; 6,189). This exposure includes credit risk for financial investments in the amount of SEK 4,244m (4,828; 3,806). Credit exposure in derivative</p>	<p>instruments amounted to SEK 971m (753; 1,272) at December 31, 2016. There is also exposure to Forest Products, see Note G4 Transactions with related parties.</p> <p>Ten largest customers' share of outstanding accounts receivable</p>  <table border="1"> <caption>Ten largest customers' share of outstanding accounts receivable</caption> <thead> <tr> <th>Year</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>24</td> </tr> <tr> <td>2015</td> <td>24</td> </tr> <tr> <td>2014</td> <td>24</td> </tr> </tbody> </table> <p>■ Personal Care and Tissue</p>	Year	Share (%)	2016	24	2015	24	2014	24																				
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<p>Liquidity and refinancing risk</p> <p>Liquidity and refinancing risk is the risk that the SCA Hygiene Group is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in raising new loans.</p>	<p>To ensure good access to loan financing, regardless of the economy and at attractive terms, the SCA Hygiene Group strives to maintain a solid investment grade rating.</p> <p>The SCA Hygiene Group 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% of the Group's forecast annual sales. The SCA Hygiene Group 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 that are not liquidity reserves. Surplus liquidity should primarily be used to amortize external liabilities. The SCA Hygiene Group's policy is to not agree to terms that entitle the lender to withdraw loans or adjust interest rates as a direct consequence of movements in the SCA Hygiene Group's financial key figures or credit rating.</p> <p>The Group's financing is mainly secured by bank loans, bond issues and through issuance of commercial papers. The refinancing risk in short-term borrowing is limited through long-term credit facilities from bank syndicates and individual banks with favorable creditworthiness.</p>	<p>The SCA Hygiene Group's net debt increased by SEK 16,115m in 2016. At year-end, the average maturity of gross debt was 4.0 years (3.5; 2.6). If short-term loans were replaced with drawings under long-term unutilized credit facilities, the maturity would amount to 4.5 years. Unutilized credit facilities amounted to SEK 19,164m at year-end. In addition, cash and cash equivalents totaled SEK 4,244m. For further information, see Note E2 Financial assets, cash and cash equivalents, and Note E4 Financial liabilities.</p> <p>Liquidity reserve</p> <table border="1"> <thead> <tr> <th>SEKm</th> <th>2016</th> <th>2015</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>Unutilized credit facilities</td> <td>19,164</td> <td>18,583</td> <td>19,396</td> </tr> <tr> <td>Cash and cash equivalents</td> <td>4,244</td> <td>4,828</td> <td>3,806</td> </tr> <tr> <td>Total</td> <td>23,408</td> <td>23,411</td> <td>23,202</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th></th> <th>2016</th> <th>2015</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>Net sales</td> <td>101,238</td> <td>98,519</td> <td>87,997</td> </tr> <tr> <td>Liquidity reserv¹⁾</td> <td>23%</td> <td>24%</td> <td>26%</td> </tr> </tbody> </table> <p>¹⁾ Liquidity reserve in percentage in relation to Net sales.</p>	SEKm	2016	2015	2014	Unutilized credit facilities	19,164	18,583	19,396	Cash and cash equivalents	4,244	4,828	3,806	Total	23,408	23,411	23,202		2016	2015	2014	Net sales	101,238	98,519	87,997	Liquidity reserv ¹⁾	23%	24%	26%
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<p>Interest rate risk</p> <p>Interest rate risk relates to the risk that movements in interest rates could have a negative impact on the SCA Hygiene Group. The SCA Hygiene Group is affected by interest rate movements through its net financial income and expense.</p>	<p>The SCA Hygiene Group seeks to achieve a good spread of its interest maturity dates to avoid large volumes of renewals occurring at the same time. The SCA Hygiene Group's policy is to raise loans with floating rates, since it is the SCA Hygiene Group's understanding that this leads to lower interest expense over time. The interest rate risk and interest period are measured by currency and the average interest term shall be within the interval 3 to 36 months.</p> <p>The SCA Hygiene Group's net financial items increased in 2016 as a result of higher borrowing. The SCA Hygiene Group's largest funding currencies are denominated in SEK, CNY and USD; refer to the graph. To achieve the desired fixed interest period and currency balance, the SCA Hygiene Group uses financial derivatives. The average interest period for the gross debt, including derivatives, was 8.5 months</p>	<p>(9.2; 8.3) at year-end. The average interest rate for the total outstanding net debt including derivatives, amounted to 2,26% (3,11; 2,75) at year-end.</p> <p>Gross debt distributed by currency</p>  <table border="1"> <caption>Gross debt distributed by currency</caption> <thead> <tr> <th>Currency</th> <th>SEKm</th> </tr> </thead> <tbody> <tr> <td>SEK</td> <td>16,000</td> </tr> <tr> <td>CNY</td> <td>5,000</td> </tr> <tr> <td>USD</td> <td>5,000</td> </tr> <tr> <td>EUR</td> <td>4,000</td> </tr> <tr> <td>HKD</td> <td>1,000</td> </tr> <tr> <td>MXN</td> <td>1,000</td> </tr> <tr> <td>COP</td> <td>1,000</td> </tr> <tr> <td>RUB</td> <td>1,000</td> </tr> <tr> <td>MYR</td> <td>1,000</td> </tr> <tr> <td>Other</td> <td>1,000</td> </tr> </tbody> </table> <p>■ Gross debt</p>	Currency	SEKm	SEK	16,000	CNY	5,000	USD	5,000	EUR	4,000	HKD	1,000	MXN	1,000	COP	1,000	RUB	1,000	MYR	1,000	Other	1,000						
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SEK	16,000																													
CNY	5,000																													
USD	5,000																													
EUR	4,000																													
HKD	1,000																													
MXN	1,000																													
COP	1,000																													
RUB	1,000																													
MYR	1,000																													
Other	1,000																													

Financial statements and notes

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

- BS** Balance sheet
- IS** Income statement
- CF** Cash flow statement
- OCF** Operating cash flow statement

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Consolidated income statement ^{IS}

Group	Note	2016		2015		2014	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Net sales	B1	101,238	10,706	98,519	10,537	87,997	9,682
Cost of goods sold	B2	-72,476	-7,665	-71,960	-7,696	-64,150	-7,058
Items affecting comparability	B2	-532	-56	-267	-29	-441	-49
Gross profit		28,230	2,985	26,292	2,812	23,406	2,575
Sales, general and administration	B2	-17,086	-1,806	-16,287	-1,742	-14,584	-1,605
Items affecting comparability	B2	-2,293	-243	-519 ²⁾	-55 ²⁾	-568	-62
Share of profits of associates and joint ventures		157	17	198	21	106	12
Operating profit		9,008	953	9,684²⁾	1,036²⁾	8,360	920
Financial income	E7	202	21	312 ³⁾	33 ³⁾	416	46
Financial expenses	E7	-1,037	-109	-1,140	-121	-1,156	-128
Profit before tax		8,173	865	8,856	948	7,620	838
Tax	B4	-3,931	-416	-2,278	-244	-1,939	-213
Profit for the period		4,242	449	6,578	704	5,681	625
Earnings attributable to:							
Owners of the Parent		3,800	402	6,129	656	5,212	573
Non-controlling interests		442	47	449	48	469	52
Earnings per share							
Earnings per share, SEK – owners of the Parent							
before dilution effects		5.4	0.6	8.7	0.9	7.4	0.8
after dilution effects		5.4	0.6	8.7	0.9	7.4	0.8
Profit for the period attributable to owners of the Parent		3,800	402	6,129	656	5,212	573
Average number of shares before dilution, million		702.3		702.3		702.3	
Average number of shares after dilution, million		702.3		702.3		702.3	

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 9.46 (9.35; 9.09) was used.

²⁾ Includes the sale of securities, SEK 970m, EUR 103.7m.

³⁾ Excludes the sale of securities, SEK 970m, EUR 103.7m.

Consolidated statement of comprehensive income

SEKm	2016	2015	2014			
IS Profit for the period	4,242	6,578	5,681			
Other comprehensive income for the period						
Items that cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans	-1,569	1,933	-2,595			
Income tax attributable to components in other comprehensive income	421	-418	587			
	-1,148	1,515	-2,008			
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	318	140			
Transferred to profit or loss upon sale	-	-970	-			
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity	275	-450	-463			
Transferred to profit or loss for the period	274	342	344			
Transferred to cost of hedged investments	-19	-	3			
Translation differences in foreign operations	2,742	-1,944	5,125			
Result from hedging of net investments in foreign operations	-437	-58	-1,497			
Other comprehensive income/loss from associates	12	-17	-			
Income tax attributable to components in other comprehensive income	-41	33	367			
Other comprehensive income/loss for the period, net after tax	2,805	-2,746	4,019			
Total comprehensive income/loss for the period	1,657	-1,231	2,011			
Total comprehensive income attributable to:						
Owners of the Parent	5,222	5,113	6,651			
Non-controlling interests	677	234	1,041			
By operating segment						
	Net sales			Operating profit¹⁾		
SEKm	2016	2015	2014	2016	2015	2014
Personal Care	33,651	34,344	31,066	4,255	3,990	3,526
Tissue	67,561	64,184	56,994	8,155	7,217	6,652
Other	26	-9	-45	-577	-737	-809
Intra-Group deliveries	-	-	-18	-	-	-
Total	101,238	98,519	87,997	11,833	10,470	9,369

¹⁾ Excluding items affecting comparability.

Consolidated statement of change in equity

Group	2016	2015	2014
Attributable to owners of the Parent			
Value, January 1	42,986	39,675	37,891
Total comprehensive income for the period	5,222	5,113	6,651
Transactions with shareholders (for further information see note G4 Transactions with related parties)	-14,679	-1,762	-4,706
Private placement to non-controlling interests	240	–	–
Private placement to non-controlling interests, dilution	-110	–	–
Issue expenses, private placement	-4	–	–
Acquisition of non-controlling interests	-799	-40	-112
Acquisition of non-controlling interests, dilution	348	–	–
Issue costs in associates	–	–	-49
Value, December 31	33,204	42,986	39,675
Non-controlling interests			
Value, January 1	5,289	5,250	4,540
Total comprehensive income for the period	677	234	1,041
Dividend	-190	-216	-228
Private placement to non-controlling interests	199	–	–
Private placement to non-controlling interests, dilution	110	–	–
Issue expenses, private placement	-4	–	–
Acquisition of non-controlling interests	643	21	-61
Acquisition of non-controlling interests, dilution	-348	–	–
Effect of confirmation of acquisition balance sheet	–	–	-42
Value, December 31	6,376	5,289	5,250
Total equity, value December 31	39,580	48,275	44,925

For further information, see Note E8 Equity.

Consolidated operating cash flow statement, supplementary disclosure OCF

Group	Note	2016		2015		2014	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
IS Net sales		101,238	10,706	98,519	10,537	87,997	9,682
Operating expenses		-84,498	-8,936	-83,483	-8,929	-74,466	-8,193
Operating surplus		16,740	1,770	15,036	1,608	13,531	1,489
Adjustment for non-cash items		19	2	15	2	-10	-1
Operating cash surplus		16,759	1,772	15,051	1,610	13,521	1,488
Change in							
Inventories		1,059	112	-1,407	-150	-120	-13
Operating receivables		-298	-31	-1,029	-110	-158	-17
Operating liabilities		835	88	1,919	205	131	14
Change in working capital		1,596	169	-517	-55	-147	-16
Current capital expenditures		-4,222	-446	-3,293	-352	-2,861	-315
Restructuring costs, etc.		-1,102	-117	-801	-86	-799	-88
Operating cash flow		13,031	1,378	10,440	1,117	9,714	1,069
Financial items	E7	-835	-88	-828	-88	-740	-82
Paid tax	B4	-3,782	-400	-2,194	-235	-2,099	-231
Other		149	16	132	14	25	3
Cash flow from current operations		8,563	906	7,550	808	6,900	759
Strategic capital expenditures and divestments							
Company acquisitions	F6	-6,540	-692	-92	-10	-492	-54
Strategic capital expenditures in non-current assets		-2,033	-215	-2,179	-233	-1,632	-180
Total strategic capital expenditures		-8,573	-907	-2,271	-243	-2,124	-234
Divestments	F6	369	39	49	5	205	23
Cash flow from capital expenditures and divestments		-8,204	-868	-2,222	-238	-1,919	-211
Cash flow before dividend		359	38	5,328	570	4,981	548
Private placement to non-controlling interests		435	46	–	–	–	–
Dividend to non-controlling interests		-190	-20	-216	-23	-228	-25
Transactions with shareholders		-14,571	-1,541	-2,225	-238	-4,215	-464
Net cash flow		-13,967	-1,477	2,887	309	538	59
Net debt							
		2016		2015		2014	
		SEKm	EURm ²⁾	SEKm	EURm ²⁾	SEKm	EURm ²⁾
Net debt, January 1		-19,058	-2,087	-25,066	-2,629	-21,470	-2,403
Net cash flow		-13,967	-1,477	2,887	309	538	59
Remeasurements to equity		-1,570	-166	1,281	137	-2,455	-270
Exchange rate effects, etc.		-578	50	1,840	96	-1,679	-15
Net debt, December 31		-35,173	-3,680	-19,058	-2,087	-25,066	-2,629

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 9.46 (9.35; 9.09) was used.

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.56 (9.13; 9.53) was used for net debt.

Consolidated cash flow statement **CF**

Group	Note	2016		2015		2014	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Operating activities							
IS Profit before tax		8,173	864	8,856	947	7,620	839
T:1 Adjustment for non-cash items		6,791	718	4,635	496	4,384	482
		14,964	1,582	13,491	1,443	12,004	1,321
Paid tax	B4	-3,782	-400	-2,194	-235	-2,099	-231
Cash flow from operating activities before changes in working capital		11,182	1,182	11,297	1,208	9,905	1,090
Cash flow from changes in working capital							
Change in							
Inventories		1,059	112	-1,407	-150	-120	-13
Operating receivables		-298	-31	-1,029	-110	-158	-17
Operating liabilities		835	88	1,919	205	131	14
Cash flow from operating activities		12,778	1,351	10,780	1,153	9,758	1,074
Investing activities							
Company acquisitions	F6	-4,416	-467	-72	-8	-492	-54
Divestments	F6	369	39	49	5	205	23
T:2 Investments in intangible assets and property, plant and equipment		-6,339	-670	-5,679	-607	-4,596	-506
Sale of property, plant and equipment		83	9	207	22	103	11
Loans granted to external parties		-	-	-	-	-129	-14
Repayment of loans from external parties		184	19	186	20	-	-
Sale of securities		-	-	2,046	219	-	-
Cash flow from investing activities		-10,119	-1,070	-3,263	-349	-4,909	-540
Financing activities							
Private placement to non-controlling interests		435	46	-	-	-	-
Acquisition of non-controlling interests		-	-	-11	-1	-173	-19
Change, receivable from Group companies		10,403	1,100	-382	-41	1,839	202
Loans raised		16,148	1,708	11,100	1,187	3,485	384
Amortization of debt		-15,614	-1,651	-14,657	-1,568	-5,814	-640
Dividend to non-controlling interests		-190	-20	-216	-23	-228	-25
Transactions with shareholders		-14,571	-1,541	-2,225	-238	-4,215	-464
Cash flow from financing activities		-3,389	-358	-6,391	-684	-5,106	-562
Cash flow for the period		-730	-77	1,126	120	-257	-28
Cash and cash equivalents, January 1		4,828	529	3,806	399	3,800	425
Exchange differences in cash and cash equivalents		146	-8	-104	10	263	2
Cash and cash equivalents, December 31 ²⁾	E2	4,244	444	4,828	529	3,806	399

¹⁾ Translation to EUR is provided for the convenience of the reader. An average exchange rate of 9.46 (9.35; 9.09) was used.

²⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.56 (9.13; 9.53) was used.

For the Group's liquidity reserve, refer to the risk section on page 31.

T:1 Adjustment for non-cash items

SEKm	2016	2015	2014
Depreciation/amortization and impairment of non-current assets	5,701	5,606	4,389
Gain/loss on asset sales and swaps	51	22	-14
Gain/loss on sale of securities	-	-970	-
Gain/loss on divestments	-149	-	-
Unpaid relating to efficiency program	578	180	246
Payments relating to efficiency program already recognized	-196	-274	-306
Revaluation of previous share upon acquisition	-	-	-36
Provision for ongoing competition case	813	-	-
Other	-7	71	105
Total	6,791	4,635	4,384

T:2 Investments in intangible assets and property, plant and equipment

SEKm	2016	2015	2014
Measures to raise the capacity level of operations (Strategic capital expenditures)	-2,033	-2,179	-1,632
Measures to uphold capacity level (Current capital expenditures)	-4,306	-3,500	-2,964
Total	-6,339	-5,679	-4,596

Interest paid, SEKm

	2016	2015	2014
Interest paid	-879	-1,135	-1,261
Interest, Group companies	106	130	223
Interest received	78	56	94
Total	-695	-949	-944

Correlation between consolidated cash flow statement and operating cash flow statement, supplementary disclosure

Cash flow from operating activities

SEKm	2016	2015	2014
Cash flow from operating activities	12,778	10,780	9,758
<i>Adjustment items</i>			
Current capital expenditures	-4,222	-3,293	-2,861
Accrued interest	8	63	1
Other	-1	-	2
Cash flow from current operations according to consolidated operating cash flow statement	8,563	7,550	6,900

Cash flow from investing activities

SEKm	2016	2015	2014
Cash flow from investing activities	-10,119	-3,263	-4,909
<i>Adjustment items</i>			
Current capital expenditures	4,222	3,293	2,861
Loans granted to external parties	-	-	129
Sale of securities	-	-2,046	-
Repayment of loans from external parties	-184	-186	-
Net debt in acquired and divested companies	-2,124	-	174
Acquisition of non-controlling interests	-	-11	-173
Financial liability (earn-out payment) upon acquisition	-	-9	-
Other	1	-	-1
Cash flow from strategic capital expenditures and divestments according to the consolidated operating cash flow statement	-8,204	-2,222	-1,919

Cash flow for the period

SEKm	2016	2015	2014
Cash flow for the period	-730	1,126	-257
<i>Adjustment items</i>			
Amortization of debt	15,614	14,658	2,329
Loans raised	-16,148	-11,100	-
Loans granted to external parties	-	-	129
Sale of securities	-	-2,046	-
Repayment of loans from external parties	-184	-186	-
Change, receivable from Group companies	-10,403	382	-1,839
Net debt in acquired and divested operations	-2,124	-	174
Financial liability (earn-out payment) upon acquisition	-	-9	-
Accrued interest	8	63	1
Other	-	-1	1
Net cash flow according to consolidated operating cash flow statement	-13,967	2,887	538

Consolidated balance sheet BS

Group	Note	2016		2015		2014		Jan 1, 2014	
		SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾	SEKm	EURm ¹⁾
Non-current assets									
Goodwill	D1	19,253	2,014	15,412	1,688	15,660	1,643	13,748	1,539
Other intangible assets	D1	7,665	802	7,351	805	7,895	828	8,027	899
Buildings, land, machinery and equipment	D2	47,494	4,969	42,402	4,643	43,599	4,574	39,909	4,467
Participations in joint ventures and associates	F3	1,096	115	1,041	114	1,047	110	963	108
Shares and participations	F5	32	3	33	4	40	4	40	4
Surplus in funded pension plans	C5	335	35	35	4	3	0	385	43
Non-current receivables, Group companies	G4	–	–	39	4	11	1	21	2
Non-current financial receivables, Group companies	G4	3	0	3	0	3	0	3	0
Non-current financial assets	E2	714	75	728	80	2,843	298	2,512	281
Deferred tax assets	B4	1,457	153	1,056	116	1,151	121	918	103
Other non-current assets		241	25	149	16	116	12	293	33
Total non-current assets		78,290	8,191	68,249	7,474	72,368	7,591	66,819	7,479
Current assets									
Inventories	D3	10,944	1,145	11,229	1,230	10,343	1,085	9,415	1,054
Trade receivables	E3	15,843	1,658	14,808	1,622	14,912	1,564	13,578	1,520
Current tax assets	B4	740	77	868	95	647	68	513	57
Current receivables, Group companies	G4	57	6	166	18	117	12	102	11
Current financial receivables, Group companies	G4	1,433	150	12,207	1,337	12,764	1,340	14,753	1,652
Other current receivables	D4	2,333	244	2,100	230	2,188	229	1,928	216
Current financial assets	E2	244	26	776	85	1,260	132	534	60
Non-current assets held for sale	G1	156	16	120	13	60	6	32	4
Cash and cash equivalents	E2	4,244	444	4,828	529	3,806	399	3,800	425
Total current assets		35,994	3,766	47,102	5,159	46,097	4,835	44,655	4,999
Total assets		114,284	11,957	115,351	12,633	118,465	12,426	111,474	12,478
EQUITY AND LIABILITIES									
Equity									
<i>Owners of the Parent</i>									
Share capital									
Other capital provided									
Reserves		4,061	425	1,501	164	4,015	421	568	64
Retained earnings		29,143	3,049	41,485	4,544	35,660	3,740	37,323	4,178
		33,204	3,474	42,986	4,708	39,675	4,161	37,891	4,242
Non-controlling interests		6,376	667	5,289	579	5,250	551	4,540	508
Total equity		39,580	4,141	48,275	5,287	44,925	4,712	42,431	4,750
Non-current liabilities									
Non-current financial liabilities	E4	31,299	3,275	21,463	2,351	24,199	2,539	28,651	3,207
Non-current liabilities, Group companies	G4	48	5	–	–	4	0	–	–
Non-current financial liabilities, Group companies	G4	–	–	–	–	–	–	1,000	112
Provisions for pensions	C5	5,273	552	2,919	320	4,958	520	2,687	301
Deferred tax liabilities	B4	3,872	405	3,756	411	3,231	339	3,517	394
Other non-current provisions	D6	1,407	147	886	97	579	61	358	40
Other non-current liabilities	D5	72	7	146	16	97	10	75	8
Total non-current liabilities		41,971	4,391	29,170	3,195	33,068	3,469	36,288	4,062
Current liabilities									
Current financial liabilities	E4	5,089	533	12,402	1,359	14,791	1,551	10,158	1,137
Current liabilities, Group companies	G4	259	27	341	37	273	29	269	30
Current financial liabilities, Group companies	G4	485	51	852	93	1,797	188	962	108
Trade payables		12,972	1,357	11,869	1,300	11,800	1,239	10,640	1,191
Current tax liabilities	B4	915	96	808	88	729	76	803	90
Current provisions	D6	1,409	147	889	97	917	96	1,004	112
Other current liabilities	D5	11,604	1,214	10,745	1,177	10,165	1,066	8,919	998
Total current liabilities		32,733	3,425	37,906	4,151	40,472	4,245	32,755	3,666
Total liabilities		74,704	7,816	67,076	7,346	73,540	7,714	69,043	7,728
Total equity and liabilities		114,284	11,957	115,351	12,633	118,465	12,426	111,474	12,478
Contingent liabilities and pledged assets, see Note G3									
Capital employed		74,753	7,821	67,333	7,374	69,991	7,341	63,902	7,153
Net debt		35,173	3,680	19,058	2,087	25,066	2,629	21,471	2,403

¹⁾ Translation to EUR is provided for the convenience of the reader. Closing exchange rate of 9.56 (9.13; 9.53, 8.93) was used.

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

A1. GENERAL ACCOUNTING PRINCIPLES, NEW ACCOUNTING RULES AND BASIS OF PREPARATION

READING INSTRUCTIONS

General accounting principles **AP** and new accounting rules are presented below. Other accounting principles considered material by the SCA Hygiene Group are presented in conjunction with the respective notes. 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 notes; see application of assessments below.

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

BS	Balance sheet
IS	Income statement
CF	Cash flow statement
OCF	Operating cash flow statement
Tx:x	Reference to table in note

General

These combined financial statements ("financial statements") are a part the annual accounts for the Group of SCA Hygiene AB. The material companies in the SCA Hygiene Group are specified in Note F1. A complete list is kept by the Parent Company SCA Hygiene AB (publ).

BASIS OF PREPARATION

These financial statements are prepared in accordance with 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 annual accounts for the 2016 fiscal year are prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2, Reporting by Legal Entities, and the Annual Accounts Act. The material accounting principles for the Parent Company are presented in Notes PC1–PC15. During the fiscal year, SCA Hygiene AB transitioned from the Swedish Accounting Standards Board's general guidelines 2012:1 Annual Accounts and Consolidated Financial Statements (K3), to application of RFR 2. The transition did not entail any changes that affect recognition and measurement, instead the changes relate solely to supplementary disclosures.

The financial statements relate to the fiscal year that ended on December 31, 2016. The SCA Hygiene Group applies the historical cost method for measurement of assets and liabilities except for available-for-sale financial assets and financial assets and liabilities, including derivative instruments, measured at fair value through profit or loss, which are measured at fair value either in profit or loss or in other comprehensive income.

The formation of the SCA Hygiene Group is a transaction under common control and is currently not covered by any IFRS standard, implying that a suitable accounting principle should be applied in accordance with IAS 8. A suitable and established method is to use previous carrying amounts (predecessor basis of accounting), which is the principle that the SCA Hygiene Group has adopted to apply.

The financial statements have thus been prepared on the basis of the financial information reported for the above units for the purposes of consolidated accounting in Svenska Cellulosa Aktiebolaget SCA, which is the SCA Hygiene Group's Parent Company. The financial statements are thus an aggregation of this financial information and are presented as though the units were a group as of the date they became part of the Svenska Cellulosa Aktiebolaget SCA Group. The accounting principles thus conform to the accounting principles presented in Svenska Cellulosa Aktiebolaget SCA's financial statements for the 2016 fiscal year, which are outlined below, and mean that the units' assets

and liabilities are presented using the carrying amounts for the highest level of common control (i.e. Svenska Cellulosa Aktiebolaget SCA) for the periods covered by this financial report.

This financial report is also the SCA Hygiene Group's first financial report to be prepared in accordance with IFRS. Considering the application of accounting and presentation methods as stated above, IFRS 1 does not involve any impact on the measurement of assets and liabilities. However, the SCA Hygiene Group has chosen, for the presentation of the financial statements, to apply the voluntary exception in IFRS 1 to reset translation differences to zero in the opening balance for 2014.

Due to the fact that it was not only separate legal entities that were transferred in conjunction with the formation of the SCA Hygiene Group, the following considerations were taken into account in conjunction with the preparation of the financial statements, together with the principles used to determine which assets, liabilities, revenues, costs and cash flows are to be included in the financial statements.

Allocation of income and expenses

Given that the majority of the current Svenska Cellulosa Aktiebolaget SCA's central functions have been transferred to the SCA Hygiene Group, these historical income and expenses are, in all material respects, allocated to the SCA Hygiene Group and are included in the financial statements.

Pension obligations

The majority of the pension obligations and related plan assets have, for all periods, been reported by the respective legal entity in the SCA Hygiene Group and have been calculated according to the principles presented below. The pension obligations and fair value of the directly attributable plan assets for these obligations were recognized in the combined financial statements based on the calculated obligations in accordance with IAS 19 for the individuals and the individual pension obligations for former senior executives that were transferred to the SCA Hygiene Group. The pension obligations and assets for which the approval of authorities is required for transfer were also included. The costs and remeasurement effects related to these obligations are reflected in the financial statements.

Derivatives and hedge accounting

The SCA Hygiene Group includes the treasury function that was previously part of the Svenska Cellulosa Aktiebolaget SCA Group. This function has managed all of the Svenska Cellulosa Aktiebolaget SCA Group's derivatives and hedging relationships concerning the company's commercial flows and net investments. These financial statements only present the hedging reserve that is attributable to the SCA Hygiene Group in relation to cash flow hedges and hedging of net investments. External derivative agreements that was entered into with regards to commercial flows and net investments in the Forest Products business are recognized at fair value in the balance sheet and any internal derivatives are also recognized as external positions from a SCA Hygiene Group perspective. The effects of the revaluation of external and internal positions for the Forest Products business were recognized net in comprehensive income.

Financial expenses and capital structure

All financial expenses charged to the SCA Hygiene Group were based on actual borrowings that the SCA Hygiene Group and Svenska Cellulosa Aktiebolaget SCA had from external creditors. Furthermore, because the Treasury company was included in the SCA Hygiene Group, the borrowing and lending and the interest income and expenses that the Treasury company had relating to the Forest Products business. The SCA Hygiene Group's historical capital structure have not been adjusted to reflect a potential capital structure for a separate entity.

Transactions with shareholders

Dividends that are financed through the corporate internal bank, group contributions and transactions between Forest Products business and the SCA Hygiene Group which have been transferred without compensation

A. GENERAL ACCOUNTING PRINCIPLES AND NEW ACCOUNTING RULES, CONT.

have been accounted for as transactions with the shareholder. For further information see note E8 and G4

Income taxes

Because the Svenska Cellulosa Aktiebolaget SCA Group has been able to apply tax equalization between its entities, using for example Group contributions, the Swedish entities that make up the SCA Hygiene Group historically has not been subject to tax in the same manner as if they were an independent Group. In the financial statements, tax has been recognized on the basis of the taxable earnings in the entities, and the opportunities that Group has had to apply tax equalization, for example, via Group contributions. In those cases where tax equalization have been applied between Swedish entities within the SCA Hygiene Group and the Forest Products business these have been recognized as a transaction with the shareholder.

Earnings per share

In these financial statements, the calculation of earnings per share has been based on the average number of shares outstanding in Svenska Cellulosa Aktiebolaget SCA, which is 702.3 million shares. This is considered more relevant given the intention to hereafter reflect the same share structure that exists in Svenska Cellulosa Aktiebolaget SCA in SCA Hygiene AB due to the proposed distribution of the Group.

Elimination of transactions in SCA Hygiene

Receivables, liabilities, revenue, costs and unrealized gains and losses that arise between entities in the SCA Hygiene Group are eliminated in their entirety. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent there is no impairment requirement. The SCA Hygiene Group had a number of transactions with SCA companies in Forest Products, and pricing follows the transfer pricing policy that applies for the Svenska Cellulosa Aktiebolaget SCA Group. In its balance sheet, the SCA Hygiene Group has chosen to show these transactions on separate lines as current/non-current receivables from/liabilities to Group companies. Further information on transactions between the SCA Hygiene Group and the Forest Products business are described in Note G4 Transactions with related parties.

Significant events after the balance sheet date

With regard to the potential impact of events after the balance sheet date in accordance with IAS 10, the principle has been chosen in the financial statements to only consider events in the most recent period presented, that is, the 2016 fiscal year. Accordingly, the 2015 and 2014 fiscal years are considered to be concluded.

New or amended accounting standards 2016

No new standards or amendments to regulatory frameworks that had a material impact on the SCA Hygiene Group's earnings and financial position were implemented in 2016.

- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

The amendments are not expected to have any material impact on the Group's or parent company's earnings or financial position.

New or amended accounting standards after 2016

No new standards will be implemented 2017. However, a number of amendments of existing standards will be introduced. See below:

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized losses
- Annual Improvements to IAS7: Disclosure Initiative

These amendments are not expected to have any material impact on the Group.

The material new standards to be applied from their effective date are described below. No prospective application is planned.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments was issued in July 2014 and is a new standard that will replace IAS 39. The standard is divided into three areas: Classification and measurement of financial assets and liabilities, impairment and hedging. The standard will become mandatory on January 1, 2018 with prospective application permitted.

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, in which the financial assets are classified in one of the following three categories: 1) financial assets measured at amortized cost 2) financial assets measured at fair value through other comprehensive income and 3) financial assets measured at fair value through profit or loss. The new standard entails essentially unchanged recognition of financial liabilities.

The standard introduces a new model for impairment of financial assets based on expected losses and not as previously under IAS 39 until the loss event has already occurred. Under the model, provisions are established for credit losses that may arise within the next 12 months for assets with low credit risk. In other cases where the credit risk has increased significantly since initial recognition and where the credit risk is not low, 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.

The new standard focuses to a great extent on reflecting the company's risk management strategies in hedge accounting and allowing more hedging strategies to qualify for hedge accounting.

The SCA Hygiene Group has not fully evaluated the effects of IFRS 9 but expects the new rules for hedge accounting to increase the SCA Hygiene Group's possibilities for hedge accounting and facilitate the documentation of hedge accounting. With respect to impairment, trade receivables are the main item affected for the SCA Hygiene Group and the quantitative effects are deemed relatively small.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers establishes a new regulatory framework for the manner in which a company should recognize revenue. The new standard will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC (International Financial Reporting Interpretations Committee) 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC (Standing Interpretation Committee of the IASC, predecessor to the IFRIC) 31 Revenue – Barter Transactions Involving Advertising Services. The date on which the standard will become effective has been postponed one year to January 1, 2018. During the year, IFRS 15 Clarification was issued, providing further guidance on when goods or services are to be recognized separately or jointly with other goods and services.

The standard regulates commercial agreements (contracts) with customers in which delivery of goods/services is divided into separately identifiable performance obligations that are recognized independently. In certain cases, the good/service can be integrated with other obligations in the contract, whereby a package of goods/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 good/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. In other cases, a performance obligation may be satisfied over time, which is common for services. Three different criteria have been established for determining whether a performance obligation is satisfied over time. Either the customer receives and consumes all of the benefits as the obligation is performed; the company's performance enhances an asset that the customer controls; or the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for performance completed to date. IFRS 15 aims to create more comparable and transparent financial reporting, which will be achieved by separating customer contracts as specified above and by providing significantly expanded disclosures regarding how and when revenue is gener-

ated. Disclosures encompass both quantitative and qualitative information to help the users of financial statements to understand the company's business. Disclosures include information regarding contracts with customers, separation of revenue into geographical regions, categories or similar with settlement against the recognized segment, information regarding balance sheet items and information concerning significant assessments.

In 2016, a project group at the SCA Hygiene Group analyzed the implications of a switch of revenue standard in 2018. The group's main task was to introduce and provide training to various parts of the Group in terms of what the standard involves and the implications it will have for the SCA Hygiene Group. In addition, the Group has produced a questionnaire to determine the various types of contracts that exist in the Group. The questionnaire has been discussed at various levels with the company's regions. Contact was made with the business development departments for various products, particularly within incontinence and AfH, to identify whether the SCA Hygiene Group's product offering encompasses services or whether the future development of new products will encompass services. Furthermore, information was compiled regarding how bonuses and discounts are handled in SCA Hygiene's contracts and reporting.

The conclusion can be drawn that SCA Hygiene's sales mainly comprise sales of products and, to a very limited extent, services, and thus the assessment has been made that no separate reporting of services is required. Developments in the area will continue to be monitored and in the event of a broadening of the service offering, separate reporting may be introduced.

The new reporting standard has transitioned from a risk and rewards concept to focusing more on when control has been transferred to the customer, which has given cargo clauses a more prominent role. As part of the project, it was found that for some of the shipments, the SCA Hygiene Group booked the sales revenues before control had been transferred to the customer. However, the extent was considered to be insignificant. Overall, this means that the new standard is not expected to have any significant impact on the SCA Hygiene Group's revenue recognition. During 2017, however, the SCA Hygiene Group intends to ensure that the data is available for the expanded disclosure requirements in 2017.

IFRS 16 Leases

In January 2016, the IASB published a new leases standard that will replace IAS 17 Leasing agreements 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. The only exceptions are agreements with a term of less than 12 months or assets with a low value, such as leasing contracts for computers and office furniture. Recognition for the lessor will remain essentially unchanged. The standard is applicable to fiscal years beginning on January 1, 2019 or later. Prospective application is permitted. The standard has not yet been adopted by the EU. The SCA Hygiene Group will need to develop an overview of the lease agreements that exist in the Group to assess the measures required and to adapt recognition to the new standard as well as the extent to which the SCA Hygiene Group is to continue leasing equipment.

The cost of operational lease agreements for the 2016 fiscal year amounted to SEK 698m. As of December 31, 2016, the undiscounted amount relating to payment commitments for operational lease agreements totaled SEK 3,100m. 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. For more information about the company's lease commitments, including the maturity structure, refer to G2.

USE OF ASSESSMENTS

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 the opinion of the SCA Hygiene Group, the areas that are impacted the most by assumptions and estimates are:

Goodwill, D1

Pensions, C5

Taxes, B4

Provisions, D6

The SCA Hygiene Group's assessments and assumptions are presented in the respective notes.

PRINCIPLES OF CONSOLIDATION

Group companies are consolidated from the date the Group exercises control or influence over the company according to the definitions provided under the respective category of Group company 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 included in the combined financial statements in which the SCA Hygiene Group or SCA Hygiene AB has control are consolidated. The definition of control is the ability to control the subsidiary, entitlement to a return and power to influence the activities that impact return. The consolidated financial statements are prepared based on transferred values from Svenska Cellulosa Aktiebolaget SCA.

Joint arrangements

The SCA Hygiene Group classifies its joint arrangements as joint ventures or joint operations. A joint venture entitles the joint owners to the net assets of the investment and is therefore recognized according to the equity method. In joint operations, parties to the agreement have rights to the assets and obligations for the liabilities associated with the investment, meaning that the operator must account for its share of the assets, liabilities, revenues and costs according to the proportional method.

Associates

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary or a joint arrangement. Normally, this means that the Group owns between 20% and 50% of the votes. Accounting for associates is carried out according to the equity method and they are initially measured at cost.

For further information, see Note F3.

TRANSLATION OF FOREIGN CURRENCY

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

The SCA Hygiene Group's Parent Company has Swedish kronor (SEK) as its functional currency. The functional currency of SCA Hygiene's Group companies is determined on the basis of the primary economic environment in which the respective companies are active which, with a few exceptions, are the countries in which the individual companies operate. The financial statements of Group companies are translated to the Group's presentation currency, which is SEK in the case of the SCA Hygiene Group. 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.

A. GENERAL ACCOUNTING PRINCIPLES AND NEW ACCOUNTING RULES, CONT.

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 profit or loss. 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 total 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 profit or loss, while any other unrealized change is recognized in equity under other comprehensive income.

REVENUE RECOGNITION

Sales revenue, synonymous with net sales, comprises the fair value of the consideration received or receivable for sold goods and services within the SCA Hygiene Group's ordinary activities. Revenue is recognized when delivery to the customer has taken place according to the terms of the sale. Other income includes compensation for sales that are not included in SCA Hygiene's ordinary activities and includes rental revenue, which is recognized in the period covered by the rental contract, royalties and similar items, which are recognized in accordance with the implied financial effect of the contract. Interest income is recognized in accordance with the effective interest method. Dividends received are recognized when the right to receive a dividend has been established.

GOVERNMENT GRANTS

Government grants are measured at fair value when there is reasonable assurance the grants will be received and that SCA Hygiene 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 profit or loss 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.

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

Guidelines concerning non-IFRS performance measures for companies with securities listed on a regulated market in the EU have been issued by the ESMA (The European Securities and Markets Authority). These guidelines are to be applied to alternative performance measures (APMs) applied as of July 3, 2016.

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.

The Board of Directors of the SCA Hygiene Group has established that the profitability target is to achieve a return on capital employed of 30% for

Personal Care and 15% for Tissue over a business cycle. The growth target for Personal Care is annual organic sales growth of 5–7%, while the target for Tissue is 3–4%. It is important that the SCA Hygiene Group maintains an effective capital structure, while at the same time ensuring long-term access to loan financing. Cash flow in relation to net debt is to be taken into consideration in the target to maintain a solid investment grade rating.

A number of financial performance measures and how these are used to analyze the company's objective are described below.

CALCULATION OF PERFORMANCE MEASURES NOT INCLUDED IN IFRS FRAMEWORK

RETURN MEASURES		
Return is a financial term that describes how must the value of an asset changes from an earlier point in time		
Non-IFRS performance measure	Description	Reason for use of the measure
Return on capital employed, ROCE	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 capital employed for the two most recent quarters.	This is the central ratio for measuring return on capital tied up in operations.
Return on equity	For the Group, return on equity is calculated as profit for the year as a percentage of average equity.	Shows, from a shareholder perspective, the return that is generated on the owners' capital that is invested in the company.

CAPITAL MEASURES			Shows how capital is utilized and the company's financial strength		
Non-IFRS performance measure	Description	Reason for use of the measure			
Equity	The equity reported in the consolidated balance sheet consists of taxed equity increased by the equity portion of the Group's untaxed reserves and non-controlling interests. (Deferred tax liability in untaxed reserves has been calculated at a 22.0% rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden).	Equity is the difference between the Group's assets and liabilities, which corresponds to the Group's equity contributed by owners and the Group's accumulated profits.			
Equity per share	Equity in relation to the average number of shares outstanding that exist in SCA AB, on account on the proposed spin-off of the Group. The intention is to henceforth reflect the same share structure that exists in SCA AB in SCA Hygiene AB.	A measure of the amount of equity that exists per share and is used for measuring the share against the share price.			
Equity/assets ratio	Equity expressed as a percentage of total assets.	A traditional measure for showing financial risk, expressing the amount of restricted equity that is financed by the owners.			
Capital employed	The Group's and business areas' capital employed is calculated as the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.	This measure shows the amount of total capital that is used in the operations and is thus one of the components for measuring the return from operations.			
SEKm		2016	2015	2014	
CAPITAL EMPLOYED					
Total assets		114,284	115,351	118,465	
Financial assets		-6,973	-18,577	-20,679	
Non-current, non-interest-bearing liabilities		-5,399	-4,788	-3,911	
Current, non-interest-bearing liabilities		-27,159	-24,653	-23,884	
Capital employed		74,753	67,333	69,991	
CAPITAL EMPLOYED					
Personal Care		13,665	13,149	13,578	
Tissue		61,335	55,054	55,489	
Other		-247	-870	924	
Capital employed		74,753	67,333	69,991	
Non-IFRS performance measure	Description	Reason for use of the measure			
Capital turnover	Sales for the year divided by average capital employed.	Shows in a clear manner how effectively capital is employed. Together with sales growth and the operating margin, the capital turnover ratio is a key measure for monitoring value creation.			
Working capital	The Group's and business areas' current capital is calculated as current operating receivables less current operating liabilities.	This measure shows how much working capital that is tied up in the operations and can be put in relation to sales to understand how effectively tied-up working capital is used.			
SEKm		2016	2015	2014	
WORKING CAPITAL					
Inventories		10,944	11,229	10,343	
Trade receivables		15,843	14,808	14,912	
Other current receivables		2,390	2,266	2,305	
Trade payables		-12,972	-11,869	-11,800	
Other current liabilities		-11,863	-11,086	-10,438	
Adjustments		-199	-183	-90	
Working capital		4,143	5,165	5,232	
Non-IFRS performance measure	Description	Reason for use of the measure			
Net debt	The sum of consolidated interest-bearing liabilities, including pension liabilities and accrued interest less cash and cash equivalents and interest-bearing current and non-current receivables and capital investment shares.	Net debt is the most relevant measure for showing the company's total debt financing.			
SEKm		2016	2015	2014	
NET DEBT					
Surplus in funded pension plans		335	35	3	
Non-current financial assets		717	731	2,846	
Current financial assets		1,677	12,983	14,024	
Cash and cash equivalents		4,244	4,828	3,806	
Financial assets		6,973	18,577	20,679	
Non-current financial liabilities		31,299	21,463	24,199	
Provisions for pensions		5,273	2,919	4,958	
Current financial liabilities		5,574	13,253	16,588	
Financial liabilities		42,146	37,635	45,745	
Net debt		35,173	19,058	25,066	
Non-IFRS performance measure	Description	Reason for use of the measure			
Debt/equity ratio	Expressed as net debt in relation to equity.	Helps show financial risk and is the most useful measure for management to monitor the level of the company's indebtedness.			
Debt payment capacity	Expressed as the cash surplus in relation to average net debt.	A financial measure that shows the company's capacity to repay its debt.			
Interest coverage ratio	Calculated according to the net method where operating profit is divided by financial items.	The ratio indicates a company's ability to cover its interest expenses.			

PERFORMANCE MEASURES		
Various types of performance measures and margin measures expressed as a percentage of sales		
Non-IFRS performance measure	Description	Reason for use of the measure
Organic sales growth	Sales growth excluding exchange rate effects, acquisitions and divestments.	This measure is of major importance for management in its monitoring of underlying sales growth driven by changes in volume, price and product mix for comparable units between different periods.
SEKm		
	2016	2015 2014
ORGANIC SALES		
Personal Care		
Organic sales	865	2,282 853
Exchange rate effects	-1,313	1,015 465
Acquisitions/Divestments	-245	-18 12
Recognized change	-693	3,279 1,330
Tissue		
Organic sales	1,818	2,588 749
Exchange rate effects	-1,375	4,602 2,158
Acquisitions/Divestments	2,934	0 5,990
Recognized change	3,377	7,190 8,897
Group		
Organic sales	2,718	4,923 1,463
Exchange rate effects	-2,688	5,617 2,623
Acquisitions/Divestments	2,689	-18 6,002
Recognized change	2,719	10,522 10,088
Non-IFRS performance measure		
	Description	Reason for use of the measure
Adjusted gross profit	Net sales minus cost of goods sold excluding items affecting comparability.	Adjusted gross profit is stripped of items affecting comparability and is thus a better measure for showing the company's margins before the effect of costs such as selling and administrative costs.
Operating surplus/EBITDA	Calculated as operating profit before depreciation/impairment of property, plant and equipment and intangible assets and share of profits of associates.	This measure is a good complement to operating profit, as it shows the cash surplus from operations.
Adjusted operating surplus/EBITDA	Calculated as operating profit before depreciation/impairment of property, plant and equipment and intangible assets and share of profits of associates, excluding items affecting comparability.	This measure is a good complement to operating profit, as it shows the cash surplus from operations adjusted for the impact of items affecting comparability.
SEKm		
	2016	2015 2014
OPERATING SURPLUS/EBITDA		
Operating profit	9,008	9,684 8,360
Share of profits of associates and joint ventures	-157	-198 -106
Depreciation/amortization	5,144	4,764 4,268
Operating surplus	13,995	14,250 12,522
Items affecting comparability	2,825	786 1,009
Depreciation/amortization in items affecting comparability	-80	- -
Adjusted operating surplus	16,740	15,036 13,531
Non-IFRS performance measure		
	Description	Reason for use of the measure
Operating surplus margin	Operating surplus as a percentage of net sales for the year.	This measure is a good complement to operating margin, as it shows the cash surplus in relation to net sales.
Items affecting comparability	Under items affecting comparability, SCA includes costs in connection with acquisitions, restructuring, impairment and other specific events.	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 restructuring.	This measure shows the specific costs that have arisen in connection with restructuring of a specific operation, which contributes to a better understanding of the underlying cost level in the continuing operations.
Operating margin	Operating profit as a percentage of net sales for the year.	The operating margin is a key measure together with sales growth and capital turnover ratio for monitoring value creation.
Adjusted operating profit	Calculated as operating profit before financial items and tax, excluding items affecting comparability.	Adjusted operating profit is a key ratio for control of the Group's profit centers and provides a better understanding of earnings performance of the operations than the non-adjusted operating profit.
Financial net margin	Net financial items divided by net sales.	This measure shows the relationship between net financial items and net sales.

PERFORMANCE MEASURES cont. Various types of performance measures and margin measures expressed as a percentage of sales		
Non-IFRS performance measure	Description	Reason for use of the measure
Adjusted profit before tax	Calculated as operating profit before tax, excluding items affecting comparability.	This is a useful measure for showing total profit for the company including financing, but not affected by taxes and items that affect comparability with previous periods.
Adjusted profit for the period	Profit for the period after deducting items affecting comparability.	Shows the period's total earnings capacity.
Net margin	Profit for the year as a percentage of net sales for the year.	The net margin shows the remaining share of net sales after all of the company's costs have been deducted, apart from income tax.

CASH FLOW PERFORMANCE MEASURES Various performance measures and costs that have impacted the company's cash flow		
Non-IFRS performance measure	Description	Reason for use of the measure
Operating cash surplus	Calculated as profit before tax, with a reversal of depreciation and impairment of property, plant and equipment and intangible assets, share of profits of associates, and items affecting comparability, reduced by tax payments.	This measure shows the cash flow generated by profit and is part of the follow-up of cash flow.
Operating cash flow	Consists of the sum of operating cash surplus and change in working capital, with deductions for current capital expenditures in non-current assets and restructuring costs.	This is an important control measure used internally within the organization that shows the combined cash flow from operating activities including all parts that the units have control over themselves.

SEKm	2016	2015	2014
OPERATING CASH FLOW			
Personal Care			
Operating cash surplus	5,314	5,018	4,511
Change in working capital	289	-314	-96
Current capital expenditures, net	-805	-840	-884
Restructuring costs, etc.	-75	-72	-186
Operating cash flow	4,723	3,792	3,345
Tissue			
Operating cash surplus	11,970	10,703	9,760
Change in working capital	861	-285	55
Current capital expenditures, net	-3,159	-2,260	-1,849
Restructuring costs, etc.	-338	-491	-623
Operating cash flow	9,334	7,667	7,343

Non-IFRS performance measure	Description	Reason for use 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 can be said to illustrate 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 that size of the capital expenditures that are made in expansion and other growth measures.
Current capital expenditures	Investments to maintain competitiveness, such as maintenance, rationalization and replacement measures or investments of an environmental nature.	Shows the size of the capital expenditures required to maintain existing manufacturing capacity.

B. SALES AND EARNINGS

B1. SEGMENT REPORTING

AP ACCOUNTING PRINCIPLES

Operating segments are recognized 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 the SCA Hygiene Group, this function has been identified as the company's President, 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. One Executive Vice President and the Executive Management Team support him in his work, see the section Responsibility and governance, Corporate governance on page 24. The SCA Hygiene Group's two business areas, Personal Care and Tissue, comprise the operating segments.

The tables below show parts of the consolidated balance sheet and income statement broken down by operating segment: Personal Care and Tissue.

SEKm	Personal Care	Tissue	Other operations	Eliminations	Total, Group
2016 fiscal year					
REVENUES					
TB1:2 External sales	33,651	67,561	26	–	101,238
Internal sales	–	–	–	–	–
IS Total revenues	33,651	67,561	26	–	101,238
RESULT					
Performance by operating segment	4,255	8,155	-577	–	11,833
TB1:1 Items affecting comparability	-1,011	-1,815	1	–	-2,825
IS Operating profit/loss	3,244	6,340	-576	–	9,008
IS Financial income					202
IS Financial expenses					-1,037
IS Tax expense for the period					-3,931
IS Profit for the period					4,242
OTHER DISCLOSURES					
Assets	22,483	84,778	3,305	-4,351	106,215
BS Holdings in associates	346	795	-45	–	1,096
Unallocated financial assets			6,973		6,973
BS Total assets	22,829	85,573	10,233	-4,351	114,284
Investments/acquisitions	-2,207	-10,409	-313	–	-12,929
Depreciation/amortization	-1,105	-3,951	-88	–	-5,144
Expenses, in addition to depreciation/amortization, not matched by payments	8	49	-38	–	19

SEKm	Personal Care	Tissue	Other operations	Eliminations	Total, Group
2015 fiscal year					
REVENUES					
TB1:2 External sales	34,344	64,184	-9	–	98,519
Internal sales	–	–	–	–	–
IS Total revenues	34,344	64,184	-9	–	98,519
RESULT					
Performance by operating segment	3,990	7,217	-737	–	10,470
TB1:1 Items affecting comparability	-614	-618	446	–	-786
IS Operating profit/loss	3,376	6,599	-291	–	9,684
IS Financial income					312
IS Financial expenses					-1,140
IS Tax expense for the period					-2,278
IS Profit for the period					6,578
OTHER DISCLOSURES					
Assets	20,874	75,832	3,631	-4,605	95,732
BS Holdings in associates	301	727	13	–	1,041
Unallocated financial assets			18,578		18,578
BS Total assets	21,175	76,559	22,222	-4,605	115,351
Investments/acquisitions	-1,810	-3,695	-247	–	-5,752
Depreciation/amortization	-1,124	-3,552	-88	–	-4,764
Expenses, in addition to depreciation/amortization, not matched by payments	6	24	-15	–	15

B1. SEGMENT REPORTING, CONT.

SEKm	Personal Care	Tissue	Other operations	Eliminations	Total, Group
2014 fiscal year					
REVENUES					
TB1:2 External sales	31,066	56,994	-72	-	87,988
Internal sales	-	-	27	-18	9
IS Total revenues	31,066	56,994	-45	-18	87,997
RESULT					
Performance by operating segment	3,526	6,652	-809	-	9,369
TB1:1 Items affecting comparability	-252	-599	-158	-	-1,009
IS Operating profit/loss	3,274	6,053	-967	-	8,360
IS Financial income					416
IS Financial expenses					-1,156
IS Tax expense for the period					-1,939
IS Profit for the period					5,681
OTHER DISCLOSURES					
Assets	20,751	77,006	3,030	-4,048	96,739
BS Holdings in associates	33	90	924	-	1,047
Unallocated financial assets			20,679		20,679
BS Total assets	20,784	77,096	24,633	-4,048	118,465
Investments/acquisitions	-1,574	-2,827	-135	-	-4,536
Depreciation/amortization	-1,041	-3,160	-67	-	-4,268
Expenses, in addition to depreciation/amortization, not matched by payments	2	-6	-6	-	-10
TB1:1 Items affecting comparability allocated by segment					
SEKm	Personal Care	Tissue	Other	Total	
2016 fiscal year					
Restructuring costs		-356	-458	11	-803
Costs		-438	-938	-107	-1,483
Impairment, etc.		-217	-419	97	-539
Total		-1,011	-1,815	1	-2,825
2015 fiscal year					
Restructuring costs		-72	-289	-319	-680
Costs		-1	-70	-70	-141
Impairment, etc.		-541	-259	-135	-935
Gain on sale of securities		-	-	970	970
Total		-614	-618	446	-786
2014 fiscal year					
Restructuring costs		-144	-257	-4	-405
Costs		-50	-311	-153	-514
Impairment, etc.		-58	-31	-1	-90
Total		-252	-599	-158	-1,009

Operating segments: The SCA Hygiene Group is a leading global hygiene company that develops and produces sustainable personal care and tissue products. These product groups are the primary lines of business. Personal Care comprises three product segments and offers incontinence products, baby diapers and feminine care products. Tissue comprises consumer tissue and Away-from-Home (AfH) tissue encompassing hospitals, large workplaces, restaurants and hotels. Consumer tissue comprises toilet paper, household towels, facial tissues, handkerchiefs and napkins. In AfH tissue, the SCA Hygiene Group develops and sells complete hygiene solutions comprising dispensers, tissue, soap, service and maintenance. Other operations consists of group common functions and unallocated tax.

Assets and liabilities: The assets included in each operating segment comprise all operating assets used in the operating segment, primarily trade receivables, inventories and non-current assets after deduction for operating liabilities and provisions. Most of the assets are directly attributable to each operating segment. Assets that are common to two or more operating segments are allocated among the operating segments.

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

Customers: The SCA Hygiene Group has no customers 2016, 2015 and 2014 from which it generates revenues that account for more than 10% of the company's net sales. SCA Hygiene's ten largest customers account for 26.6% (26.4; 28.4) of the company's sales.

B1b. SEGMENT REPORTING, CONT.

TB1:2 Group by country	Net sales – sold to ¹⁾						Net sales – sold by ¹⁾					
	2016		2015		2014		2016		2015		2014	
	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%	SEKm	%
Sweden	2,501	2	2,422	2	2,259	3	2,742	3	2,700	3	2,544	3
EU excl. Sweden												
Germany	9,927	10	9,575	10	9,126	10	10,446	10	10,024	10	9,644	11
UK	8,267	8	9,029	9	7,512	9	8,276	8	9,043	9	7,530	9
France	9,079	9	9,071	9	8,682	10	9,212	9	9,161	9	8,842	10
Spain	5,489	5	5,450	6	5,268	6	5,622	6	5,746	6	5,553	6
Netherlands	2,965	3	2,904	3	2,776	3	3,235	3	3,161	3	2,923	3
Italy	2,913	3	2,871	3	2,670	3	3,224	3	3,226	3	2,965	3
Belgium	1,433	1	1,435	1	1,398	2	1,521	2	1,515	2	1,454	2
Finland	1,430	1	1,437	1	1,356	2	1,467	1	1,475	1	1,401	2
Austria	1,563	2	1,498	2	1,441	2	1,679	2	1,646	2	1,562	2
Denmark	930	1	957	1	869	1	953	1	976	1	888	1
Poland	727	1	690	1	572	1	694	1	727	1	638	1
Hungary	795	1	771	1	636	1	850	1	710	1	628	1
Greece	573	1	587	1	716	1	384	0	415	0	516	1
Czech Republic	534	1	505	1	472	1	503	0	482	0	453	1
Ireland	422	0	402	0	374	0	387	0	375	0	351	0
Portugal	360	0	441	0	475	1	257	0	240	0	221	0
Romania	265	0	219	0	247	0	272	0	239	–	226	0
Croatia	274	0	233	0	238	0	–	–	–	–	–	–
Slovakia	242	0	245	0	225	0	388	0	370	0	361	0
Lithuania	182	0	174	0	171	0	182	0	173	0	170	0
Rest of EU	673	1	656	1	569	1	307	0	280	0	273	0
Total EU excl. Sweden	49,043	48	49,150	50	45,793	52	49,859	49	49,984	51	46,599	53
Rest of Europe												
Russia	2,879	3	3,024	3	3,121	4	3,061	3	3,178	3	3,247	4
Norway	1,111	1	1,131	1	1,204	1	1,117	1	1,130	1	1,172	1
Switzerland	1,231	1	1,219	1	1,126	1	1,195	1	1,200	1	1,082	1
Turkey	486	0	690	1	722	1	537	1	789	1	812	1
Ukraine	291	0	300	0	268	0	264	0	280	0	236	0
Other	297	0	276	0	238	0	–	–	–	–	–	–
Total, Rest of Europe	6,295	6	6,640	7	6,679	8	6,174	6	6,577	7	6,549	6
Rest of world												
US	13,115	13	10,208	10	8,199	9	13,324	13	10,228	10	8,218	9
China	10,089	10	9,277	9	6,675	8	13,148	13	10,456	11	7,299	8
Mexico	4,015	4	4,113	4	3,403	4	4,509	4	4,680	5	3,886	4
Colombia	3,433	3	3,505	4	3,464	4	3,978	4	3,960	4	3,810	4
Canada	1,676	2	1,477	1	1,301	1	1,525	2	1,505	2	1,334	2
Japan	653	1	543	1	453	1	574	1	498	1	450	1
Malaysia	1,292	1	1,337	1	1,120	1	373	0	1,701	2	1,412	2
Ecuador	1,291	1	1,400	1	1,242	1	1,291	1	1,400	1	1,242	1
Hong Kong	1,109	1	1,055	1	903	1	–	–	–	–	227	0
Chile	1,022	1	1,078	1	923	1	1,015	1	1,072	1	919	1
Costa Rica	495	0	518	1	410	0	499	0	523	1	414	0
Brazil	460	0	563	1	514	1	460	0	561	1	514	1
Argentina	345	0	429	0	279	0	372	0	452	0	306	0
Taiwan	333	0	323	0	327	0	83	0	333	0	444	1
Morocco	107	0	106	0	106	0	43	0	–	–	–	–
Tunisia	305	0	323	0	286	0	546	1	624	1	662	1
India	163	0	109	0	39	0	163	0	108	0	34	0
Dominican Republic	255	0	216	0	159	0	121	0	114	0	84	0
Peru	252	0	219	0	163	0	12	0	7	0	2	0
Singapore	206	0	240	0	236	0	46	0	186	0	162	0
Nicaragua	159	0	174	0	142	0	0	0	–	–	–	–
Egypt	42	0	65	0	64	0	39	0	53	0	46	0
South Africa	121	0	360	0	344	0	79	0	331	0	334	0
Other	2,461	2	2,669	3	2,514	3	263	0	466	0	506	1
Total, Rest of world	43,399	43	40,307	41	33,266	38	42,463	42	39,258	40	32,305	37
Total, Group	101,238	100	98,519	100	87,997	100	101,238	100	98,519	100	87,997	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 the SCA Hygiene Group has its customers, or the SCA Hygiene Group's "footprint". The second column "Net sales – sold by" takes the perspective of IFRS 8, meaning revenues from external customers where the company is domiciled and in all other countries from which the company receives revenues.

B1c. SEGMENT REPORTING, CONT.

TB1:2 Group by country	Average number of employees									Non-current assets ¹⁾		
	2016	Of whom men, %	Of whom women, %	2015	Of whom men, %	Of whom women, %	2014	Of whom men, %	Of whom women, %	2016 SEKm	2015 SEKm	2014 SEKm
Sweden	1,990	56	44	1,941	55	45	1,966	57	43	5,294	4,706	2,772
EU excl. Sweden												
Germany	3,368	81	19	3,343	82	18	3,358	82	18	6,376	5,837	6,244
UK	1,505	81	19	1,511	81	19	1,547	82	18	4,160	4,689	4,758
France	2,470	75	25	2,590	76	24	2,668	76	24	5,254	5,289	5,830
Spain	1,182	75	25	1,173	76	24	1,137	76	24	3,707	3,812	4,041
Netherlands	1,198	84	16	1,173	84	16	1,167	84	16	2,187	2,804	2,800
Italy	851	77	23	830	78	22	812	78	22	2,567	2,043	2,179
Belgium	374	79	21	361	78	22	370	78	22	465	770	2,856
Finland	311	72	28	321	73	27	362	72	28	811	819	812
Austria	616	82	18	628	82	18	635	81	19	728	707	745
Denmark	91	36	64	84	37	63	83	37	63	3	3	1
Poland	687	71	29	625	74	26	606	76	24	1,081	882	912
Hungary	134	42	58	136	43	57	137	43	57	6	3	4
Greece	53	55	45	53	54	46	66	59	41	14	64	70
Czech Republic	67	37	63	68	41	59	71	40	60	1	-	-
Ireland	15	67	33	17	70	30	23	75	25	27	26	28
Portugal	21	52	48	21	43	57	24	42	58	71	68	70
Romania	31	39	61	24	33	67	26	31	69	10	-	1
Croatia	9	33	67	7	29	71	6	33	67	-	-	-
Slovakia	746	71	29	761	70	30	779	68	32	652	580	593
Lithuania	25	48	52	23	58	42	23	58	42	-	-	1
Rest of EU	22	18	82	17	12	88	15	20	80	-	-	-
Total EU excl. Sweden	13,776	77	23	13,766	78	22	13,915	78	22	28,120	28,396	31,945
Rest of Europe												
Russia	1,374	60	40	1,296	59	41	1,275	59	41	1,817	1,431	1,652
Norway	104	38	62	105	36	64	135	32	68	2	2	-
Switzerland	30	37	63	29	42	58	29	51	49	88	82	87
Turkey	235	80	20	264	82	18	221	81	19	402	430	434
Ukraine	68	47	53	67	46	54	73	48	52	4	1	2
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total, Rest of Europe	1,811	60	40	1,761	61	39	1,733	59	41	2,313	1,947	2,175
Rest of world												
US	3,376	76	24	2,497	75	25	2,507	75	25	14,686	7,805	7,655
China	10,341	54	46	8,166	53	47	8,222	52	48	13,022	13,135	12,348
Mexico	2,389	76	24	2,438	73	27	2,418	74	26	3,370	3,666	4,143
Colombia	3,561	69	31	3,154	69	31	3,091	69	31	2,104	1,880	2,224
Canada	283	65	35	281	64	36	292	63	37	261	224	294
Japan	99	21	79	107	22	78	114	22	78	4	5	5
Malaysia	347	46	54	1,306	44	56	1,275	43	57	845	762	870
Ecuador	1,104	66	34	1,148	59	41	1,108	50	50	305	263	241
Hong Kong	-	-	-	-	-	-	14	21	79	1,323	-	-
Chile	596	80	20	647	83	17	637	85	15	884	792	892
Costa Rica	89	54	46	88	54	46	83	54	46	3	3	3
Brazil	507	62	38	501	61	39	501	57	43	816	411	222
Argentina	345	60	40	302	60	40	298	61	39	69	63	86
Taiwan	66	55	45	276	57	43	300	57	43	602	552	713
Morocco	13	46	54	-	-	-	-	-	-	1	-	-
Tunisia	894	88	12	864	88	12	880	89	11	170	180	137
India	229	96	4	185	94	6	106	90	10	-	175	158
Dominican Republic	115	73	27	107	64	36	102	55	45	10	8	9
Peru	12	50	50	10	37	63	24	18	82	-	-	-
Singapore	8	25	75	32	31	69	30	32	68	9	8	8
Nicaragua	8	37	63	8	37	63	9	33	67	1	1	1
Egypt	5	-	-	4	-	-	1	-	-	-	2	2
South Africa	20	35	65	108	55	45	143	55	45	3	1	65
Other	165	80	20	254	64	36	396	48	52	197	181	186
Total, Rest of world	24,572	64	36	22,483	63	37	22,551	61	39	38,685	30,117	30,262
Total, Group	42,149	68	32	39,951	69	31	40,165	67	33	74,412	65,165	67,154

¹⁾ Non-current assets comprise Goodwill, Other intangible assets, Buildings, Land, and Machinery and equipment.

B2. OPERATING EXPENSES

Operating expenses by function and type of cost

Operating expenses by function

SEKm	2016	2015	2014
IS Cost of goods sold	-72,476	-71,960	-64,150
IS Sales, general and administration	-17,086	-16,287	-14,584
IS TB2:1 Items affecting comparability	-2,825	-786	-1,009
Total	-92,387	-89,033	-79,743

Refer also to page 89 for a description of costs.

Operating expenses by type of cost

SEKm	Note	2016	2015	2014
TB2:2 Other income		970	923	1,202
Change in inventory of finished products and products in progress ¹⁾		-82	640	-10
Raw materials and consumables ¹⁾		-36,442	-37,271	-31,366
Personnel costs ¹⁾	C1	-17,983	-16,943	-15,301
TB2:3 Other operating expenses ¹⁾		-33,242	-31,654	-29,917
Amortization of intangible assets	D1	-380	-275	-263
Depreciation of property, plant and equipment	D2	-4,764	-4,489	-4,038
Impairment of intangible assets ¹⁾	D1	-137	-497	-36
Impairment of property, plant and equipment ¹⁾	D2	-420	-375	-52
Impairment of associates ¹⁾		-	-62	-
Gain on sale of securities ¹⁾		-	970	-
Revaluation of acquisitions		-	0 ²⁾	36 ²⁾
Gain/loss on divestment	F6	93	-	2
Total		-92,387	-89,033	-79,743

¹⁾ Including items affecting comparability.

²⁾ Remeasurement of previous equity portion at fair value in conjunction with acquisition of up to 100% of Vinda Personal Care, Hong Kong.

TB2:1 Items affecting comparability

Distribution of items affecting comparability by function

SEKm	2016	2015	2014
Cost of goods sold	-532	-267	-441
Sales, general and administration	-1,754	-554	-478
Impairment, etc.	-539	-935	-90
Gain on sale of securities	-	970	-
Total	-2,825	-786	-1,009

Distribution of items affecting comparability by type of cost

SEKm	2016	2015	2014
Impairment in inventory of finished products and products in progress	-156	-29	-215
Raw materials and consumables	-102	-16	-14
Personnel costs	-76	-295	-289
Other operating expenses	-1,948	-482	-407
Amortization of intangible assets	-43	-	-
Depreciation of property, plant and equipment	-36	-	-32
Impairment of intangible assets	-137	-497	-36
Impairment of property, plant and equipment	-420	-375	-54
Impairment of associates	-	-62	-
Revaluation of acquisitions	-	-	36
Gain/loss on divestment	93	-	2
Gain on sale of securities	-	970	-
Total	-2,825	-786	-1,009

Distribution of items affecting comparability by category

SEKm	2016
Costs for legal disputes	-1,086
Costs for closure of operations in Spain and France	-757
Costs for closure of operations in India	-374
Costs in conjunction with Wausau acquisition	-204
Costs for closure of operations in Mexico	-174
Transaction costs BSN medical	-143
Impairment of Smart Fresh operations	-75
Costs of potential split of SCA Group into two listed companies	-6
Capital gain on divestment of IL Recycling	99
Other	-105
Total	-2,825

For information on items affecting comparability by segment, refer to Note B1 Segment reporting.

In 2015, items affecting comparability related primarily to impairment of trademarks (SEK -464m), integration costs in conjunction with the GP acquisition (SEK -439m), costs in conjunction with the divestment of the business jet operation (SEK -172m), costs in conjunction with the closing and disposal of hygiene operations in Southeast Asia to Vinda (SEK -90m), impairment of assets (SEK -89m) and the gain from the sale of securities (SEK 970m).

In 2014, items affecting comparability related primarily to restructuring costs and the remeasurement effects of customer relations and inventories in Vinda (SEK -292m), other restructuring costs in the hygiene products operations (SEK -181m), restructuring costs attributable to acquisitions and divestments (SEK -170m), integration costs for the GP acquisition (SEK -122m) and impairment related to the hygiene products operations in Asia (SEK -57m).

TB2:2 Other income

SEKm	2016	2015	2014
Sales not included in core operations	970	923	1,202
Total	970	923	1,202

TB2:3 Distribution of other operating expenses

SEKm	2016	2015	2014
Transport expenses	-7,120	-7,108	-6,706
Energy costs ¹⁾	-4,448	-4,925	-4,562
Purchased finished goods for resale	-3,739	-3,464	-3,687
Marketing costs	-5,504	-5,207	-4,633
Repairs and maintenance	-2,537	-2,227	-2,114
IT, telephony and lease of premises	-1,445	-1,307	-1,044
Other operating expenses, production	-3,291	-3,417	-3,376
Other operating expenses, distribution, sales and administration	-3,090	-3,340	-3,190
Other	-2,068	-659	-605
Total	-33,242	-31,654	-29,917

¹⁾ After deduction for revenues from energy in the amount of SEK 194m (191; 273)

Other disclosures

Exchange rate effects had a negative impact of SEK -97m (-189; -223) on operating profit. Government grants received reduced operating expenses by SEK 41m (47; 36). Costs for research and development amounted to SEK -1,211m (-1,055; -1,017) during the period.

B3. AUDITING EXPENSES

Auditing expenses

SEKm	2016	2015	2014
PwC			
Audit assignments	-13	-55	-53
Auditing activities other than the audit assignment	-1	-2	-2
Tax consultancy services	-12	-17	-9
Other assignments	-11	-23	-13
Total PwC	-37	-97	-77
Other auditors			
Audit assignments	-5	-4	-4
Tax consultancy services	-4	-4	-3
Other assignments	-2	-8	-7
Total other auditors	-11	-16	-14
EY			
Audit assignments	-49	-	-
Auditing activities other than the audit assignment	-	-	-
Tax consultancy services	-	-	-
Other assignments	-4	-	-
Total EY	-53	-	-
Total	-101	-113	-91

B4. INCOME 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 profit or loss. Current tax also includes adjustments relating to recognized current tax from prior years. Interest attributable to income tax and withholding taxes deducted at source on intra-Group transactions are 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 or substantively 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. The SCA Hygiene Group 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 the SCA Hygiene Group 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 profit or loss, the tax effect is recognized in profit or loss. 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 the SCA Hygiene Group has a legal right to offset.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

For companies that operate globally and thus apply significantly different taxation legislation, determining deferred tax assets and tax liabilities is complicated. This requires that assessments and assumptions be 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, 2016, SEK 1,457m was recognized as deferred tax assets based on best assessment of future taxable profits in the

Group. At year-end 2016, the Group also had tax loss carryforwards of SEK 4,648m, 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, see Note D6 and Note G3.

Tax expense

Tax expense (+), tax income (-)

SEKm	2016	%	2015	%	2014	%
Current tax						
Income tax for the period	2,888	35.3	1,879	21.2	2,099	27.5
Adjustments for prior periods	1,654	20.2	120	1.4	-157	-2.0
Current tax expense	4,542	55.5	1,999	22.6	1,942	25.5
Deferred tax						
Changes in temporary differences	-509	-6.2	209	2.3	16	0.1
Adjustments for prior periods	-387	-4.7	218	2.5	119	1.6
Revaluation	285	3.5	-148	-1.7	-138	-1.8
TB4:2 TB4:3 Deferred tax expense	-611	-7.4	279	3.1	-3	-0.1
IS Tax expense	3,931	48.1	2,278	25.7	1,939	25.4

Current tax liability

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

SEKm	2016	2015	2014
Value, January 1	-60	82	323
Current tax expense	4,542	1,999	1,942
CF TB4:1 Paid tax	-3,782	-2,194	-2,099
Other changes from acquisitions, divestments and reclassifications	-154	-29	-343
Translation differences	-5	39	33
Transactions with shareholders	-366	43	226
Value, December 31	175	-60	82
BS of which current tax liability	915	808	729
BS of which current tax asset	740	868	647

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.

Tax expense

SEKm	2016	%	2015	%	2014	%
IS Profit before tax	8,173		8,856		7,620	
IS Tax expense	3,931	48.1	2,278	25.7	1,939	25.4
Expected tax expense	1,790	21.9	2,026	22.9	1,835	24.1
Difference	2,141	26.2	252	2.8	104	1.3

The difference is due to:

	2016	%	2015	%	2014	%
Permanent differences between accounting and taxable result						
Effects of subsidiary financing	-152	-1.9	-71	-0.8	-21	-0.3
Effects of acquisitions and divestments	53	0.6	-	-	-	-
Taxes relating to profit-taking in the Group	37	0.5	27	0.3	9	0.1
Other permanent effects ¹⁾	372	4.6	-15	-0.2	188	2.4
Taxes related to prior periods ²⁾	1,267	15.5	338	3.8	-38	-0.5
Changes in the value of deferred tax assets ³⁾	670	8.2	18	0.2	-75	-1.0
Changes in tax rates	-106	-1.3	-45	-0.5	41	0.6
Total	2,141	26.2	252	2.8	104	1.3

¹⁾ Other permanent effects relate primarily to non-deductible costs for ongoing competition cases.

²⁾ Taxes attributable to prior periods for 2016 relate, for the most part, to an ongoing tax dispute in Sweden totaling SEK 1,223m. The effect attributable to 2015 includes a tax provision of SEK 294m concerning a tax dispute in Spain. The year 2014 primarily pertains to effects in Taiwan of SEK -54m.

³⁾ The change in value of deferred tax assets for 2016 relates mainly to the revaluation of loss carryforwards in Spain of SEK 227m, in Brazil of SEK 185m and in India of SEK 213m. The amount for 2015 includes the utilization of uncapitalized losses of SEK -81m in Belgium and SEK 62m relating to the operation in Asia. The change in value of deferred tax assets for 2014 includes SEK -179m relating to the operation in Poland.

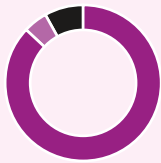
B4. TAXES, CONT.

TB4:1 Paid tax

Tax payments by SCA Hygiene's entities in different countries, paid tax (-)

SEKm	2016	2015	2014
Country			
Sweden	-1,310	-79	-65
Germany	-511	-349	-264
Spain	-405	-90	-90
Netherlands	-215	-59	-190
China	-146	-236	-51
Belgium	-144	-80	-91
UK	-131	-115	-102
Italy	-94	-87	-77
Austria	-94	-97	-60
Mexico	-88	-121	-107
Colombia	-83	-72	-179
Ecuador	-67	-41	-21
Russia	-64	-59	-81
Slovakia	-61	-30	-39
Japan	-52	-33	-45
Denmark	-40	-26	-36
Finland	-37	-48	-8
Norway	-30	-41	-34
Costa Rica	-26	-14	-12
Poland	-26	-2	-26
Other countries	-158	-515	-521
CF Total	-3,782	-2,194	-2,099

Paid tax by region 2016, % of Group



Europa, 87%
Asien, 5%
Amerika, 8%
Övriga, 0%

TB4:2 Deferred tax liability

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

SEKm	Value, Janu-ary 1	Deferred tax expense	Other changes ⁴⁾	Transla-tion differ-ences	Transac-tions with share-holders	Value, Decem-ber 31
Intangible fixed assets	1,433	95	97	71	-	1,696
Property, plant and equipment	3,752	-458	1,001	284	-436	4,143
Financial non-current assets	-232	171	-66	8	-	-119
Current assets	-250	-25	9	-6	-	-272
Provisions	-211	-31	-388	-53	10	-673
Liabilities	-872	-711	411	-28	-	-1,200
Tax credits and tax loss carryforwards	-1,017	322	-724	-69	194	-1,294
Other	97	26	7	4	-	134
BS Total⁴⁾	2,700	-611	347	211	-232	2,415

⁴⁾ The closing deferred tax liability comprises deferred tax assets of SEK 1,457m (1,056; 1,151) and deferred tax liabilities of SEK 3,872m (3,756; 3,231).

⁵⁾ Other changes include deferred tax recognized directly in equity according to IAS 19 of SEK -234m, IAS 39 of SEK 136m, changes in tax risk provisions of SEK 575m, changes relating to divestments and acquisitions of SEK -242m and reclassifications of SEK 112m.

TB4:3 Deferred tax liability prior periods

Deferred tax liability (+), tax asset (-) SEKm

Year	Value, Janu-ary 1	Deferred tax expense	Other changes	Transla-tion differ-ences	Transac-tions with share-holders	Value, Decem-ber 31
BS 2015	2,080	279	597	93	-349	2,700
BS 2014	2,599	-3	-915	334	65	2,080

Loss carryforwards

Future tax credits and loss carryforwards for which deferred tax assets were recognized have been reported at the tax amount of SEK 1,294m, shown in TB4:2.

Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 4,648m (2,640; 2,642) gross, at December 31, 2016. The expiry dates of these loss carryforwards are shown in the table below. The change in uncanceled loss carryforwards for the period includes SEK 85m that has expired and SEK 40m that was either utilized or capitalized. The tax value of uncanceled tax loss carryforwards amounted to SEK 1,373m (766; 801).

Loss carryforwards in the gross amount for which deferred tax assets were not recognized, SEKm

Year of maturity	2016	2015	2014
Within 1 year	85	88	8
2 years	917	286	9
3 years	1	833	531
4 years	1	27	944
Five years and later	988	815	859
Indefinite life	2,656	566	268
Total	4,648	2,615	2,619

C. EMPLOYEES

C1. PERSONNEL COSTS

No remuneration was paid to Board members and senior executives in SCA Hygiene AB for work in this company. However, the remuneration paid in Svenska Cellulosa Aktiebolaget SCA (publ) for 2016 and 2015 is presented below for information purposes.

Personnel costs			2016	2015	2014
SEKm	Note				
Salaries and remuneration			-12,801	-12,066	-10,961
TC3:1 of which Executive Management Team			-131	-154	-135
of which Board relates to allocated costs for the Board of SCA AB			-8	-6	-8
Pension costs			-1,208	-1,170	-1,048
of which defined benefit pension costs	C5		-541	-597	-458
of which other pension costs			-667	-573	-590
Other social security costs			-2,840	-2,728	-2,425
Other personnel costs			-1,134	-979	-867
Total 1)			-17,983	-16,943	-15,301

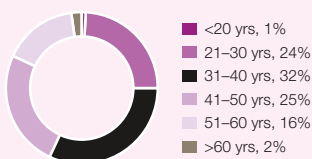
¹⁾ Costs for implemented efficiency-enhancement activities of SEK -67m (-200; -310) are included in total personnel costs.

C2. PERSONNEL DATA

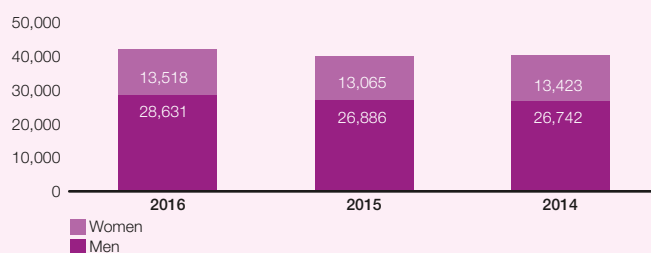
Personnel data	2016	2015	2014
Employees under 20 years of age, %	1	1	2
Employees over 60 years of age, %	2	2	2
Investments in skills-enhancement activities			
total, SEKm	141	139	111
per employee, SEK	3,400	3,500	2,800
Value added per employee	613	642	568
Proportion of university graduates, %	22	22	22
Employees who left the Group during the period	5,994	5,355	8,069
Employees who joined the Group during the period	8,150	5,823	7,132

The figures for the number of employees who left the Group during the period include both voluntary resignations and retirements. In addition, a significant portion relates to summer jobs for students and seasonal work.

Age distribution 2016



Average number of employees



In 2016, the SCA Hygiene Group had employees in 59 countries (60; 62). Women comprised 43% (35; 21) of the total number of SCA Hygiene Group Board members and senior executives.

C3. REMUNERATION OF SENIOR EXECUTIVES

Senior executives refer to the President, who is also the CEO, the Executive Vice President, Business Unit Presidents in the SCA Hygiene Group and equivalents, and the Central Staff Managers.

Annual General Meeting guidelines for remuneration of senior executives

Remuneration to the CEO and other senior executives will be a fixed salary, possible variable remuneration, additional benefits and pension. Other senior executives include the Executive Vice Presidents, Business Unit Presidents and equivalents, and the Central Staff Managers. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession. Fixed and variable remuneration are to be linked to the manager's responsibility and authority. For the CEO, as well as for other senior executives, the variable remuneration is to be limited and linked to the fixed remuneration. The variable remuneration is to be based on the outcome of predetermined objectives and, as far as possible, be linked to the increase in value of the SCA share, from which the shareholders benefit. Programs for variable remuneration should be formulated so that the Board, if exceptional circumstances prevail, has the possibility to limit, or refrain from, payment of variable remuneration if such an action is considered reasonable and in compliance with the company's responsibility to shareholders, employees and other stakeholders. In the event of termination of employment, the notice period should normally be two years if termination is initiated by the company, and one year, when initiated by the senior executive. Severance pay should not exist. Previously agreed pension benefits in the company are either defined benefit or defined contribution plans, or a combination of both, and can entitle the senior executive to pension from the age of 60, at the earliest. To earn full defined benefit pension benefits, the period of employment must be long-term, at present 20 years. When resigning before the age providing entitlement to pension, the senior executive will receive a paid-up pension policy from the age of 60. Pension benefits in new employment contracts should, wherever possible, only include defined contribution pension benefits and entitle the executive to receive a pension from the age of 65. Variable remuneration is not pensionable income. Matters of remuneration to senior executives are to be dealt with by the Remuneration Committee and, as regards the President, be resolved by the Board of Directors.

Company's application of guidelines

The company applied the guidelines approved by the AGM in the following manner.

Fixed salary

The fixed salary is to be in proportion to the individual's position and the authority and responsibilities this entails. It is set individually at a level that, combined with other remuneration, is assessed as a market rate and competitive in the labor market in which the executive works.

Variable remuneration

Variable remuneration of the CEO, Executive Vice President and Business Unit Presidents and equivalents is maximized to a total of 100% of the fixed salary. For two Business Unit Presidents, stationed in the Americas, the maximum outcome is 110-130%, while the corresponding limit for other senior executives is 90%. The program for variable remuneration is divided into a short and long-term portion. The short-term portion (Short-term Incentive, or STI) for the CEO, Executive Vice President and Business Unit Presidents and equivalents may amount to a maximum of 50% of fixed salary. For the Business Unit Presidents, stationed in the Americas, the maximum outcome is 60 to 80% of the fixed salary, while the corresponding limit for other senior executives is 40%. The STI goals set for the Business Unit Presidents are mainly based on operating cash flow, cost control, operating profit and growth for each business unit. The goal for the CEO and others reporting directly to him is based primarily on the Group's profit before tax, operating cash flow and growth. Furthermore, a non-financial goal also applies accounting for 10-30% of the variable remuneration. The long-term portion (Long-Term Incentive, or LTI) may

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

amount to a maximum of 50% of the fixed salary. The senior executive is to invest half of the variable LTI compensation, after tax withholdings, in SCA shares. The shares may then not be sold before the end of the third calendar year after the purchase of shares in the relevant LTI program. The established LTI goal is based on the performance of the company's B share, measured as the TSR (Total Shareholder Return) index, compared with a weighted index of competitors' and consumer companies' shares performance (TSR) over a three-year period. The structure of the LTI was approved by the Board in 2003.

Outcome, variable remuneration

For the CEO, Executive Vice Presidents and Central Staff Managers, STI resulted in 25 to 35% of fixed salary for 2016. STI resulted in variable remuneration corresponding to 8 to 37% of fixed salary for the Business Unit Presidents. The LTI target was achieved for 2014–2016, resulting in maximum outcome for the CEO and other senior executives.

Other benefits

Other benefits pertain, in some cases, to a company car, housing and school fees.

Pension

The CEO has a defined contribution pension based on an annual payment, to be paid by the company, amounting to 40% of the employee's fixed salary, and in addition to the agreed premium the basic pension benefits in the ITP plan, with retirement pension benefits limited to a maximum salary income of 7.5 income amounts. The retirement age for the CEO is 65. Five of the other senior executives in the Group in Sweden have a combination of defined benefit and defined contribution pension plans that entitle the executives, on reaching the age of 60, to receive a retirement pension (including national pension benefits) of up to 45% of the average salary (excluding variable remuneration) three years prior to retirement age. For full pension, the individual must have been employed for at least 20 years calculated from 40 years of age. Upon termination of employment prior to reaching retirement age, a paid-up policy is received for pension payments from age 60, on condition that the executive, after reaching the age of 40, has been employed in the Group for at least three years. In addition, beneficiaries' pension amounts to about 50% of retirement pension. In addition to the defined benefit pension, a pension is paid based on premiums paid by the company. The premiums paid for each year of service amount to 10% of the executive's fixed salary and are invested in a fund or traditional insurance chosen by the executive. Four senior executives in Sweden have a defined contribution pension plan (in addition to national pension benefits) into which the company pays 30 to 40% of the executives' fixed sal-

Remuneration of senior executives

No remuneration was paid to Board members and senior executives in SCA Hygiene AB for work in this company. However, the remuneration paid in Svenska Cellulosa Aktiebolaget SCA (publ) for 2016 and 2015 is presented below for information purposes.

TC3:1 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 (14 people)	58,739,016	45,611,997 ³⁾	6,127,411	110,478,424
Total	69,739,016	54,609,997	6,215,149	130,564,162

¹⁾ Variable remuneration covers the 2016 fiscal year but is paid in 2017.

²⁾ Of which LTI program SEK 5,500,000.

³⁾ Of which LTI program SEK 29,225,605.

Pension costs 2016¹⁾

SEK	
President and CEO Magnus Groth ²⁾	4,495,961
Other senior executives (14 people) ³⁾	19,647,387
Total	24,143,348

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 131,665,322.

ary, which is invested in funds or traditional insurance. Five senior executives are employed in companies outside Sweden, of whom three executives are encompassed by defined contribution pension plans and two by defined benefit pension plans.

Notice period and severance pay

The agreement with the CEO stipulates a period of notice of termination of two years if such notice is given by the company. The CEO has a corresponding right with a period of termination of one year. If notice is given by the company, the CEO is not obligated to serve during the notice period. The agreement does not contain any stipulations with regard to severance pay. Between the company and other senior executives, a period of notice of termination of one to two years normally applies, if such notice is given by the company. The executive has a corresponding right with a period of notice of termination of six months to one year. The executive is normally expected to be available to the company 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 recommendations encompassed the ratio between fixed and variable remuneration and the size of any salary increases. In addition, the Remuneration Committee expressed an opinion on the criteria for assessing variable remuneration and pension terms. 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 and, with regard to the CEO, decided by the Board. The executives concerned did not participate in remuneration matters pertaining to themselves. When it was deemed appropriate, the work of the Remuneration Committee was carried out with the support of external expertise.

The Board's proposal for new guidelines

The Board has decided to propose to the 2017 Annual General Meeting certain changes in the guidelines for determining salaries and other remuneration for senior executives for the purpose of simplifying and clarifying the guidelines and their application. In addition, it is proposed that the Board, in individual cases, is entitled to depart from the guidelines on special grounds. With the salary situation prevailing in 2017 and an unchanged number of senior executives, the maximum outcome of variable remuneration could entail a cost for the Group, excluding social security costs, of approximately SEK 68m.

Obligations in relation to former presidents and CEOs

For former presidents and CEOs, SCA has outstanding, non-funded obligations amounting to SEK157m. These costs were recognized in previous years and largely comprise pension obligations.

Remuneration and other benefits during the year 2015

SEK	Fixed salary	Variable remuneration ¹⁾	Other benefits	Total salaries and remuneration
President and CEO Magnus Groth ⁴⁾	7,922,878	7,713,718 ⁴⁾	428,659	16,065,255
Other senior executives (16 people)	57,041,295	45,860,681 ⁵⁾	8,798,791	111,700,767
Former President and CEO Jan Johansson ³⁾	25,491,326	0	380,318	25,871,644
Total	90,455,499	53,574,399	9,607,768	153,637,666

¹⁾ Variable remuneration covers the 2015 fiscal year but is paid in 2016.

²⁾ President and CEO Magnus Groth, who assumed his position on March 1, 2015, collected a fixed annual salary of SEK 9.5m. In connection with the adjustment of the President and CEO's pension agreement to a defined contribution pension, his fixed annual salary was set at SEK 11m as of December 15. Accordingly, pension obligations will not continue to be earned.

³⁾ Former President and CEO Jan Johansson, who was dismissed from the position on March 1, 2015, will continue to collect contractual employment benefits during a period of notice of two years, with the exception of variable remuneration. The above amounts pertain to Jan Johansson's fixed salary, benefits and pension costs for the period from 2015 until February 28, 2017, when his employment ends.

⁴⁾ Of which LTI program SEK 3,992,608.

⁵⁾ Of which LTI program SEK 25,880,748.

C3. REMUNERATION OF SENIOR EXECUTIVES, CONT.

Pension costs 2015¹⁾

SEK	
President and CEO Magnus Groth ²⁾	3,153,521
Other senior executives (16 people) ³⁾	60,803,840
Former President and CEO Jan Johansson ⁴⁾	25,027,185
Total	88,984,546

¹⁾ The pension costs pertain to the costs that affected profit for 2015, excluding special payroll tax.

²⁾ Outstanding pension obligations amount to SEK 16,304,000

³⁾ Outstanding pension obligations amount to SEK 130,516,000

⁴⁾ Outstanding pension obligations amount to SEK 83,014,000

C4. FEES TO BOARD MEMBERS IN THE PARENT COMPANY DURING THE YEAR

No remuneration was paid to Board members and senior executives in SCA Hygiene AB for work in this company. However, the remuneration paid in Svenska Cellulosa Aktiebolaget SCA (publ) for 2016 and 2015 is presented below for information purposes.

Remuneration to non-executive Board members refers to the fees approved at the AGM on April 14, 2016 for the period until the next AGM in April 2017. No remuneration is paid to the President and CEO and other employees.

SEK	Board fee		Audit Committee fee		Remuneration Committee fee		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Pär Boman (Chairman)	2,100,000	2,100,000	200,000	130,000	135,000	135,000	2,435,000	2,365,000
Eva Björling	700,000	–	–	–	–	–	700,000	–
Maija-Liisa Friman	700,000	–	–	–	–	–	700,000	–
Annemarie Gardshol	700,000	700,000	–	–	–	–	700,000	700,000
Leif Johansson	–	700,000	–	–	–	105,000	–	805,000
Louise Svanberg	700,000	700,000	–	–	105,000	105,000	805,000	805,000
Johan Malmquist	700,000	–	–	–	–	–	700,000	–
Bert Nordberg	700,000	700,000	200,000	130,000	105,000	–	1,005,000	830,000
Barbara Milian Thoralfsson	700,000	700,000	250,000	175,000	–	–	950,000	875,000
Total	7,000,000	5,600,000	650,000	435,000	345,000	345,000	7,995,000	6,380,000

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 (see 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 include 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 interest income (discount rate) on the plan assets and the SCA Hygiene Group'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 profit or loss 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 pen-

sion 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 profit or loss, 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.

C5. REMUNERATION AFTER EMPLOYMENT, CONT.

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. Key assumptions and assessments include the discount rate, future salary increases, inflation and life expectancy. The SCA Hygiene Group 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	2016	2015	2014
TC5:2 Defined benefit obligations	30,638	25,561	26,943
TC5:3 Fair value of plan assets	-26,363	-23,839	-22,992
TC5:4 Effect of asset ceiling	663	1,162	1,004
TC5:1 Provision for pensions, net	4,938	2,884	4,955

Surpluses in funded plans recognized as financial non-current assets amounted to BS SEK 335m (35; 3) on the balance sheet date and provisions for pensions totaled BS SEK 5,273m (2,919; 4,958). Defined benefit obligations include obligations in an amount of SEK 2,268m (1,917; 2,157) pertaining to unfunded plans.

The SCA Hygiene Group 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, the UK, Sweden, Germany and the US, as described below.

TC5:1 Provisions for pensions and similar obligations per plan

SEKm Country	Active	Paid-up pension policies	Pensioners	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
Netherlands	1,920	1,006	1,040	3,966	-3,673	-	293	23
UK	1,550	6,595	7,095	15,240	-14,405	-	835	20
Sweden	1,061	469	507	2,037	-1,736	-	301	21
Germany	1,180	346	1,042	2,568	-2,466	-	102	16
US	825	135	432	1,392	-1,034	-	358	16
Other	2,339	846	2,250	5,435	-3,049	663	3,049	13
Total	8,875	9,397	12,366	30,638	-26,363	663	4,938	

Netherlands

The plan is a defined benefit plan with premiums paid by the company and is managed by an independent fund. 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.

United Kingdom

The plan is a defined benefit plan with premiums paid by the company and the employee, and is managed by an independent fund in accordance with British law.

Surpluses in the pension fund remain in the fund assets but can be utilized in the form of premium discounts. The plan is based on final salary and includes beneficiaries' pension and disability pension.

The plan was closed to new participants in July 2007. The plan is obligated to meet the minimum funding level according to an agreement with the pension fund.

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.

Costs for the period for defined benefit plans

SEKm	2016	2015	2014
Current service cost, after deduction for premiums paid by the employees	-511	-578	-469
Past service cost	-25	-21	16
Pension tax expense	-27	-52	-28
Remeasurement, net	-5	2	-7
Net interest income/expense	-117	-140	-68
Pension costs before effects of settlements	-685	-789	-556
Settlements	-	-	2
Pension costs after effects of settlements	-685	-789	-554

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.

Germany

The plan is a defined benefit plan and, in addition to retirement pension, includes beneficiaries' pension and disability pension. The plan, which is managed by a fund, provides pension as a percentage of a salary interval and is based on final salary. The plan also includes individual pensions based on average salary. No premium payments are required by the company or its employees. The company may compensate itself using any surpluses in the plan assets.

US

The plan includes retirement pension, accident insurance and life insurance. The plan is a defined benefit plan with premiums paid by the company. Benefits are based on a standard amount per service year and are financed through a pension fund. The plan is obligated to meet the minimum legislated funding level. Surpluses in the pension fund can be utilized in the form of premium discounts.

Other

There are a number of minor pension obligations in some 15 countries. Some of the plans are funded.

C5. REMUNERATION AFTER EMPLOYMENT, CONT.

TC5:2 Defined benefit obligations

SEKm	2016	2015	2014
Value, January 1	25,561	26,943	20,328
Current service cost	524	588	474
Interest expense	922	843	848
Past service cost	25	21	-16
Pension tax expense	27	52	28
Settlements and transfers	-16	5	14
Acquisitions and disposals	2,168	-	-
Benefits paid	-1,062	-969	-854
Pension taxes paid	-49	-36	-14
Remeasurement: financial assumptions	3,966	-1,555	3,666
Remeasurement: demographic assumptions	-35	-89	37
Remeasurement: experience-based assumptions	-571	-85	-15
Pension taxes pertaining to remeasurement	30	-219	163
Transactions with shareholders	22	39	-
Translation differences	-874	23	2,284
Value, December 31	30,638	25,561	26,943

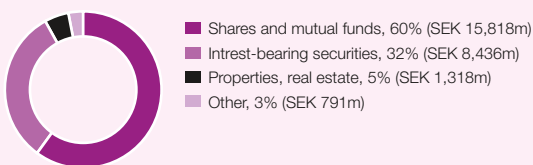
Remeasurements in the defined benefit obligations comprise changes in financial assumptions, such as changes to the discount rate, etc., any changes in demographic assumptions and experience-based deviations. Experience-based deviations include unexpectedly high or low employee turnover or salary increases. For 2016, acquisitions and disposals relate to the acquisition of Wausau.

TC5:3 Plan assets

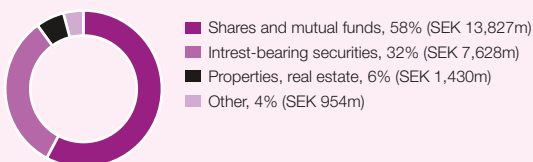
SEKm	2016	2015	2014
Fair value, January 1	-23,839	-22,992	-18,942
Interest income	-843	-728	-817
Acquisitions and disposals	-1,473	-	-
Contributions by plan participants	-13	-10	-5
Contributions by the employer	-959	-952	-740
Benefits paid, excluding settlements	1,054	964	852
Benefits paid for settlements	30	2	10
Return in excess of recognized interest income	-1,782	-119	-1,308
Administrative expenses for pension obligations	40	24	24
Transactions with shareholders	443	-	-
Translation differences	979	-28	-2,066
Fair value, December 31	-26,363	-23,839	-22,992

For 2016, acquisitions and disposals relate to the acquisition of Wausau.

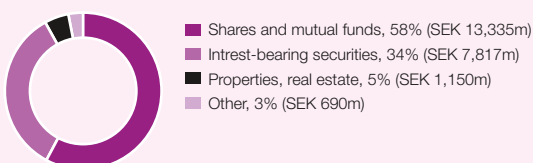
The plan assets are distributed according to the following classes of assets, 2016:



The plan assets are distributed according to the following classes of assets, 2015:



The plan assets are distributed according to the following classes of assets, 2014:



95% (94; 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 the SCA Hygiene Group are included in the fair value of plan assets at December 31, 2016.

TC5:4 Effect of asset ceiling

SEKm	2016	2015	2014
Value, January 1	1,162	1,004	916
Interest expense	38	25	36
Transactions with shareholders	-498	-	-
Other changes to asset ceiling	-39	133	52
Value, December 31	663	1,162	1,004

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	United Kingdom	Eurozone	US
2016				
Discount rate	2.73	2.72	1.31	4.13
Expected salary increase rate	2.75	3.00	2.85	N/A
Expected inflation	1.50	3.00	1.60	N/A
Life expectancy, men ¹⁾	22	22	22	20
Life expectancy, women ¹⁾	25	25	24	22
2015				
Discount rate	3.27	3.85	1.94	4.38
Expected salary increase rate	2.75	3.50	2.85	N/A
Expected inflation	1.50	3.00	1.60	N/A
Life expectancy, men ¹⁾	22	22	22	20
Life expectancy, women ¹⁾	25	25	24	22
2014				
Discount rate	2.46	3.59	1.62	4.11
Expected salary increase rate	3.25	4.00	3.00	N/A
Expected inflation	2.00	3.00	1.75	N/A
Life expectancy, men ¹⁾	23	22	21	20
Life expectancy, women ¹⁾	24	24	24	21

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

The sensitivity of the defined benefit obligations with respect to the changes in the principal actuarial assumptions is as follows:

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

SEKm	
Discount rate +0.25%	1,255
Price inflation, incl. salary inflation +0.25%	-853
Longevity +1 year	-1,110

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

Multiemployer plans

The SCA Hygiene Group has obligations for disability and family pensions for salaried employees in Sweden, secured through insurance with the insurance company Alecta. The company also has employees in Finland who are covered by the country's statutory TyEL pension plan. These obligations are secured through the insurance company Varma. 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 2017 were calculated at SEK 920m. Contributions for multiemployer plans for 2017 were calculated at SEK 45m.

D. OPERATING ASSETS AND LIABILITIES

D1. INTANGIBLE 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 are expected 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/loss. Goodwill that arises in acquisitions of associates or joint ventures is included in the carrying amount of the respective associate or joint venture.

Trademarks

Trademarks arise either in connection with acquisitions or through agreements to purchase trademarks. Trademarks are recognized at cost after any accumulated amortization and accumulated impairment. Trademarks that have an indefinite useful life are not amortized, but rather are tested annually for impairment along with the impairment testing of goodwill. Trademarks with a limited useful life are amortized on a straight-line basis during their anticipated useful life, which varies between three and ten years.

Licenses, patents and similar rights

Intangible 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 three and 20 years.

Customer relations

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 three and 15 years.

Research and development

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 starts to be used during the estimated useful life of the asset. The amortization period is between five and ten years.

Impairment testing

Goodwill is tested annually for possible impairment. When testing for impairment, the assets are grouped in cash-generating units. The SCA Hygiene Group's cash-generating units coincide with its defined operating segments. 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 the Executive Management Team for the next three years. The carrying amount for the cash-generating unit includes goodwill, trademarks with indefinite useful lives and assets with definite useful lives, such as non-current assets, trademarks and working capital. Effects of expansion investments are excluded when calculating the value in use. 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 or cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized on the asset down 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 had no past impairment been recognized. Impairment losses on goodwill are never reversed.

Emission allowances and costs for carbon dioxide emissions

The SCA Hygiene Group participates in the European system for emission allowances.

When emission allowances relating to carbon dioxide emissions are received from an individual EU state, they are recognized as an intangible asset and as deferred income (liability). 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 profit or loss as income in pace with carbon dioxide emissions made. If the emission allowances received do not cover emissions made, the SCA Hygiene Group 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 profit or loss. The emission allowances are used as payment in the settlement with the state regarding liabilities for emissions.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

In connection with the annual impairment testing of goodwill, the recoverable amount is calculated. The recoverable amount for the cash-generating units is determined by calculating value in use. Calculation of the value in use is based on the three-year strategy plans adopted by the Executive Management Team, which in turn are based on assumptions and assessments. The most important assessments and assumptions pertain to forecasts for organic growth, the profit margin and the discount rate used. The discount rate used in the present value calculation of the anticipated future cash flows is the current weighted average cost of capital (WACC) established within the Group for the markets in which the cash-generating units conduct operations.

Profit margin assumptions are based on current market prices and costs with an addition for real price reductions and cost inflation as well as assumed productivity development. Growth assumptions follow the Group's target of an annual organic growth for Tissue of 3-4% and 5-7% for Personal Care. The growth assumptions which have been unchanged for the last three years are in line with historic outcome and expected global market growth.

The expected sustained future cash flow for periods that are beyond the planning horizon of the strategy plan are extrapolated for a ten-year period from the final year of the strategy plan using assumed sustained growth of 2% (2;2). The value of the cash flows for the period beyond ten years is calculated by applying an operating surplus multiple to estimated sustained cash flow.

D1. INTANGIBLE ASSETS, CONT.

Goodwill

SEKm	2016	2015	2014
Accumulated costs	19,428	15,452	15,722
Accumulated impairment	-175	-40	-62
Total	19,253	15,412	15,660
Value, January 1	15,412	15,660	13,768
Company acquisitions	3,375	-	293
Company divestments	-	-	-
Reclassifications	-	-	25
Impairment	-135	-30	-
Translation differences	601	-218	1,574
BS Value, December 31	19,253	15,412	15,660

Intangible assets excluding goodwill

SEKm	Trademarks			Licenses, patents and similar rights			Capitalized development costs			Total Other intangible assets		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Accumulated costs	6,782	6,647	6,552	4,472	3,831	3,681	12	35	36	11,266	10,513	10,269
Accumulated amortization	-318	-244	-118	-2,890	-2,424	-2,225	-12	-31	-32	-3,220	-2,699	-2,375
Accumulated impairment	-452	-532	-61	-5	-3	-8	-	-3	-	-457	-538	-69
Total	6,012	5,871	6,373	1,577	1,404	1,448	-	1	4	7,589	7,276	7,825
Value, January 1	5,871	6,373	7,129	1,404	1,448	816	1	4	2	7,276	7,825	7,947
Investments	-	-	-	155	221	115	-	-	-	155	221	115
Sales and disposals	-	-	-	-1	-2	-1	-	-	-	-1	-2	-1
Company acquisitions	33	-	-	180	-	20	-	-	3	213	-	23
Company divestments	-	-	-	-	-	-	-	-	-	-	-	-
Reclassifications	-	76	-1,242	128	-2	591	-	-	-1	128	74	-652
Amortization ¹⁾	-59	-27	-33	-321	-248	-230	-	-	-	-380	-275	-263
Impairment	-	-464	-36	-2	-	-	-	-3	-	-2	-467	-36
Translation differences	167	-87	555	34	-13	137	-1	-	-	200	-100	692
Value, December 31	6,012	5,871	6,373	1,577	1,404	1,448	-	1	4	7,589	7,276	7,825
TD1:1 Emission allowances, net value										76	75	70
BS Value, December 31 including emission allowances										7,665	7,351	7,895

¹⁾ Amortization of Trademarks and customer relations is included in Sales, general and administration while for Licenses and patents included in Cost of goods sold.

Impairment testing

Annual testing for impairment of goodwill and trademarks with indefinite useful lives is carried out in the fourth quarter. The testing for 2016, as well as the testing for 2015 and 2014, showed that no impairment was needed. The recoverable amount of the trademarks was determined through a present value calculation, in which expected future cash flows were discounted using a WACC before tax of between 5.8% and 19.2%, depending on the market, to determine the value in use. The WACC before tax used in the impairment testing of goodwill is presented in the table below.

Sensitivity analyses show that reasonable changes to key parameters do not give rise to any impairment requirement.

In addition to annual impairment testing of the cash-generating units, which coincide with the defined operating segments, individual assets, goodwill and intangible assets with indefinite useful lives are tested when there is an indication of an impairment need. During the period, goodwill was impaired by SEK -135m, of which SEK -67m in conjunction with the discontinuation of the baby diaper operation in Mexico and SEK -68m related to the discontinuation of Tork SmartFresh. In 2015, goodwill was impaired by SEK -27m in connection with the closure of a French tissue mill. Trademarks in the Asian and Mexican markets were impaired in 2015 by SEK -464m as a result of a weakening market and a new strategy.

Distribution by operating segment

SEKm	Goodwill			Trademarks			WACC, before tax %		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Personal Care	3,036	2,757	3,338	1,109	1,069	1,325	11.3	10.3	10.1
Tissue	16,217	12,655	12,322	4,903	4,802	5,048	8.3	8.4	8.3
Total	19,253	15,412	15,660	6,012	5,871	6,373			

TD1:1 Emission allowances

SEKm	2016	2015	2014
Accumulated costs	88	86	81
Accumulated revaluation of surplus	-12	-11	-11
Total	76	75	70
Value, January 1	75	70	80
Emission allowances received	58	53	50
Purchases	-	4	0
Sales	-	-	-3
Reclassifications	-	0	-
Impairment	-	-	-
Settlement with the government	-64	-50	-52
Revaluation of surplus	-1	-5	-10
Translation differences	8	3	5
Value, December 31	76	75	70

D2. PROPERTY, PLANT AND EQUIPMENT

AP ACCOUNTING PRINCIPLES

Property, plant and equipment

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 profit or loss.

Depreciation and impairment

Land is not subject to depreciation. Buildings, 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	10–25
Converting machines, 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, railways	20–30
Land improvements	10–20

Carrying amounts

SEKm	Buildings			Land and land improvements			Machinery and equipment			Construction in progress		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Accumulated costs	20,253	18,293	17,690	3,887	3,917	4,030	71,071	62,420	60,781	3,901	2,774	3,526
Accumulated depreciation	-8,097	-7,059	-6,570	-498	-422	-381	-41,577	-36,235	-34,486	-24	-	-
Accumulated impairment	-331	-255	-225	-64	-66	-21	-992	-965	-740	-35	-	-5
Total	11,825	10,979	10,895	3,325	3,429	3,628	28,502	25,220	25,555	3,842	2,774	3,521
Value, January 1	10,979	10,895	9,677	3,429	3,628	3,464	25,220	25,555	24,325	2,774	3,521	2,443
Investments	191	406	346	26	23	42	2,054	1,731	2,076	3,979	3,329	2,065
Sales and disposals	-12	-2	-10	-11	-2	-31	-107	-132	-31	-	-22	-8
Company acquisitions	511	-	1	27	-	1	2,290	-	52	68	-	2
Company divestments	-	-	-	10	-	-	-	-48	-	-	-	-
Reclassifications	505	849	651	-161	24	-24	2,297	2,842	618	-3,066	-3,915	-941
Depreciation ¹⁾	-707	-757	-611	-44	-45	-44	-3,989	-3,687	-3,383	-24	-	-
Impairment	-159	-39	-6	-102	-45	-3	-127	-291	-43	-32	-	-
Translation differences	517	-373	847	151	-154	223	864	-750	1,941	143	-139	-40
Value, December 31	11,825	10,979	10,895	3,325	3,429	3,628	28,502	25,220	25,555	3,842	2,774	3,521

¹⁾ Included in Cost of goods sold

Total property, plant and equipment

SEKm	2016	2015	2014
Accumulated costs	99,112	87,404	86,027
Accumulated depreciation	-50,196	-43,716	-41,437
Accumulated impairment	-1,422	-1,286	-991
Total	47,494	42,402	43,599
Value, January 1	42,402	43,599	39,909
Investments	6,250	5,489	4,529
Sales and disposals	-130	-158	-80
Company acquisitions	2,896	-	56
Company divestments	10	-48	-
Reclassifications	-425	-200	304
Depreciation ¹⁾	-4,764	-4,489	-4,038
Impairment	-420	-375	-52
Translation differences	1,675	-1,416	2,971
BS Value, December 31	47,494	42,402	43,599

¹⁾ Included in Cost of goods sold

Impairment losses for the year totaling SEK -420m are mainly attributable to the restructuring of the tissue operations in France and Spain and the closure of the hygiene operation in India and diaper operation in Mexico.

During the period, interest was capitalized in machinery and equipment in an amount of SEK 19m (47; 26) and in construction in progress in an amount of SEK 31m (-; -). The average interest rate used was 10% (8; 2).

D3. INVENTORIES

AP ACCOUNTING PRINCIPLES

Inventories are measured at the lower of cost and net realizable value. Cost is calculated mainly 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 sales costs.

Inventories

SEKm	2016	2015	2014
Raw materials and consumables	3,156	3,582	3,174
Spare parts and supplies	1,443	1,284	1,371
Products in progress	1,262	1,171	1,096
Finished products	5,080	5,183	4,691
Advance payments to suppliers	3	9	11
BS Total	10,944	11,229	10,343

Impairment of inventory amounted to SEK 258m (45; 229) during the period. Refer to note B2 for further information.

D4. OTHER CURRENT RECEIVABLES

Other current receivables

SEKm	2016	2015	2014
VAT receivables	707	667	692
Prepaid expenses and accrued income ¹⁾	485	413	556
Suppliers with debit balance	155	228	190
Receivables for electricity and gas	103	79	77
Receivables from authorities	103	107	99
Derivatives	314	70	70
Receivables from associates	–	–	–
Other receivables	466	536	504
BS Total	2,333	2,100	2,188

¹⁾ Accrued financial income has been reclassified to current financial receivables and specified in Note E2.

D5. OTHER LIABILITIES

Other liabilities

SEKm	2016	2015	2014
Other non-current liabilities			
Derivatives	2	108	57
Other non-current liabilities	70	38	40
BS Total	72	146	97

Of which items that fall due for payment later than within five years

SEKm	2016	2015	2014
Derivatives	76	379	321
TD5:1 Accrued expenses and prepaid income	8,843	7,950	7,424
Other operating liabilities	2,685	2,416	2,420
BS Total	11,604	10,745	10,165

TD5:1 Accrued expenses and prepaid income

SEKm	2016	2015	2014
Accrued social security costs	375	360	292
Accrued vacation pay liability	625	529	439
Other liabilities to personnel	1,039	935	854
Bonus and discounts to customers	4,039	3,760	3,616
Other items	2,765	2,366	2,223
Total	8,843	7,950	7,424

D6. 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.

KAA KEY ASSESSMENTS AND ASSUMPTIONS

The amount of the provisions made relating to national competition investigations is based on the company's best assessment, which was determined in consultation with local expertise in the field. Considering the tax risks it is also based on the SCA Hygiene group's best assessment, which was determined in consultation with local tax expertise.

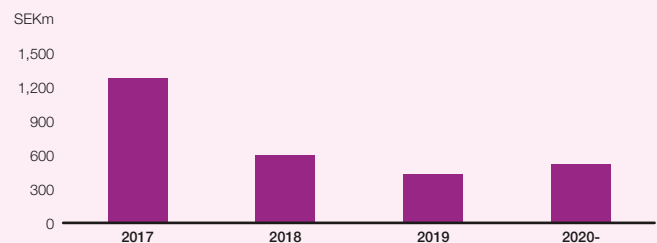
Other provisions 2016

SEKm	Efficiency programs	Tax risks	Environment	Legal disputes	Other	Total
Value, January 1	473	784	85	48	385	1,775
Provisions	738	91	69	1,173	94	2,165
Utilization	-335	-358	-64	-312	-41	-1,110
Reclassifications	–	–	-14	96	-67	15
Dissolutions	-21	–	-2	-2	-40	-65
Translation differences	27	3	-3	6	3	36
Value, December 31	882	520	71	1,009	334	2,816
Provisions comprise:						
BS Short-term component						1,409
BS Long-term component						1,407

For 2015 provisions amounted to SEK 852m, utilization to SEK -571m, reclassification to SEK 109m, and dissolutions and translation difference to SEK -111m.

For 2014 provisions amounted to SEK 751m, utilization to SEK -652m, reclassification to SEK 30m, and dissolutions and translation difference to SEK 5m.

Distribution of other provisions by maturity



Of the provisions for the period for "Environment" SEK 68m pertains to a liability for carbon dioxide emissions, which will be paid out in 2017. Of the "Efficiency programs" provisions, SEK 335m was paid out in 2016. The provisions for efficiency programs consist of personnel costs and closure costs in connection with restructuring measures. Tax risks mainly comprise one tax dispute attributable to Denmark. Legal disputes mainly consist of reserves relating to competition cases, primarily attributable to Poland, Chile, Hungary and Spain. During the year provisions and payments were also made relating to a competition case in Colombia. The provisions for legal disputes were impacted by reclassification between the categories. Other provisions mainly comprise reserves in connection with prior divestments of operations, a reserve for final settlement of a prior investment and a reserve for potential packaging costs.

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 received, respectively.

Financial assets are initially recognized at cost, and transaction costs are included for certain instruments that are not measured at fair value. 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. Financial liabilities are derecognized from the balance sheet when the SCA Hygiene Group has met its commitments.

The SCA Hygiene Group recognizes financial instruments with a remaining maturity of less than 12 months as current assets and liabilities, and those that exceed 12 months as non-current assets and liabilities.

Fair value measurement

For the financial instruments for which market quotations are available, actual prices are used for fair value measurement (Level 1). In the absence of market quotations for the instruments, the SCA Hygiene Group determines fair values with the aid of common valuation models, using quoted prices of similar assets or liabilities in active markets (Level 2).

For disclosures in a note relating to non-current loans, current market interest rates are taken into account in fair value calculations. The fair value of short-term loans and investments is considered to correspond to the carrying amount, since a change in market interest rates does not have a significant effect on market value.

Classification and subsequent recognition

On the acquisition date, the SCA Hygiene Group 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.

Held-to-maturity investments

Held-to-maturity investments are defined as financial assets that have determinable payments and that the SCA Hygiene Group intends to hold to maturity. Assets in this category are measured at amortized cost applying the effective interest method, which means they are accrued so that a constant return is obtained.

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 the SCA Hygiene Group 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 through other comprehensive income.

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 profit or loss. Only derivatives were classified in this category during the year.

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.

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 in accordance with the accounting principles stated in Note E6 Derivatives and hedge accounting.

E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL, CONT.

Financial instruments by category and measurement level

SEKm	Note	Measurement level	2016	2015	2014
Financial assets measured at fair value through profit or loss					
Derivatives – Non-current financial assets	E2	2	52	41	–
Derivatives – Other non-current assets	E2	2	48	2	2
Derivatives – Current financial assets	E2	2	169	465	761
Derivatives – Other current receivables	D4	2	171	70	67
Total			440	578	830
Financial liabilities measured at fair value through profit or loss					
Non-current financial liabilities	E4	2	16,021	10,967	12,904
Current financial liabilities	E4	2	425	5,634	4,126
Derivatives – Non-current financial liabilities	E4	2	19	–	23
Derivatives – Current financial liabilities	E4	2	502	467	369
Derivatives – Other non-current liabilities	D5	2	–	51	13
Derivatives – Other current liabilities	D5	2	55	127	149
Total			17,022	17,246	17,584
Loan and trade receivables					
Non-current financial assets	E2	–	24	233	242
Current financial assets	E2	–	61	43	286
Trade receivables	E3	–	15,843	14,808	14,912
Cash and cash equivalents	E2	–	4,244	4,828	3,806
Total			20,172	19,912	19,246
Available-for-sale financial assets					
Non-current financial assets	E2	1	82	75	1,807
Financial liabilities measured at amortized cost					
Non-current financial liabilities	E4	–	15,256	10,381	11,264
Current financial liabilities	E4	–	4,059	6,280	9,992
Trade payables	–	–	12,972	11,869	11,800
Total			32,287	28,530	33,056
Derivatives used for hedge accounting					
Non-current financial assets	E2	2	556	379	794
Other non-current assets	–	2	106	–	–
Other current receivables	D4	2	143	–	3
Current financial assets	E2	2	14	268	213
Total			819	647	1,010
Non-current financial liabilities	E4	2	3	115	8
Other non-current liabilities	D5	2	2	57	44
Current financial liabilities	E4	2	103	21	304
Other current liabilities	D5	2	21	252	172
Total			129	445	528

These financial instruments are measured at fair value, with the exception of loans and trade receivables and financial liabilities measured at amortized cost. According to the SCA Hygiene Group's assessment, the fair value essentially corresponds to the carrying amount, with the exception of non-current liabilities, the fair value of which is recognized in Note E4 Financial liabilities.

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 forward contracts or interest rate swaps.

Financial instruments in other notes to the balance sheet

SEKm	Note	2016		2015		2014	
		Financial instruments	Of which derivatives	Financial instruments	Of which derivatives	Financial instruments	Of which derivatives
Assets							
Financial assets, cash and cash equivalents	E2	5,202	791	6,332	1,153	7,909	1,768
Other non-current assets		154	154	2	2	2	2
Trade receivables	E3	15,843	–	14,808	–	14,912	–
Other current receivables	D4	314	314	70	70	70	70
Total		21,513	1,259	21,212	1,225	22,893	1,840
Liabilities							
Financial liabilities	E4	36,388	627	33,865	603	38,990	704
Other non-current liabilities	D5	2	2	108	108	57	57
Trade payables		12,972	–	11,869	–	11,800	–
Other current liabilities	D5	76	76	379	379	321	321
Total		49,438	705	46,221	1,090	51,168	1,082

E2. FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

AP ACCOUNTING PRINCIPLES

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. Restricted deposits are not included in cash and cash equivalents. 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 and losses are recognized in profit or loss.

Financial assets, cash and cash equivalents

SEKm	Carrying amount		
	2016	2015	2014
Non-current financial assets			
TE2:1 Available-for-sale financial assets	82	75	1,807
Derivatives	608	420	751
Loan receivables, associates	–	207	270
Loan receivables, other	24	26	15
BS Total	714	728	2,843
Current financial assets			
Financial assets	19	–	2
Derivatives	183	733	974
Accrued financial income	–	1	8
Loan receivables, other	42	42	276
BS Total	244	776	1,260
Cash and cash equivalents			
Cash and bank balances	2,888	2,340	3,014
Short-term investments < 3 months	1,356	2,488	792
BS Total	4,244	4,828	3,806
Total financial assets, cash and cash equivalents	5,202	6,332	7,909

Cash and cash equivalents at December 31, 2016 include SEK 1,672m (1,088) that is not fully available for use by the SCA Hygiene Group or for which other limitations exist, primarily cash and cash equivalents in countries that are subject to exchange restrictions and other legal restrictions. Accordingly, it is not possible to immediately use these cash and cash equivalents in other areas of the Group, although it is normally possible to use them in the operations of the respective country.

E2. FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS, CONT.

TE2:1 Available-for-sale financial assets

SEKm	2016	2015	2014
Value, January 1	75	1,807	1,649
Investments	4	-	12
Divestment of securities	-	-2,046	-
Remeasurement taken to equity, net	-1	318	140
Translation differences	4	-4	6
Value, December 31	82	75	1,807

Available-for-sale financial assets

SEKm	2016	2015	2014
Shares – AB Industrivärden	-	-	1,729
Pension assets not included in IAS 19 calculation	82	75	77
Other	-	-	1
Total	82	75	1,807

Shares in pension assets attributable to certain pension obligations are classified as available-for-sale financial assets. These assets are not included in the normal pension calculations, as set out in Note C5 Remuneration after termination of employment.

E3. TRADE RECEIVABLES

AP ACCOUNTING PRINCIPLES

Trade receivables are recognized at amortized cost after a provision is made for doubtful receivables. The provision for doubtful receivables is based on an individual assessment of each customer. Any impairment of trade receivables affects the SCA Hygiene Group's operating profit. Translation differences on trade receivables are recognized on the line net sales. The SCA Hygiene Group's trade receivables are generally current and are not discounted.

Trade receivables

SEKm	2016	2015	2014
Trade receivables, gross	16,116	15,017	15,104
Provision to reserves for doubtful receivables	-273	-209	-192
BS TE3:1 Total	15,843	14,808	14,912

TE3:1 Analysis of credit risk exposure in trade receivables

SEKm	2016	2015	2014
Trade receivables neither overdue nor impaired	14,175	13,432	13,251
Trade receivables overdue but not impaired			
< 30 days	1,161	897	1,138
30–90 days	276	245	375
> 90 days	231	234	148
Trade receivables overdue but not impaired	1,668	1,376	1,661
Total	15,843	14,808	14,912

The SCA Hygiene Group's customer structure is dispersed, with customers in many different areas of business. In 2016, the SCA Hygiene Group's ten largest customers accounted for 26.6% (26.4; 28.4) of the SCA Hygiene Group's net sales. The single largest customer accounted for 4.0% of sales. More information is available in the section on credit risks on page 31.

In total, the Group has collateral mainly in the form of credit insurance taken out amounting to SEK 867m (1,593; 1,512). Of this amount, SEK 59m (767; 454) relates to the category Trade receivables overdue but not impaired.

Provision to reserves for doubtful receivables

SEKm	2016	2015	2014
Value, January 1	-209	-192	-165
Provision for possible loan losses	-95	-67	-25
Confirmed losses	21	38	7
Increase due to acquisitions	-	-	-9
Decrease due to reversal of provisions for possible loan losses	15	4	13
Translation differences	-5	8	-13
Value, December 31	-273	-209	-192

The expense for the period for doubtful receivables amounted to SEK -80m (-63; -12). Of this amount, a major portion relates to bad debt losses in Greece.

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

The main principle for recognition of the SCA Hygiene Group'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 recognized on a straight-line basis 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 recognized at fair value through a fair value hedge. Non-current loans that are subject to hedge accounting are discounted to the market interest rate without a credit spread. 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	2016	2015	2014
Current financial liabilities			
Amortization within one year	256	471	497
Bond issues	-	7,445	4,177
Derivatives	604	480	674
Loans with maturities of less than one year	4,132	3,900	9,267
Accrued financial expenses	97	106	176
BS Total¹⁾	5,089	12,402	14,791
Non-current financial liabilities			
Bond issues	18,708	14,725	14,646
Derivatives	23	123	31
Other long-term loans with maturities > 1 year < 5 years	8,078	3,150	5,400
Other long-term loans with maturities > 5 years	4,490	3,465	4,122
BS Total	31,299	21,463	24,199
Total financial liabilities	36,388	33,865	38,990
Fair value of financial liabilities	36,719	33,814	39,170

¹⁾ Fair value of short-term loans is estimated to be the same as the carrying amount.

E4. FINANCIAL LIABILITIES, CONT.

Borrowing

The SCA Hygiene Group has a Euro Medium Term Note (EMTN) program with a program amount of EUR 4,000m (SEK 38,233m) for issuing bonds in the European capital market. As of December 31, 2016, a nominal EUR 2,217m (2,441; 2,043) was outstanding with a remaining maturity of 4.8 years (4.1; 3.4).

Bond issues

Issued	Maturity	Carrying amount, SEKm	Fair value, SEKm
Notes SEK 600m	2019	603	602
Notes SEK 900m	2019	910	908
Green bond SEK 1,500m	2019	1,499	1,522
Notes EUR 300m	2020	2,895	2,871
Notes EUR 500m	2021	4,733	4,739
Notes EUR 500m	2023	5,157	5,269
Notes EUR 300m	2025	2,911	2,921
Total		18,708	18,832

The SCA Hygiene Group has a Swedish and a Belgian commercial paper program that can be utilized for current borrowing.

Commercial paper program¹⁾

Program size	Issued SEKm
Commercial paper SEK 15,000m	750
Commercial paper EUR 400m	909
Total	1,659

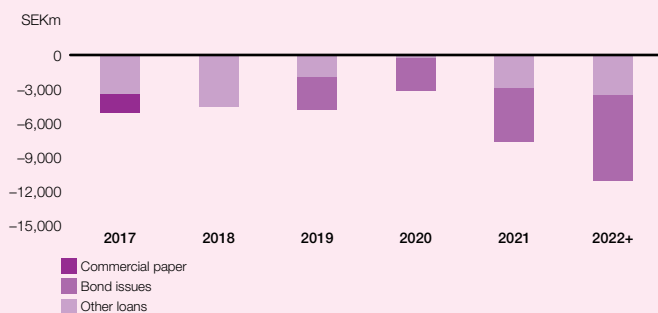
¹⁾ Included in Loans with maturities of less than one year in the Financial liabilities table.

The SCA Hygiene Group has syndicated bank facilities to limit the refinancing risk and maintain a liquidity reserve. Contracted bilateral credit facilities with banks are used to supplement these syndicated bank facilities.

Credit facilities

	Nominal	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm
Syndicated credit facilities	EUR 1,000m	2021	9,558	–	9,558
	EUR 1,000m	2019	9,558	–	9,558
Bilateral credit facilities	SEK 48m	2017	48	–	48
Total			19,164	–	19,164

Maturity profile of gross debt¹⁾



¹⁾ Gross debt includes accrued interest in the amount of SEK 97m.

After additions for net pension provisions and financial liabilities, Group companies, and with deductions for cash and cash equivalents, interest-bearing receivables, capital investment shares and financial receivables, Group companies, the net debt was SEK 35,173m (19,058; 25,066). For a description of the methods used by the SCA Hygiene Group to manage its refinancing risk, refer to the Board of Directors' Report.

E5. LIQUIDITY RISK

The table below shows the Group's liquidity risk regarding financial liabilities (including interest payments), net settled derivatives that constitute financial liabilities and negative cash flows from gross settled derivatives. For a description of how the SCA Hygiene Group manages its liquidity risk, refer to the Board of Directors' Report.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 5 years	More than 5 years
2016			
Loans including interest	4,791	21,033	11,475
Net settled derivatives	-6	-27	–
Energy derivatives	29	1	–
Trade payables	12,790	182	–
Total	17,604	21,189	11,475
Gross settled derivatives ¹⁾	38,315	2,443	1,373
2015			
Loans including interest	12,151	12,476	10,284
Net settled derivatives	-18	-76	-69
Energy derivatives	357	96	–
Trade payables	11,796	73	–
Total	24,286	12,569	10,215
Gross settled derivatives ¹⁾	41,262	1,025	293
2014			
Loans including interest	14,668	17,822	7,791
Net settled derivatives	197	9	–
Energy derivatives	244	57	–
Trade payables	11,718	82	–
Total	26,827	17,970	7,791
Gross settled derivatives ¹⁾	34,964	2,195	–

¹⁾ The gross settled derivatives have, largely, corresponding positive cash flows and therefore in the SCA Hygiene Group's opinion do not constitute any real liquidity risk.

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 profit or loss.

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 profit or loss at the rate at which the hedged cash flow affects profit or loss. 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 profit or loss. 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 the SCA Hygiene Group's net investments in foreign operations are recognized in equity under other comprehensive income. The cumulative gain or loss in

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

equity is recognized in profit or loss 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 profit or loss with changes in fair value of the asset or liability exposed to the hedged risk. For the SCA Hygiene Group, this means that non-current loans that are subject to hedge accounting are discounted without a credit spread to the market interest rate and meet inherent interest rate derivatives' discounted cash flows at the same interest rate.

Financial hedges

When the SCA Hygiene Group conducts 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 profit or loss.

Outstanding derivatives

SEKm	Of which			
	Total	Currency ¹⁾	Interest rate	Energy
2016				
Nominal	56,599	38,695	16,094	1,810
Asset	1,259	351	561	347
Liability	705	664	11	30
2015				
Nominal	84,713	64,639	18,133	1,941
Asset	1,225	660	538	27
Liability	1,090	516	121	453
2014				
Nominal	64,773	44,793	17,718	2,262
Asset	1,839	893	931	15
Liability	1,082	575	207	300

¹⁾ Nominal SEK 110, 115m (135,448; 82,957) is outstanding before the right of set-off.

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
December 31, 2016		
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
December 31, 2015		
Gross amount	2,236	2,101
Offsettable amount	-1,011	-1,011
Net amount recognized in the balance sheet	1,225	1,090
ISDA agreements whose transactions are not offset in the balance sheet	-472	-472
Net after offsetting in accordance with ISDA agreements	753	618
December 31, 2014		
Gross amount	3,163	2,406
Offsettable amount	-1,324	-1,324
Net amount recognized in the balance sheet	1,839	1,082
ISDA agreements whose transactions are not offset in the balance sheet	-567	-567
Net after offsetting in accordance with ISDA agreements	1,272	515

Balance sheet

The SCA Hygiene Group uses financial derivatives to manage currency, interest rate and energy price risks. For a description of how the SCA Hygiene Group 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, 2016. For more information relating to derivatives in the balance sheet, see Note E1 Financial instruments by category. In addition, the SCA Hygiene Group acts as an internal bank in the SCA Group, which is why internal derivative positions exist for derivatives agreements concluded by Forest Products for hedging purposes in its operations. The SCA Hygiene Group has subsequently concluded agreements for corresponding derivatives with external parties. For information concerning derivative agreements concluded

that relate to Forest Products, refer to Note G4 Transactions with related parties.

Income statement

Hedges pertaining to transaction exposure had an impact of SEK 64m (46; -45) on operating profit for the period. At year-end, the net market value amounted to SEK 45m (28; -77), of which derivative agreements with a market value of SEK 17m (24; -28) were signed on behalf of Forest Products. Currency hedges reduced the cost of non-current assets by SEK 5m (reduced: 1; increased: 3). At year-end, the net market value amounted to SEK 24m (-17; 4), of which derivative agreements with a market value of SEK 25m (-21; 3) were signed on behalf of Forest Products.

Energy derivatives had an impact of SEK -239m (-241; -197) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 317m (-426; -286) at year-end, of which derivative agreements with a market value of SEK 87m (-100; -58) were signed on behalf of Forest Products. Derivatives impacted net interest items in an amount of SEK -68m (16; 175). The net market value of outstanding interest rate derivatives amounted to SEK 550m (417; 724) at year-end. For further information relating to net financial items, see Note E7 Financial income and expenses.

Sensitivity analysis

The SCA Hygiene Group has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2016 using assumptions on market movements that are regarded as reasonably possible in one year's time. If the Swedish krona had unilaterally weakened/strengthened by 5% against all currencies, outstanding financial hedges, trade payables and trade receivables would have decreased/increased profit for the period before tax by SEK 4m (6; 49).

If the Swedish krona had unilaterally weakened/strengthened by 5%, currency hedges relating to the cost of non-current assets would have increased/decreased equity by SEK 1m (0; 0). If energy prices had increased/decreased by 20%, 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 203m (146; 188). In addition to the earnings impact, equity would have increased/decreased by SEK 107m (57; 71). 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 accounting ¹⁾

SEKm	Assets	Liabilities	Net	Tax	Hedge reserve after tax
2016					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	241	-18	223	-59	164
Currency risk	6	-6	-	-	-
Total	247	-24	223	-59	164
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	1,512	-569	943	-59	164
2015					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	-	-302	-302	82	-220
Currency risk	-	-2	-2	-7	-9
Total	-	-304	-304	75	-229
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk ²⁾	860	-259	601	-	-
Fair value hedges					
Interest rate risk	538	-115	423	-	-
Total	1,398	-678	720	75	-229

¹⁾ Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives

²⁾ Derivatives before offsetting

E6. DERIVATIVES AND HEDGE ACCOUNTING, CONT.

Outstanding derivatives with hedge accounting ¹⁾

SEKm	Assets	Liabilities	Net	Tax	Hedge reserve after tax
2014					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges					
Energy risk	3	-206	-203	60	-143
Interest rate risk	-	-8	-8	2	-6
Currency risk	14	-9	5	-1	4
Total	17	-223	-206	61	-145
Derivatives with hedge accounting without hedge reserve					
Hedges of net investments in foreign operations					
Currency risk ²⁾	281	-1,263	-982		
Fair value hedges					
Interest rate risk	920	-171	749		
Total	1,218	-1,657	-439	61	-145

¹⁾ Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives

²⁾ Derivatives before offsetting

Hedging of net investments

The SCA Hygiene Group has hedged net investments in a number of selected legal entities in order to achieve the desired hedging level for foreign capital employed. The result of hedging positions affected equity in 2016 by a total of SEK -437m (58; -1,497). This result is largely due to hedges of net investments in EUR. The total market value of outstanding hedging transactions at the end of the period was SEK 167m (601; -982). In total at year-end, the SCA Hygiene Group hedged net investments outside Sweden amounting to SEK -11,405m. The SCA Hygiene Group's total foreign net investments at year-end amounted to SEK 54,568m.

E7. FINANCIAL INCOME AND EXPENSES

Financial income and expenses

SEKm	2016	2015	2014
Results from shares and participations in other companies			
Dividend	2	80	82
Interest income and similar profit items			
Interest income, investments	186	180	332
Other financial income	14	52	2
Total financial income	202	312	416
Interest expenses and similar loss items			
Interest expenses, borrowing	-843	-1,067	-1,267
Interest expenses, derivatives	-92	7	208
Fair value hedges, unrealized	24	9	-33
Other financial expenses	-126	-89	-64
Total financial expenses	-1,037	-1,140	-1,156
Total	-835	-828	-740

Other financial income and expenses include an exchange difference of SEK 14m (52; 2).

Sensitivity analysis

If interest rate levels had been 1 percentage point higher/lower, with unchanged fixed-interest terms and volumes in the net debt, interest expenses for the period would have been SEK 103m (43; 75) higher/lower. Sensitivity analysis calculations have been performed on the risk to which the SCA Hygiene Group was exposed at December 31, 2016 using assumptions on market movements that are regarded as reasonably possible in one year's time.

For a description of how the SCA Hygiene Group manages its interest rate risk, refer to the Board of Directors' Report.

The results from hedging of net investments in foreign operations are recognized in the translation reserve, refer to note E8 Equity. The results from fair value hedges are recognized directly in profit or loss.

Hedge reserve in equity

Currency derivatives relating to hedging of transaction exposure mature mainly during the first quarter of 2017. With unchanged exchange rates, profit after tax will be affected positively in an amount of SEK 2m (0; 3). 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 increase by SEK 2m (increase: 9; decrease: 1) after tax.

Derivatives pertaining to hedging of interest expenses were concluded in 2015. The derivatives intended to hedge energy costs in the Group mature during 2017 and 2018. With unchanged prices, the Group's profit after tax will be affected positively in an amount of SEK 164m (neg: 220; neg: 143).

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 these are sold, the sales proceeds are included in retained earnings in the equity pertaining to owners of the Parent.

Furthermore, in accordance with the basis for preparation, transactions considered to be transfers between companies that are jointly controlled are recognized as separate transactions with shareholders as shown below.

Equity totaled SEK 39,580m (48,275; 44,925) at December 31, 2016. The following tables show the distribution and profit for the period.

E8. EQUITY, CONT.

SEKm	Share capital	Reserves ¹⁾	Retained earnings	Equity attributable to the SCA Hygiene Group's shareholders	Non-controlling interests	Total equity
Value, January 1, 2016	0	1,501	41,485	42,986	5,289	48,275
IS Profit for the period recognized in profit or loss			3,800	3,800	442	4,242
Other comprehensive income for the period						
Items that cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans ²⁾			-1,570	-1,570	1	-1,569
Income tax attributable to components in other comprehensive income			421	421	-	421
			-1,149	-1,149	1	-1,148
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		275		275		275
Transferred to profit or loss for the period		274		274		274
Transferred to cost of hedged investments		-19		-19		-19
Translation differences in foreign operations		2,508		2,508	234	2,742
Result from hedging 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⁾		-40	-1	-41		-41
Other comprehensive income/loss for the period, net after tax		2,560	-1,138	1,422	235	1,657
Comprehensive income/loss for the period		2,560	2,662	5,222	677	5,899
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	-
Transactions with shareholders			-14,679	-14,679	-	-14,679
Dividend to non-controlling interests					-190	-190
BS Value, December 31	0	4,061	29,143	33,204	6,376	39,580
SEKm						
Value, January 1, 2015	0	4,015	35,660	39,675	5,250	44,925
IS Profit for the period recognized in profit or loss			6,129	6,129	449	6,578
Other comprehensive income for the period						
Items that cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans ²⁾			1,933	1,933		1,933
Income tax attributable to components in other comprehensive income			-418	-418		-418
			1,515	1,515	-	1,515
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		318		318		318
Transferred to profit or loss upon sale		-970		-970		-970
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		-450		-450		-450
Transferred to profit or loss for the period		342		342		342
Translation differences in foreign operations		-1,729		-1,729	-215	-1,944
Result from hedging of net investments in foreign operations		-58		-58		-58
Other comprehensive income from associates			-17	-17		-17
Tax on items recognized directly in/transferred from equity ³⁾		33		33		33
Other comprehensive income/loss for the period, net after tax		-2,514	1,498	-1,016	-215	-1,231
Comprehensive income/loss for the period		-2,514	7,627	5,113	234	5,347
Acquisition of non-controlling interests			-40	-40	21	-19
Transactions with shareholders			-1,762	-1,762		-1,762
Dividend to non-controlling interests			-	-	-216	-216
BS Value, December 31	0	1,501	41,485	42,986	5,289	48,275

¹⁾ Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Reserves line in the balance sheet; see specification below.

²⁾ Including payroll tax.

³⁾ For a specification of income tax attributable to components in other comprehensive income, see below.

E8. EQUITY, CONT.

SEKm	Share capital	Reserves ¹⁾	Retained earnings	Equity attributable to the SCA Hygiene Group's shareholders	Non-controlling interests	Total equity
Value, January 1, 2014	0	568	37,323	37,891	4,540	42,431
IS Profit for the period recognized in profit or loss			5,212	5,212	469	5,681
Other comprehensive income for the period						
Items that cannot be transferred to profit for the period						
Actuarial gains and losses relating to defined benefit pension plans ²⁾			-2,595	-2,595		-2,595
Income tax attributable to components in other comprehensive income			587	587		587
			-2,008	-2,008	-	-2,008
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		140		140		140
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity		-463		-463		-463
Transferred to profit or loss for the period		344		344		344
Transferred to cost of hedged investments		3		3		3
Translation differences in foreign operations		4,553		4,553	572	5,125
Result from hedging of net investments in foreign operations		-1,497		-1,497		-1,497
Tax on items recognized directly in/transferred from equity ³⁾		367		367		367
Other comprehensive income/loss for the period, net after tax		3,447	-2,008	1,439	572	2,011
Comprehensive income/loss for the period		3,447	3,204	6,651	1,041	7,692
Issue cost in associates			-49	-49	-	-49
Acquisition of non-controlling interests			-112	-112	-61	-173
Effect of confirmation of acquisition balance sheet					-42	-42
Transactions with shareholders			-4,706	-4,706		-4,706
Dividend to non-controlling interests			-	-	-228	-228
BS Value, December 31	0	4,015	35,660	39,675	5,250	44,925

¹⁾ Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Reserves line in the balance sheet; see specification below.

²⁾ Including payroll tax.

³⁾ For a specification of income tax attributable to components in other comprehensive income, see below.

At end of the fiscal year, SCA Hygiene AB had 5,000 shares with a quotient value of SEK 100. In light of the fact that the number of shares hereafter is to reflect the ultimate Parent Company SCA AB's average number of shares outstanding, which amounts to 702.3 million shares, this number of shares has been used in the calculation of earnings per share.

E8. EQUITY, CONT.

Equity, specification of reserves

SEKm	Revaluation reserve ¹⁾			Hedge reserve ²⁾			Available-for-sale assets			Translation reserve		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Value, January 1	107	107	107	-229	-145	-58	7	659	519	1,616	3,394	-
Available-for-sale financial assets:												
Result from measurement at fair value recognized in equity							-1	318	140			
Transferred to profit or loss upon sale								-970				
Cash flow hedges:												
Result from remeasurement of derivatives recognized in equity				275	-450	-463						
Transferred to profit or loss for the period				274	342	344						
Transferred to cost of hedged investments				-19	-	3						
Translation differences in foreign operations ³⁾				-1	5	-9				2,509	-1,734	4,562
Result from hedging of net investments in foreign operations										-437	-58	-1,497
Tax on items recognized directly in/transferred from equity				-136	19	38				96	14	329
Other comprehensive income/loss for the period, net after tax				393	-84	-87	-1	-652	140	2,168	-1,778	3,394
Value, December 31	107	107	107	164	-229	-145	6	7	659	3,784	1,616	3,394

¹⁾ Revaluation reserve includes effect on equity of step acquisitions.

²⁾ See also Note E6 for details of when profit or loss is expected to be recognized.

³⁾ Transfer to profit or loss of realized exchange gains relating to divested companies is included in the amount of SEK -13m (-; -).

Specification of income tax attributable to other comprehensive income for the period

SEKm	2016			2015			2014		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Actuarial gains and losses relating to defined benefit pension plans	-1,569	421	-1,148	1,933	-418	1,515	-2,595	587	-2,008
Available-for-sale financial assets	-1	-	-1	-652	-	-652	140	-	140
Cash flow hedges	530	-136	394	-108	19	-89	-116	38	-78
Translation differences in foreign operations	2,742	-	2,742	-1,944	-	-1,944	5,125	-	5,125
Other comprehensive income from associates	12	-1	11	-17	-	-17	-	-	-
Result from hedging of net investments in foreign operations	-437	96	-341	-58	14	-44	-1,497	329	-1,168
Other comprehensive income/loss for the period	1,277	380	1,657	-846	-385	-1,231	1,057	954	2,011

At December 31, 2016, the debt/equity ratio amounted to 0.89 (0.39; 0.56). Change in liabilities and equity is described on page 9 under Financial position. Svenska Cellulosa Aktiebolaget SCA Group's target for capital structure is 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 is to be taken into consideration in the target to maintain a solid investment grade rating. Svenska Cellulosa Aktiebolaget SCA Group has a credit rating for long-term debt of Baa1 from Moody's and BBB+ from Standard & Poor's. The SCA Hygiene Group has a tentative credit rating for long-term debt of Baa1 from Moody's and BBB+ from Standard & Poor's. The SCA Hygiene Group's financial risk management is described in the Risk and risk management section on pages 25-31.

Transactions with shareholders

Specification of transactions with shareholders

SEKm	2016	2015	2014
Dividend/Group contribution	-4,637	-3,443	-4,415
Contributions received	1,271	1,375	-
Tax effect	599	306	-291
Allocation of net debt to SCA's forest products operation ¹⁾	-11,912	-	-
Total	-14,679	-1,762	-4,706

¹⁾ For more information G4 Transactions with related parties.

F. GROUP STRUCTURE

F1. SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

Subsidiaries

The companies over which the SCA Hygiene Group has control are consolidated as subsidiaries. Control means that the SCA Hygiene Group 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, which means that the SCA Hygiene Group has control over the companies. The SCA Hygiene Group owns 54.6% of Vinda and 50% of Familia; the SCA Hygiene Group also has control of these companies, despite the fact that there are significant non-controlling interests in the companies.

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% 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% and divestments of participations in a subsidiary that do not lead to a loss of controlling influence are recognized as an equity transaction.

List of major subsidiaries

The Group's participations in major subsidiaries at December 31, 2016. The following selection of wholly owned subsidiaries and subsidiaries with significant non-controlling interests includes companies with external sales in excess of SEK 500m in 2016.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2016	Share of equity at December 31, 2015	Share of equity at December 31, 2014
SCA Hygiene Products SAS	509 395 109	Saint-Ouen, France	100	100	100
SCA Hygiene Products Nederland B.V.	30-135 724	Zeist, Netherlands	100	100	100
SCA Hygiene Products (Fluff) Ltd.	577 116	Dunstable, UK	100	100	100
SCA Tissue North America LLC	58-2494137	Delaware, US	100	100	100
Vinda International Holdings Ltd ¹⁾	90235	Hong Kong, China	55	51	51
Wausau Paper Towel & Tissue LLC	41-2218501	Wisconsin, USA	100	–	–
SCA Hygiene Products Vertriebs GmbH	HRB 713 332	Mannheim, Germany	100	100	100
SCA Hygiene Products AB	556007-2356	Gothenburg, Sweden	100	100	100
SCA Hygiene Products S.L.	B28451383	Puigpelat, Spain	100	100	100
SCA Consumidor Mexico, S.A. de C.V.	SCM-931101-3S5	Mexico City, Mexico	100	100	100
Productos Familia S.A., Colombia ¹⁾	8909001619	Medellin, Colombia	50	50	50
SCA Hygiene Products SPA	3 318 780 966	Altopascio, Italy	100	100	100
SCA Hygiene Products Russia OOO	704 031 845	Moscow, Russia	100	100	100
SCA Hygiene Sp.z.o.o.	KRS No. 0000427360	Warsaw, Poland	100	100	100
SCA Hygiene Products GmbH	FN 49537 z	Vienna, Austria	100	100	100
SCA Hygiene Products SA-NV	BE0405.681.516	Stembert, Belgium	100	100	100
SCA Hygiene Products AFH Sales GmbH	HRB 710 878	Mannheim, Germany	100	100	100
SCA North America-Canada Inc.	421984	Ontario, Canada	100	100	100
OY SCA Hygiene Products AB	0165027-5	Espoo, Finland	100	100	100
SCA PERSONAL CARE INC.	23-3036384	Delaware, US	100	100	100
Productos Familia del Sancela Ecuador S.A. ¹⁾	1791314379001	Quito, Ecuador	50	50	50
SCA Hygiene Products AS	915 620 019	Oslo, Norway	100	100	100
SCA Hygiene Products AG	CHE-106.977.885	Schenkon, Switzerland	99	99	99
SCA Hygiene Products A/S	DK20 638 613	Allerød, Denmark	100	100	100
SCA Chile SA	94.282.000-3	Santiago de Chile, Chile	100	100	100
Sancela S.A.	B14441997	La Chargaia, Tunisia	49	49	49
SCA Hygiene Products Kft	01-09-716945	Budapest, Hungary	100	100	100
Uni-Charm Mōlnlycke KK	0104-01-046146	Tokyo, Japan	49	49	49
SCA Hygiene Products s.r.o.	485 36 466	Prague, Czech Republic	100	100	100
SCA Hygiene Spain, SL	B31235260	Allo, Spain	100	100	100
SCA Hygiene Products Slovakia s.r.o.	36590941	Gemerska Horska, Slovakia	100	100	100
SCA Hygiene Products GmbH Wiesbaden	HRB5301	Mainz-Kostheim, Germany	100	100	100
SCA Tissue France SAS	702055187	Bois-Colombes, France	100	100	100
SCA Hygiene Products GmbH Mannheim	HRB3248	Mannheim, Germany	100	100	100
SCA Hygiene Products GmbH Neuss	HRB 14343	Neuss, Germany	100	100	100
SCA Hygiene Products Sp.z.o.o.	KRS No. 0000086815	Olawa, Poland	100	100	100
SCA Hygiene Products Supply SAS	509599619	Roissy, Bobigny, France	100	100	100
SCA Hygiene Products Manchester Ltd	4119442	Dunstable, UK	100	100	100

¹⁾ The SCA Hygiene Group has a small number of subsidiaries that are partly owned and hold significant non-controlling interests, see **TF2:1**.

F2. JOINTLY OWNED SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Vinda

Vinda is one of China's largest hygiene companies. The SCA Hygiene Group has been a shareholder in Vinda since 2007, became its majority shareholder in late 2013, and has consolidated Vinda's financials since the first quarter of 2014. In 2014, the SCA Hygiene Group divested its hygiene business in China, Hong Kong and Macau for integration with Vinda. In 2016, the SCA Hygiene Group's divestment of its business in Southeast Asia, Taiwan and South Korea for integration with Vinda was approved by the company's independent shareholders and the transaction was subsequently completed on April 1, 2016. Following this transaction and at the end of the period the SCA Hygiene Group's holding amounted to 54.6%. In 2017, Vinda is expected to acquire a property via a private placement that is expected to dilute the SCA Hygiene Group's holding to about 52.1%. Vinda's market capitalization on the Hong Kong stock exchange was SEK 19,329m (16,533; 11,551) at the end of the period.

Familia

Familia is 50% owned by the SCA Hygiene Group and 49.8% owned by the Gomez family. The SCA Hygiene Group is considered to have a controlling influence over Familia, despite the fact that the SCA Hygiene Group does not hold a majority of shares in the company. The SCA Hygiene Group is deemed to have a controlling influence since it has control over the activities with the most significant impact on Familia's return. Familia operates in the South American market and sells tissue and personal care products.

Financial information

Financial information is recognized below for both subsidiaries. Financial information has not been recognized for other subsidiaries since no other individual subsidiary had a material impact on the Group's earnings and position.

These balance sheets have been recognized taking into consideration the recognition of Vinda and Familia in the SCA Hygiene Group's consolidated financial statements, whereby consideration was given to adjustments for surplus values in connection with acquisitions.

TF2:1 Subsidiaries with significant non-controlling interests, 100% of operations

SEKm	Vinda ¹⁾			Familia ¹⁾		
	2016	2015	2014	2016	2015	2014
Condensed income statement						
Net sales	13,297	10,463	7,024	6,075	6,186	5,650
Operating profit	1,038	736	500	733	783	719
Profit for the period	685	302	368	236	607	499
- Of which attributable to owners of the Parent	374	155	189	115	311	247
Other comprehensive income/loss for the period	-94	194	1,371	486	-684	41
- Of which attributable to owners of the Parent	-51	119	857	270	-412	27
Comprehensive income/loss for the period	591	496	1,739	722	-77	540
- Of which attributable to owners of the Parent	323	274	1,046	385	-101	274
- Of which attributable to non-controlling interests	268	222	693	337	24	266
Dividend to non-controlling interests	55	88	63	87	92	145
Condensed balance sheet						
Non-current assets	17,327	13,587	12,535	3,250	2,917	3,344
Current assets	5,669	4,623	4,320	2,825	2,494	2,453
Total	22,996	18,210	16,855	6,075	5,411	5,797
Equity attributable to owners of the Parent	7,573	5,895	5,715	2,398	2,089	2,259
Equity attributable to Non-controlling interests	4,503	3,570	3,437	1,764	1,510	1,583
Non-current liabilities	5,394	4,543	3,165	475	486	548
Current liabilities	5,526	4,202	4,538	1,438	1,326	1,407
Total	22,996	18,210	16,855	6,075	5,411	5,797
Cash flow from operating activities	2,439	810	739	569	440	767
Cash flow from investing activities	-1,129	-1,322	-2,092	-60	-135	-103
Cash flow from financing activities	583	171	1,384	-349	-249	-475
Cash flow for the period	1,893	-341	31	160	56	189

¹⁾ For more information about the companies, refer to the list of major subsidiaries.

F3. JOINT VENTURES AND ASSOCIATES

AP ACCOUNTING PRINCIPLES

Joint arrangements

The SCA Hygiene Group classifies its joint arrangements as joint ventures or joint operations, which are presented in further detail in Note F4.

Joint ventures

Joint ventures are defined as companies in which the SCA Hygiene Group 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 investment. 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 "Share of profits of associates and joint ventures". Share in profits is calculated on the basis of the SCA Hygiene Group's share of equity in the respective joint venture. Joint arrangements recognized in accordance with the equity method are initially measured at cost. Measurement of acquired assets and liabilities is carried out in the same way as

for subsidiaries. The SCA Hygiene Group's single largest joint venture is Bunzl & Biach G.m.b.H., Vienna, which supplies the business with raw materials.

Associates

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary or a joint arrangement. Normally, this means that the Group owns between 20% and 50% 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 associate after the acquisition is recognized as a component of one line in the consolidated income statement "Share of profits of associates and joint ventures". Share in profits is calculated on the basis of the SCA Hygiene Group's share of equity in the respective associate.

F3. JOINT VENTURES AND ASSOCIATES, CONT.

Carrying amounts of joint ventures and associates

SEKm	2016	2015	2014
Joint ventures			
Value, January 1	114	122	836
Investments	-	-	129
Net increase in joint ventures ¹⁾	10	4	-164
Reclassification between joint ventures and associates	-	-8	-719
Translation differences	6	-4	40
Value, December 31	130	114	122
Associates			
Value, January 1	927	925	127
Investments	-	66	-
Company divestments	-40	-	-
Net increase in associates ¹⁾	11	40	90
Impairment of associates	-	-62	-
Reclassification between associates and subsidiaries	-	-	-44
Reclassifications due to changes in the acquisition balance sheet	-	-	-11
Reclassification between joint ventures and associates	-	8	719
Translation differences	68	-50	44
Value, December 31	966	927	925
BS TF3:1 Value, December 31, joint ventures and associates	1,096	1,041	1,047

¹⁾ Net increase for the period includes the Group's share of the profit after tax of joint ventures and associates, as well as items recognized directly in equity (both after deductions for any non-controlling interests), in addition to an adjustment for dividends received during the period, which amounted to SEK 2m (11; 10) for joint ventures and SEK 147m (125; 16) for associates.

Joint ventures and associates

Asaleo Care Ltd

As of 2014, Asaleo Care Ltd in Australia is recognized as an associate in accordance with the equity method, following the flotation of the company on the Australian Securities Exchange (ASX). In connection with the flotation, the SCA Hygiene Group's participation decreased to 32.5% from the previous figure of 50%. In 2015, the company implemented a program to repurchase shares from the market, in which the SCA Hygiene Group did not participate. This caused the SCA Hygiene Group's participation in Asaleo Care to increase to 34.7% during the fourth quarter of 2015. This program continued in 2016, resulting in the SCA Hygiene Group's share in the company increasing to 35.9%. Asaleo Care manufactures and markets consumer tissue and AfH tissue, baby diapers, feminine care products and incontinence products. The SCA Hygiene Group has licensed its Tork and TENA brands to Asaleo Care for sale in Australia, New Zealand and Fiji.

Bunzl & Biach

Bunzl & Biach is a joint venture that operates in the recovered paper market and supplies raw materials to the SCA Hygiene Group's business.

TF3:1 Material joint ventures and associates, 100% of operations

SEKm	Joint ventures			Associates			Total		
	Bunzl & Biach	Asaleo Care Ltd		Bunzl & Biach	Asaleo Care Ltd		2016	2015	2014
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Condensed income statement									
Net sales	955	852	776	3,851	3,946	3,890	4,806	4,798	4,666
Depreciation/amortization	-11	-11	-9	-185	-169	-154	-196	-180	-163
Operating profit	22	31	20	597	736	375	619	767	395
Interest income	-	-	-	2	3	-	2	3	-
Interest expenses	-	-	-	-67	-64	-153	-67	-64	-153
Other financial items	1	3	1	-2	-3	-208	-1	-	-207
Tax expense	-	-8	-6	-155	-193	5	-155	-201	-1
Profit for the period	23	26	16	375	479	18	398	505	34
Other comprehensive income/loss for the period	-	-1	-	31	-49	106	31	-50	106
Comprehensive income for the period	23	25	16	406	430	124	429	455	140
Condensed balance sheet									
Non-current assets	118	106	53	3,600	3,343	3,555	3,718	3,449	3,608
Cash and cash equivalents	15	10	55	199	214	226	214	224	281
Other current assets	120	93	98	1,269	1,159	1,161	1,389	1,252	1,259
Total assets	253	209	206	5,068	4,716	4,942	5,321	4,925	5,148
Non-current financial liabilities	60	50	48	2,121	1,792	1,723	2,181	1,842	1,771
Other non-current liabilities	46	47	46	252	181	78	298	228	124
Current financial liabilities	-	-	-	28	24	5	28	24	5
Other current liabilities	25	16	18	652	668	658	677	684	676
Total liabilities	131	113	112	3,053	2,665	2,464	3,184	2,778	2,576
Net assets	122	96	94	2,015	2,051	2,478	2,137	2,147	2,572
Group share of net assets	60	47	46	725	711	806	785	758	852
Fair value adjustment	58	56	66	178	119	43	236	175	109
Carrying amount of the companies	118	103	112	903	830	849	1,021	933	961
Carrying amount of other joint ventures							12	11	10
Carrying amount of other associates							63	97	76
BS TF3:2 Carrying amount of joint ventures and associates							1,096	1,041	1,047
Market value, December 31				5,296	5,495	6,402			

F3. JOINT VENTURES AND ASSOCIATES, CONT.

TF3:2 Carrying amounts of joint ventures and associates

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2016, %	Share of equity at December 31, 2015, %	Share of equity at December 31, 2014, %	Carrying amount December 31, 2016, SEK m	Carrying amount December 31, 2015, SEK m	Carrying amount December 31, 2014, SEK m
Joint ventures								
Bunzl & Blach GmbH	FN79555v	Vienna, Austria	49	49	49	118	103	112
Other						12	11	10
Associates								
Asaleo Care Ltd	61 154 461 300	Melbourne, Australia	36	35	33	903	830	849
Other						63	97	76
BS TF3:1 Carrying amount, December 31						1,096	1,041	1,047

F4. JOINT OPERATIONS

AP ACCOUNTING PRINCIPLES

Joint operations are defined as companies in which the SCA Hygiene Group together with other parties through an agreement, has shared control over operations. In joint operations, parties to the agreement have rights to the assets and obligations for the liabilities associated with the investment, meaning that the operator must account for its share of the assets, liabilities, revenues and costs according to the proportional method.

Measurement of acquired assets and liabilities according to the proportional method is carried out in the same way as for subsidiaries. The SCA Hygiene

Group recognizes its proportional share of the company's assets, liabilities, income and expenses in its financial statements. A small number of companies in the SCA Hygiene Group are deemed to be joint operations, namely Uni-Charm Mölnlycke, ProNARO and Nokianvirran Energia, in which the parties to the agreement acquire all products and services from the companies and the companies are operated with near-zero profit.

Joint operations

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2016	Share of equity at December 31, 2015	Share of equity at December 31, 2014
Uni-Charm Mölnlycke B.V.	02-330 631	Hoogezand, Netherlands	40	40	40
ProNARO GmbH	HRB 8744	Stockstadt, Germany	50	50	50
Nokianvirran Energia Oy (NVE)	213 1790-4	Kotipakka, Finland	27	27	27

Uni-Charm Mölnlycke

Uni-Charm is classified as a joint operation since the parties to the agreement purchase all products produced by the company. The products are priced in a manner that allows the operations to receive full cost recovery for their production and financing costs. This means that the company in the joint operation is operated with near-zero profit and thus is not exposed to commercial risk. This joint operation has operations in Hoogezand in the Netherlands, Venio in Russia and Delaware in the US.

ProNARO

A number of paper mills merged and formed the company ProNARO, whose main task is to negotiate favorable prices, optimize inventory levels, improve timber quality and reduce lead times and costs when purchasing timber. ProNARO's purchasing is based on forecast volumes from the paper mills. The company's production and administration costs are charged to the paper mills through the price set for the timber. Any budget or price deviations are charged to the paper mills for these additional costs, which means that ProNARO is not exposed to commercial risk.

Nokianvirran Energia

The SCA Hygiene Group has an agreement with two other stakeholders as a joint so-called mankala company in the Finnish energy market, where the joint parties produces heat and steam from biofuel. Each party in the joint operation is obligated to bear a portion of the fixed costs in proportion to its holding in the company and to pay for the raw materials used in the production of heat and steam in proportion to its consumption. Accordingly, the company is not profit-driven since the parties themselves bear their respective costs. The company is expected to generate near-zero profit and thus is not exposed to commercial risk.

F5. SHARES AND PARTICIPATIONS

Shares and participations

SEKm	2016	2015	2014
Value, January 1	33	40	40
Divestments	-1	-7	-
Other reclassifications	-	-	-
Translation differences	-	-	-
BS Value, December 31	32	33	40

Shares and participations pertain to holdings in other companies that are not classified as subsidiaries, joint arrangements or associates. Since these holdings are of an operating nature, the holdings are not classified as available-for-sale financial assets. Carrying amounts concur with fair value.

F6. ACQUISITIONS AND DISPOSALS

AP ACCOUNTING PRINCIPLES

Acquisition of subsidiaries

The SCA Hygiene Group 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 in the company, 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 and any changes in value are 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 profit or loss. If the controlling influence is lost upon the divestment of an operation, the result is recognized in profit or loss and 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 profit or loss.

Acquisitions in which a controlling influence is achieved that do not lead to loss of control 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 in 2016

On October 13, 2015, a public bid for Wausau Paper Corp., one of the largest AfH tissue companies in the North American market, was announced. The transaction was approved by US authorities on November 17, 2015, and Wausau Paper's shareholders accepted the bid at the general meeting held on January 20, 2016. The transaction was completed on January 21, 2016, with all shares in the company being acquired. SCA Hygiene has consolidated Wausau as of this date. The consideration transferred amounted to USD 513m (SEK 4,401m) in cash. Goodwill is motivated by synergies between SCA Hygiene and Wausau Paper, including the capacity to offer customers a broad portfolio of products. The acquisition is expected to generate annual synergies of approximately USD 40m, with full effect three years after closing. Synergies are expected in sourcing, production, logistics, reduced imports, increased volumes of premium products and reduced sales, general and administration costs. The restructuring costs are expected to amount to approximately USD 50m. The cost for the acquisition amounted to SEK 90m.

A minor acquisition of Sensassure in Canada was completed during the year. The consideration transferred amounted to SEK 47m, of which SEK 19m relates to an earn-out payment that is contingent upon certain performance measures being met.

Effect on sales and earnings of acquisitions for the period

Since the acquisition date, the acquisition of Wausau has had an impact of SEK 2,996m on consolidated net sales, of SEK 272m on adjusted operating profit and of SEK 36m on profit for the period, including items affecting comparability, before tax. If the acquisition had been consolidated from January 1, 2016, the expected net sales would have amounted to SEK 3,164m and profit before tax, including items affecting comparability, to SEK 48m. Sensassure is a development company and has initially only yielded costs of about SEK 2m.

Acquisitions in 2015

With the exception of the acquisition of Nampak, which is described in more detail below, SCA made only minor supplementary investments in 2015 and made earn-out payments for previously acquired companies. In July, the SCA Hygiene Group signed an agreement to acquire the remaining 50% of the jointly owned South African subsidiary Sancella S.A. Nampak. The purchase consideration amounted to SEK 1. The SCA Hygiene Group had already recognized Sancella S.A. as a subsidiary, which is why the acquisition will be recognized as an equity transaction.

The acquisitions conducted during the period, which amounted to SEK 74m, were paid in cash. The earn-out payment for FZCO Sancella amounted to SEK 19m, of which SEK 11m was paid in cash and the remaining SEK 8m was recognized as a financial liability. Operating profit for the period includes acquisition costs of approximately SEK 1.4m.

Effect on sales and earnings of acquisitions for the period

No new acquisitions were carried out during the period.

Acquisitions in 2014

In 2014, the SCA Hygiene Group conducted a number of minor acquisitions, which were jointly recognized in the acquisition balance sheet for 2014, since no individual transaction was of a material nature. Acquisitions made during the year totaled SEK 508m, including assumed net debt.

On August 1, the SCA Hygiene Group's subsidiary Vinda acquired an additional 50% in the associate Vinda Personal Care for HKD 295m. Earlier holdings in Vinda Personal Care have been restated in accordance with IFRS and had a positive remeasurement effect of SEK 33m.

In June 2014, the SCA Hygiene Group acquired the remaining 50% of the joint venture Fine Sancella in Jordan from Nuqul Group. The consideration transferred amounted to SEK 171m. Following amendments to the IFRS governing consolidated financial statements and joint arrangements (IFRS 10 and IFRS 11), Fine Sancella has been consolidated as a subsidiary since the SCA Hygiene Group is deemed to have control. Accordingly, the acquisition has been recognized as an equity transaction, which means that no acquisition balance sheet has been prepared.

Of acquisitions for the year totaling SEK 508m, SEK 488m was paid in cash, including assumed cash and cash equivalents, and the remaining SEK 20m comprises assumed net debt. Acquisition costs of approximately SEK 25m relating to acquisitions during the year are included in operating profit.

Effect on sales and earnings of acquisitions for the period

Since the acquisition date, acquisitions have had an impact of SEK 210m on consolidated net sales and an impact of SEK 2m on profit after tax for the period. Had other acquisitions been consolidated as of January 1, 2014, the acquired net sales would have amounted to SEK 401m and profit after tax to SEK 7m.

F6. ACQUISITIONS AND DISPOSALS, CONT.

Acquired operations

The table below shows the fair value of acquired net assets recognized on the acquisition date, recognized goodwill and the effect on the Group's cash flow statements.

Acquisition balance sheets			
SEKm	2016	2015	2014
Intangible assets	213	-	23
Property, plant and equipment	2,896	-	56
Other non-current assets	-	66	166
Operating assets	672	-	45
Cash and cash equivalents	14	-	15
Provisions and other non-current liabilities	-71	-	-5
Net debt excl. cash and cash equivalents	-2,124	-	-20
Operating liabilities	-528	-	-17
Fair value of net assets	1,072	66	263
Goodwill	3,375	-	282
Consolidated value of share in associates	-	-	-72
Revaluation of previously owned shares	-	-	-35
Consideration transferred	4,447	66	438
Consideration transferred	-4,447	-66	-438
Earn-out payment	19	-	-
Settled debt pertaining to acquisitions in earlier years	-2	-6	-
Cash and cash equivalents in acquired companies	14	-	15
Adjustment of cash and cash equivalents in final acquisition analysis for Vinda	-	-	-69
CF Effect on Group's cash and cash equivalents, acquisition of operations	-4,416	-72	-492
Acquisition of non-controlling interests	-	-19	-173
Acquired net debt excl. cash and cash equivalents	-2,124	-	-20
Adjustment of net debt in final acquisition analysis for Vinda	-	-	193
OCF Acquisition of operations during the period, including net debt assumed	-6,540	-91	-492

Specification of acquisition balance sheet 2016

SEKm	Wausau	Other	Total
Intangible assets	213	-	213
Property, plant and equipment	2,896	-	2,896
Other non-current assets	-	-	0
Operating assets	672	-	672
Cash and cash equivalents	14	-	14
Provisions and other non-current liabilities	-71	-	-71
Net debt excl. cash and cash equivalents	-2,127	3	-2,124
Operating liabilities	-525	-3	-528
Fair value of net assets	1,072	0	1,072
Goodwill	3,329	46	3,375
Consideration transferred	4,401	46	4,447
Consideration transferred	-4,401	-46	-4,447
Earn-out payment	-	19	19
Settled debt pertaining to acquisitions in earlier years	-	-2	-2
Cash and cash equivalents in acquired companies	14	-	14
CF Effect on Group's cash and cash equivalents, acquisition of operations	-4,387	-29	-4,416
Acquired net debt excl. cash and cash equivalents	-2,127	3	-2,124
OCF Acquisition of operations during the period, including net debt assumed	-6,514	-26	-6,540

Adjustment of preliminary acquisition balance sheets for 2016

An acquisition analysis is considered preliminary until it is confirmed. A preliminary acquisition analysis is changed as soon as new information regarding assets/liabilities on the acquisition date is obtained, but not later than one year from the time of acquisition the acquisition balance sheet is confirmed. Adjustments to acquisition analyses result in changes to the income statement and balance sheet for the comparative period. The preliminary acquisition analysis for Wausau was adjusted compared with the first quarter as a result of further information being obtained regarding the market value and new calculations were made relating to intangible assets. The other acquisition analyses prepared in the preceding year were confirmed in accordance with the preliminary acquisition analyses.

Acquisitions after the end of the reporting period

On December 19, 2016, it was announced that an agreement to acquire BSN medical, a leading medical technology company, had been concluded. BSN medical develops, manufactures, markets and sells products with the areas of wound care, compression therapy and orthopedics. The purchase consideration for the shares amounted to EUR 1,400m and the takeover of net debt to approximately EUR 1,340m. The acquisition will be fully debt funded and SCA Hygiene Group have committed credit facilities in place. The completion of the transaction is subject to customary regulatory approvals. Closing of the transaction is expected in the second quarter of 2017.

Divestments

In June, the 33.3% holding in the recycling company IL Recycling was divested, of which the SCA Hygiene Group and SCA's forest products operation each owned 16.65%. The purchase consideration in the SCA Hygiene Group amounted to SEK 120m and the capital gain to SEK 99m. In November, the remaining non-current assets in China not included in the hygiene business transferred to Vinda in 2014 were divested. The purchase consideration amounted to SEK 169m and resulted in a capital gain of SEK 40m excluding divestment costs and the reversal of accumulated exchange rate differences in the divested operation previously recognized in equity. Including divestment costs and the reversal of accumulated exchange rate differences, the outcome was SEK -26m. In addition to these divestments, payment was received for a number of minor divestments in China and Sweden, with the total purchase consideration for these amounting to SEK 29m and the capital gain to SEK 26m.

All capital gains were recognized in items affecting comparability in profit or loss. In addition, final settlement totaling SEK 59m was received relating to the earn-out payment for the baby diaper operation in South Africa, which was divested in 2015.

Assets and liabilities included in divestments

SEKm	2016	2015	2014
Property, plant and equipment	-10	48	-
Other non-current assets	43	-	-
Operating assets	3	68	-
Non-current assets held for sale	124	-	-
Cash and cash equivalents	8	-	-
Operating liabilities	-15	-	-
Gain/loss on sale ¹⁾	165	-	-
Compensation received	318	116	-
<i>Less:</i>			
Unpaid purchase consideration	-	-67	-
Cash and cash equivalents in divested companies	-8	-	-
<i>Add:</i>			
Payment of receivable for purchase consideration	59	-	205
CF Effect on Group's cash and cash equivalents, divestments	369	49	205
<i>Less:</i>			
Divested net debt excl. cash and cash equivalents	-	-	-
OCF Divestment of operations during the period, including net debt transferred	369	49	205

¹⁾ Excluding reversal of realized translation differences in divested companies to profit or loss. Gain/loss on sale is included in items affecting comparability in profit or loss.

G. OTHER

G1. NON-CURRENT ASSETS HELD FOR SALE

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 profit and loss 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/loss after tax 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.

Non-current assets held for sale and discontinued operations

SEKm	2016	2015	2014
Buildings	59	53	15
Land	31	67	43
Machinery and equipment	66	-	1
Construction in progress	-	-	1
BS Total	156	120	60

In 2016, non-current assets held for sale are attributable to the closure of a tissue production plant in Spain in the amount of SEK 59m and the discontinuation of the hygiene operation in India in the amount of SEK 97m.

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 incidental to ownership have been transferred to the SCA Hygiene Group, 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 incidental 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 expenses

SEKm	2016	2015	2014
Operating leases	-696	-681	-655
Finance leases, depreciation/amortization	-2	-5	-7
Finance leases, interest expense	0	-2	-2
Total	-698	-688	-664

Operating leases, future minimum lease payments

SEKm	2016	2015	2014
Within 1 year	515	485	483
Between 2 and 5 years	1,209	933	975
Later than 5 years	1,392	545	631
Total	3,116	1,963	2,089

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.

Finance leases, future minimum lease payments

SEKm	2016	2015	2014
Within 1 year	1	6	39
Between 2 and 5 years	1	12	3
Later than 5 years	-	35	-
Total	2	53	42
Of which, interest	0	-18	-1
Present value of future minimum lease payments	2	35	41

Other disclosures

In 2016, a rental contract for a distribution center was terminated. In conjunction with this, the distribution center was acquired for SEK 29m. Total payments for finance leases during the period amounted to SEK -31m (-9; -13), of which amortization of debt accounted for SEK -31m (-7; -11). The carrying amount of finance lease assets at year-end amounted to SEK 0m (29; 36) relating to buildings/land and SEK 5m (3; 5) relating to machinery.

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	2016	2015	2014
Guarantees for			
associates	8	9	12
customers and others	39	38	35
Tax disputes	-	1,302	1,554
Other contingent liabilities	214	243	248
Total	261	1,592	1,849

Other contingent liabilities above relates to recovery fees/taxes for packing material in France where the requirement is subject to judicial review.

For the 2015 and 2014 periods, the following contingent liabilities were recognized

Contingent liabilities for tax mainly relate to one tax dispute in Sweden where the Tax Agency has decided on additional taxes and tax surcharges for the years 2008 to 2012 of approximately SEK 1,188m, including interest. The dispute pertains to interest expenses on loans in a Group company that arose in connection with the move of operations to Sweden in 2004.

The SCA Hygiene Group's assessment is that the tax claim will not be upheld in court. Consequently, no provision has been made in the accounts for this claim.

The SCA Hygiene Group is under examination by the competition authorities in certain countries. The SCA Hygiene Group assesses that the ongoing inquiries will not have a material financial impact.

Pledged assets

SEKm	Pledged assets related to financial liabilities		Total		
	Other		2016	2015	2014
Real estate mortgages	7	-	7	7	6
Chattel mortgages	35	20	55	52	56
Other	-	130	130	134	138
Total	42	150	192	193	200

Liabilities for which some of these assets were pledged as collateral amounted to SEK 0m (0; 0).

G4. TRANSACTIONS WITH RELATED PARTIES

The SCA Hygiene Group has had a number of transactions with both units in Forest Products and the Parent Company SCA AB. These transactions and dealings are outlined in the table below for all fiscal years. Pricing between units has adhered to the transfer pricing policy that applies at the SCA Group. In relation to remuneration of senior executives, refer to Note C3 and to disclosures regarding associates, joint ventures and joint operations in Notes F3 and F4.

Purchases from Forest Products during the fiscal years relate primarily to pulp used in the SCA Hygiene Group's manufacturing process. Other income relates to management fees that are invoiced to Forest Products for such items as management functions and which have been allocated to the Hygiene Group in connection with the preparation of the combined financial statements. The financial income is attribute to the internal bank's lending to Forest Products.

The most significant dealing during the presented fiscal years relates to the lending that SCA Hygiene has conducted via the internal bank to Forest products which is classified as current financial receivables, Group companies. In conjunction with SCA Hygiene AB's acquisition of the hygiene products operations in December 2016 and net debt is preliminary allocated between the lines of business, this receivable related to Forest Products is reduced. This is reflected as a transaction with owners that was recognized in equity in 2016, which explains the large change between the years. Other transactions with owners via equity that were carried out during the fiscal years are presented in Note E8. Other dealings primarily concern internal derivative positions and working capital items.

In conjunction with the transfer outlined above, SCA Hygiene AB is also assuming the majority of the external financing that exists in the SCA Group. In connection with this, a Parent Company guarantee is also issued from SCA AB for the benefit of SCA Hygiene AB as security for these debt instruments.

Transactions and dealings with Group companies

SEKm	2016	2015	2014
Sales	-	-	-
Purchases	511	482	424
Other income	56	57	14
Financial income	108	132	230
Financial expenses	-2	-2	-7
Non-current receivables, Group companies	-	39	11
Non-current financial receivables, Group companies	3	3	3
Current receivables, Group companies	57	166	117
Of which, trade receivables	18	79	39
Of which, currency derivatives	33	10	30
Of which, energy derivatives	6	77	48
Current financial receivables, Group companies	1,433	12,207	12,764
Non-current liabilities, Group companies	48	-	4
Of which, currency derivatives	12	-	3
Of which, energy derivatives	36	-	1
Non-current financial liabilities, Group companies	-	-	-
Current liabilities, Group companies	259	341	273
Of which, trade payables	100	106	88
Of which, currency derivatives	64	29	1
Of which, energy derivatives	58	3	1
Of which, other current liabilities	37	203	183
Current financial liabilities, Group companies	485	852	1,797

Financial statements, Parent Company

Income statement IS

SEKm	Note	2016	2015
Administrative expenses		0	-
Operating profit	PC1	0	-
Financial items	PC9		
Loss from participations in Group companies		-225	-
Interest income and similar profit items		16	-
Interest expenses and similar loss items		-35	-
Total financial items		-244	-
Loss after financial items		-244	-
Tax on profit for the period	PC3	230	-
Loss for the period		-14	-

Statement of comprehensive income

SEKm	2016	2015
Loss for the period	-14	-
Other comprehensive income	-	-
Total comprehensive loss	-14	-

Cash flow statement CF

SEKm	2016	2015
Operating activities		
Loss after financial items	-244	-
Adjustment for non-cash items T1:1	803	-
Cash flow from operating activities before changes in working capital	559	-
Change in operating receivables	-46	-
Change in operating liabilities ¹⁾	493	-
Cash flow from operating activities	1,006	-
Investing activities		
Acquisition of subsidiaries	-167,601	-
Acquisition of fixed assets	-6	-
Cash flow from investing activities	-167,607	-
Financing activities		
Loans raised	91,601	-
Capital contribution received	75,000	-
Cash flow from financing activities	166,601	-
Cash flow for the period	0	-
Cash and cash equivalents, January 1	0	-
Cash and cash equivalents, December 31 ²⁾	0	-

T1:1 Adjustment for non-cash items	2016	2015
Change in accrued items	-15	-
Change in provisions	818	-
Total	803	-

¹⁾ The dealings SCA Hygiene AB has with the Parent Company in respect of tax is recognized as a change in operating liabilities.

²⁾ The company's current account is a sub-account and is recognized in the balance sheet as liabilities to Group companies.

Supplementary disclosures

Interest and dividends paid and received	2016	2015
Group contribution paid	-225	-
Interest paid	-100	-
Interest received	119	-
Total	-206	-

Balance sheet BS

SEKm	Note	2016	2015
Assets			
Fixed assets			
Capitalized development costs		0	-
Intangible fixed assets	PC4	0	-
Machinery and equipment		7	-
Tangible fixed assets	PC5	7	-
Participations	PC6	167,601	0
Other long-term receivables		21	-
Deferred tax assets	PC3	230	-
Financial fixed assets		167,852	0
Total fixed assets		167,859	0
Current assets			
Receivables from Group companies	PC7	103	0
Other current receivables	PC8	46	-
Total current assets		149	0
Total assets		168,008	0
Equity, provisions and liabilities			
Equity	PC11		
Share capital		0	0
Statutory reserve		0	0
Total restricted equity		0	0
Retained earnings		75,000	0
Loss for the period		-14	-
Total non-restricted equity		74,986	0
Total equity		74,986	0
Provisions			
Provisions for pensions	PC2	839	-
Total provisions		839	-
Non-current liabilities			
Non-current interest-bearing liabilities	PC9	23,006	-
Total non-current liabilities		23,006	-
Current liabilities			
Liabilities to Group companies	PC7	68,891	-
Accounts payable		4	-
Other current liabilities	PC10	282	-
Total current liabilities		69,177	-
Total equity, provisions and liabilities		168,008	0

Change in equity (Refer also to Note PC11)

SEKm	Share capital	Statutory reserve	Retained earnings and profit/loss for the period	Total equity
Equity at December 31, 2014	0	0	0	0
Profit/loss for the period			-	-
Equity at December 31, 2015	0	0	0	0
Profit/loss for the period			-14	-14
New issue	0	-	-	0
Capital contribution received			75,000	75,000
Equity at December 31, 2016	0	0	74,986	74,986

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PC. PARENT COMPANY NOTES**PC1. OPERATING PROFIT****Operating profit by type of cost**

SEKm	2016	2015
Other external costs	0	-
IS Total	0	-

The company was dormant for much of 2016. Costs for auditing were charged to the Parent Company Svenska Cellulosa Aktiebolaget SCA.

Leasing**AP ACCOUNTING PRINCIPLES**

The company recognizes all leases as operating leases.

Future payment commitments for non-cancellable operating leases are as follows:

SEKm	2016	2015
Within 1 year	24	-
Between 2 and 5 years	50	-
Later than 5 years	-	-
Total	74	-

On December 31, 2016, the company assumed all of Svenska Cellulosa Aktiebolaget SCA's outstanding leasing contracts. Leased assets comprise means of transportation, office premises and technical equipment.

PC2. PERSONNEL AND BOARD COSTS**Salaries and remuneration**

No salaries and remuneration were paid during the fiscal year. The majority of the employment contracts in Svenska Cellulosa Aktiebolaget SCA were transferred to the company as per January 1, 2017.

Social security costs

No social security costs were charged to the company in 2016.

Through an agreement with Svenska Cellulosa Aktiebolaget SCA on the transfer of assets and liabilities dated December 31, 2016, the company has assumed pension obligations totaling SEK 839m. Of these, pension obligations to the company's Board, President, Executive Vice President and senior executives in the SCA Group total SEK 30m.

Premiums for 2017 for disability and family pension insurance with Alecta are expected to amount to SEK 3m (see also Pension provisions in this note).

Average number of employees

The company had no employees as of December 31, 2016. Women comprised 56% (-) of Board members and 36% (-) of senior executives.

PC2. PERSONNEL AND BOARD COSTS, CONT.

Provisions for pensions

AP ACCOUNTING PRINCIPLES

SCA Hygiene AB applies the regulations in the Pension Obligations Vesting Act (Tryggandelagen). Recognition complies with the simplification rule for defined benefit pension plans in accordance with the voluntary exception in RFR 2 regarding IAS 19. The main difference compared with IAS 19 is that Swedish GAAP 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 SCA Hygiene AB.

PRI Pensions

At SCA, pension liabilities pertaining to PRI pensions have been secured through a common Swedish pension fund. The intention is to formally assume Svenska Cellulosa Aktiebolaget SCA's share of the foundation's assets and its pension obligations. The market value of the company's portion of the foundation's assets at December 31, 2016 amounted to SEK 127m (111). In the past two years, no compensation has been received. The capital value of the pension obligations at December 31, 2016 amounted to SEK 125m (119). In 2016, the assets exceeded the pension obligations by SEK 2m.

Other pension obligations

The Group's Note C3 Remuneration of senior executives describes the other defined benefit pension plans of the company. The table below shows the change between the years.

Capital value of pension obligations relating to self-administered pension plans		
SEKm	2016	2015
Value, January 1	0	0
Compensation received for assumed pension obligations	839	-
BS Value, December 31	839	0

External actuaries have carried out capital value calculations pursuant to the provisions of the Swedish Act on Safeguarding of Pension Obligations. The discount rate is 0.8% (1.9). The defined benefit obligations are calculated based on salary levels valid on the respective balance sheet dates. All of the company's pension obligations were transferred from the Parent Company Svenska Cellulosa Aktiebolaget SCA as per December 31, 2016. The pension obligations will be formally transferred when the County Administrative Board grants its approval, which is expected to occur in 2017. Next year's expected payments for the above defined benefit pension plans amount to SEK 30m.

PC3. TAXES

AP ACCOUNTING PRINCIPLES

Due to the links between accounting and taxation, the deferred tax liability on untaxed reserves is recognized in the company's annual accounts as a component of untaxed reserves.

Tax expense (+), tax income (-)		
SEKm	2016	2015
Deferred tax	-230	-
Current tax	-	-
IS Total	-230	-

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 multiplied by the current tax rate.

Reconciliation	2016		2015	
	SEKm	%	SEKm	%
IS Profit/loss before tax	-244		0	
IS Tax expense/income	-230	-94.2	0	0.0
Expected tax	-54	-22.0	0	0.0
Difference	-176	-72.2	0	0.0
The difference is due to:				
Non-taxable Group contributions from Parent Company	-175	-71.7	0	0.0
Other non-taxable/non-deductible items	-1	-0.5	0	0.0
Total	-176	-72.2	0	0.0

The company participates in the Svenska Cellulosa Aktiebolaget SCA Group's tax pooling arrangement. Net of paid and received Group contributions amounts to 22%. Non-taxable Group contributions consists of the repayment made from the parent company amounting to 78% of Group contributions.

Deferred tax expense (+), tax income (-)

SEKm	2016	2015
Changes in temporary differences	-230	0
Adjustments for prior periods	0	0
Total	-230	0

Provisions for taxes

SEKm	Value, January 1	Deferred tax income	Value, December 31
Provisions for pensions	-	-176	-176
Other	-	-54	-54
BS Total	-	-230	-230

PC4. INTANGIBLE FIXED ASSETS

Capitalized development costs

SEKm	2016	2015
Accumulated costs	0	-
Residual value according to plan	0	-
Value, January 1	-	-
Investments	0	-
BS Value, December 31	0	-

PC5. TANGIBLE FIXED ASSETS

AP ACCOUNTING PRINCIPLES

SCA Hygiene AB's tangible fixed assets are recognized in accordance with the Group's accounting principles. Investments during the year relate to the transferred tangible assets contained in the Parent Company's balance sheet in accordance with the agreement on the transfer of assets and liabilities. The transfers were carried out at the carrying amount.

Tangible fixed assets

SEKm	Equipment	
	2016	2015
Accumulated costs	7	-
Residual value according to plan	7	-
Value, January 1	-	-
Investments	7	-
BS Value, December 31	7	-

PC6. PARTICIPATIONS

AP ACCOUNTING PRINCIPLES

SCA Hygiene AB recognizes all holdings in Group companies at cost after deduction for any accumulated impairment losses.

As part of the imminent split of the SCA Group into one hygiene products division and one forest products division, SCA Hygiene AB took over the hygiene division in the form of an agreement on the transfer of assets and liabilities. Certain assets and liabilities were transferred gradually over the course of the month and the final transfer occurred on December 30 2016. The transfer related mainly to shares in subsidiaries, which comprise the bulk of the hygiene products operations. Fixed assets, external loans, personnel and pension obligations in SCA AB, attributable to the hygiene products operations, were also transferred. The transfer was partially financed by a capital contribution and partially via the assumption of an external and intra-group liability. Legally, all obligations were transferred as of December 30 2016, although certain approvals are required in order for the shares in SCA Försäkringsaktiebolag and the pension obligations to be considered transferred from a civil judicial perspective, and thus SCA AB remains the legal owner and liable party for these, which is commented on in Note PC2 and below. For practical reasons, some current assets and liabilities had not yet been transferred as per December 31 2016, which is why they are recognized in SCA AB and deducted from the final purchase consideration.

Participations in Group companies

SEKm	Subsidiaries	
	2016	2015
Accumulated acquisition costs	167,601	-
Total carrying amount	167,601	-
Value, January 1	0	0
Investments	167,601	-
BS TPC6:1 Value, December 31	167,601	0

In 2016, the company acquired all of the shares in SCA Group Holding BV amounting to SEK 95,836m. As per December 30 2016, all shares in six companies in the SCA Group were transferred from Svenska Cellulosa Aktiebolaget SCA at carrying amount via an agreement on the transfer of assets and liabilities. The shares in SCA Försäkringsaktiebolag were included in the transfer, however, pending the approval of the Swedish Financial Supervisory Authority, the holding is recognized in Svenska Cellulosa Aktiebolaget SCA's balance sheet.

TPC6:1 SCA Hygiene AB's holdings of shares and participations in subsidiaries, December 31, 2016

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget FOF	556047-8520	Stockholm, Sweden	1,000	100	0
SCA Research Aktiebolag	556146-6300	Stockholm, Sweden	1,000	100	0
SCA Hedging AB	556666-8553	Stockholm, Sweden	1,000	100	0
Foreign subsidiaries:					
SCA Group Holding BV	33181970	Amsterdam, Netherlands	246,347	100	95,836
SCA Capital NV	0810.983.346	Diegem, Belgium	2,558,169	100	71,486
SCA Hygiene Products S.p.A.	3318780966	Capannori, Italy	125,000	25	279
Total carrying amount of subsidiaries					167,601

PC7. RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

Receivables from and liabilities to subsidiaries

SEKm	2016	2015
Current assets		
Interest-bearing receivables	-	-
Other receivables	103	0
BS Total	103	0
Current liabilities		
Interest-bearing liabilities	68,322	-
Other liabilities	569	-
BS Total	68,891	-

PC8. OTHER CURRENT RECEIVABLES

Other current receivables		
SEKm	2016	2015
TPC8:1 Prepaid expenses and accrued income	45	-
Other receivables	1	-
BS Total	46	-
TPC8:1 Prepaid expenses and accrued income		
Prepaid lease of premises	7	-
Prepaid financial expenses	30	-
Prepaid pension premiums	-	-
Other items	8	-
Total	45	-

PC9. FINANCIAL INSTRUMENTS

Financial items		
SEKm	2016	2015
Result from participations in Group companies		
Group contributions paid to Parent Company	-225	-
Interest income and similar profit items		
Interest income, subsidiaries	16	-
Interest expenses and similar loss items		
Interest expenses, external	-16	-
Interest expenses, subsidiaries	-13	-
Other financial expenses ¹⁾	-6	-
IS Total	-244	0

¹⁾ The item financial expenses includes financial fees and exchange rate differences. Exchange rate differences amounted to SEK -2m (-), net.

Interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2016	2015	2016	2015
Bond issues	18,204	-	18,828	-
Other non-current loans with a term > 1 year < 5 yrs	1,505	-	1,499	-
Other non-current loans with a term > 5 yrs	3,297	-	3,207	-
BS Total	23,006	-	23,534	-

The counterparty for all outstanding bond issues within Svenska Cellulosa Aktiebolaget SCA was changed to SCA Hygiene AB in 2016. In 2017, the company has also assumed all other non-current loans recognized in Svenska Cellulosa Aktiebolaget SCA's balance sheet on December 31, 2016.

Bond issues				
Issued	Maturity	Carrying amount, SEKm		Fair value, SEKm
		2016	2015	2016
Notes SEK 600m	2019	603	-	602
Notes SEK 900m	2019	898	-	908
Green bond SEK 1,500m	2019	1,499	-	1,522
Notes EUR 300m	2020	2,861	-	2,871
Notes EUR 500m	2021	4,747	-	4,739
Notes EUR 500m	2023	4,738	-	5,265
Notes EUR 300m	2025	2,858	-	2,921
Total		18,204	-	18,828

Financial instruments by category

AP ACCOUNTING PRINCIPLES

In accordance with Paragraph 3 of RFR 2, the Parent Company has chosen 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 rule. 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. The accounting policies for financial instruments are applied for the items below. The financial instruments in the Parent Company are classified as loans and receivables for assets and other financial liabilities measured at amortized cost for liabilities. No other categories have been utilized over the past two years. These balance sheet items are not fully reconcilable since they may include items that are not financial instruments.

Loan and trade receivables

SEKm	2016	2015
Assets		
<i>Financial fixed assets</i>		
Interest-bearing receivables	21	-
<i>Current assets</i>		
Receivables to subsidiaries ¹⁾	103	-
Total	124	-

Financial liabilities measured at amortized cost

SEKm	2016	2015
Liabilities		
<i>Non-current liabilities</i>		
Interest-bearing liabilities	23,006	-
<i>Current liabilities</i>		
Liabilities to subsidiaries ¹⁾	68,549	-
Accounts payable	4	-
Other current liabilities	135	-
Total	91,694	-

¹⁾ The item Receivables from subsidiaries includes the carrying amount of financial derivatives in respect of subsidiaries of SEK 103m (-). The item Liabilities to subsidiaries includes the carrying amount of financial derivatives in respect of subsidiaries of SEK 342m (-). The net fair value of these derivatives amounts to SEK 446m (-). The nominal value of the derivatives is SEK 31,560m (-).

PC10. OTHER CURRENT LIABILITIES

Other current liabilities

SEKm	2016	2015
TPC10:1 Accrued expenses and prepaid income	280	-
Other operating liabilities	2	-
BS Total	282	-

TPC10:1 Accrued expenses and prepaid income

SEKm	2016	2015
Accrued interest expenses	135	-
Accrued social security costs	39	-
Accrued vacation pay liability	18	-
Other liabilities to personnel	74	-
Other items	14	-
Total	280	-

PC11. SHARE CAPITAL

The change in equity is shown in the financial report relating to Equity presented on page 80. The company was formed in 1988. The share capital and number of shares have increased since the formation via new issues as set out below:

Year	Event	No. of shares	Increase in share capital	Cash payment, SEKm
1988	Number of shares issued in connection with formation	500		0.0
1995	New issue 1:1, issue price SEK 100	500	0.0	0.0
2016	New issue 1:4, issue price SEK 100	4,000	0.4	0.4
2016	Number of shares, December 31, 2016	5,000		

The quotient value of the company's shares amounts to SEK 100.

PC12. CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities		
SEKm	2016	2015
Guarantees for subsidiaries	-	-
Other contingent liabilities	-	-
Total	-	-

Pledged assets		
SEKm	2016	2015
Chattel mortgages	-	-
Other	-	-
Total	-	-

PC13. ADOPTION OF THE ANNUAL ACCOUNTS

The annual accounts are subject to adoption by SCA Hygiene AB's Annual General Meeting and will be presented for approval at the Annual General Meeting in March 2017.

PC14. EVENTS AFTER THE BALANCE SHEET DATE

No events that would have had a significant impact on the financial reports has occurred after the balance sheet date.

PC15. PROPOSED DISPOSITION OF EARNINGS**Annual accounts 2016****Disposition of earnings, Parent Company**

Non-restricted equity in the Parent Company:

retained earnings	75,000,000,000
net loss for the year	-14,274,693
Total	74,985,725,307

The Board of Directors and the President propose

that the above amount be carried forward	74,985,725,307 ¹⁾
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Total	74,985,725,307
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¹⁾ The company's equity would have been SEK 186,375,464 higher if assets and liabilities had not been measured at fair value in accordance with Chapter 4, Section 14a of the Swedish Annual Accounts Act.

Stockholm, February 23, 2017

The Board of Directors and President declare that the combined financial statements that comprise the consolidated financial statements for the 2016, 2015 and 2014 fiscal years 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.

Pär Boman
Chairman of the Board

Ewa Björling
Board member

Majja-Liisa Friman
Board member

Barbara Milian Thoralfsson
Board member

Annemarie Gardshol
Board member

Johan Malmquist
Board member

Bert Nordberg
Board member

Louise Svanberg
Board member

Magnus Groth
President, CEO and Board
member

Our audit report was submitted on February 23, 2017
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant
Auditor in charge

PC16. AUDITOR'S REPORT

To the general meeting of the shareholders of SCA Hygiene AB (publ), corporate identity number 556325-5511

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of SCA Hygiene AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 1-85 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 2016 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 2016 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. 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.

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.

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.

Valuation of goodwill and other intangible assets (trademarks)

The value of goodwill and other intangible assets (trademarks) with an indefinite useful life as of 31 December 2016 amounted to 25.3 billion SEK. An impairment test is a complex process and contains a high degree of judgment regarding future cash flows and other assumptions. We have therefore assessed valuation of goodwill and other intangible assets with an indefinite useful life to be a key audit matter. The company performs annual impairment tests as well as when impairment indicators have been identified. The recoverable amount for each cash-generating unit is determined as the value in use, which is calculated based on the discontinued present value of future cash flows. Key assumptions in these calculations are future growth rate, gross profit and applied discount rate. The process is by nature based on assumptions and judgment, not least because it is based on estimates of how the company's business will be effected by future market developments and by other economic events, and the underlying calculations are in themselves complex.

In our audit we have evaluated and reviewed key assumptions, application of recognized valuation practice, discount rate (called WAAC – "Weighted Average Cost of Capital") and other source data that the company has used. This has been done by i.e. comparing to external data sources, such as forecasts of inflation or assessment of future market growth and by evaluating the sensitivity in the company's valuation model. We have as appropriate included valuation experts in the team performing our review. We have specifically

focused on the sensitivity in the calculations and have made an independent evaluation of whether there is a risk that reasonably probable events would give rise to a situation where the value in use would be lower than the carrying amount. In this assessment we have also evaluated the company's historical capability to forecast. Finally we have evaluated if disclosures provided in note D1 ("Intangible 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 value in use.

Tax risks and legal disputes

Provisions for tax risks and legal disputes amounted to 1.5 billion SEK in the statement of financial position for the group as of 31 December 2016. As follows from note D6 the provisions mainly relate to tax matters in Denmark as well as antitrust cases in Chile, Poland, Spain and Hungary. The provisions are made based on the company's best estimate of the outcome of these tax matters and legal disputes which is based on current regulation and praxis in the respective area. Furthermore, in 2016 the Company recorded 1.2 billion SEK in tax expense related to tax litigation initiated in prior years. As follows from note B4 this primarily related to a Swedish tax case.

Calculation of future expenditure for tax risks and legal disputes includes a number of assumptions made by the company and changes in these assumptions can have a considerable effect on the reported provision. Based on this we have made the assessment that provisions for tax risks and legal disputes and the related expenses are a key audit matter.

In our audit we have evaluated the company's process of assessing the outcome of the legal disputes and the size of the provisions. We have evaluated the company's process of identifying and assessing tax risks and size of provisions. Our audit has included to take part of correspondence with authorities, comparisons with current legislation and outcome of similar cases. We have considered opinions from the company's internal as well as external legal counsel. We have also included tax specialists in our audit. We furthermore evaluated whether disclosures provided are appropriate.

Revenue recognition and related sales incentives

Revenue recognition and related sales incentives are areas with a great element of estimates and assessments. We have noted that rebates and adjustments to sales prices in some cases can be material. Normal incentives related to sales are reported as reduction of the company's revenue. The company applies different incentive programs to increase sales. Incentives can for example be structured as percentage reductions on sales, discounts per item, fixed amounts with or without thresholds or in other ways. The company calculates an estimate of final incentives based on the information available at the end of the period. In our audit we have reviewed the company's revenue recognition with a focus on such bonuses and rebates. We have evaluated the company's revenue process and tested the company's controls within the process. We have also reviewed the accrued costs related to bonuses and rebates to customers as of 31 December 2016 which amounted to 4.0 billion SEK to underlying customer agreements and performed a retrospective analysis of the accruals per 31 December 2015. Our audit has also included review of credit invoices and other adjustments to trade receivables that have taken place after 31 December 2016. We have also reviewed non-standard customer agreements. In our audit we have tested larger payouts to the company's customers that have taken place during 2016 in order to confirm that that they are in accordance with customer agreements and reported in the correct accounting period. Finally we have audited manual journal entries related to bonus and rebates in order to confirm that sufficient documentation and suitable attestations exist for these entries.

Initial audit engagement

We have been appointed as auditors during the year. The company conducts business in several business areas in closer to 100 markets. A first-time audit engagement of a company with such extensive and geographically spread operations includes a number of considerations that are not present in a recurring audit engagement. Additional planning activities and consider-

ations become necessary in order to establish a suitable audit strategy and audit plan including:

- Obtaining sufficient knowledge of the company and its business including their control environment and information systems in order to make a risk assessment and develop an audit strategy and audit plan;
- Obtaining audit evidence regarding the opening balances including application of accounting principles; and
- Communication with the predecessor auditors.

Before we were appointed as auditors in April 2016 we developed a comprehensive plan for the audit transition. During the spring of 2016 we started to retrieve material in order to create an understanding of risks for material misstatements in the financial reporting and the company's internal control framework. Our work included a close interaction with the predecessor auditors and a review of their reporting from the prior year, including all formal audit procedures that are a part of generally accepted auditing standards. Furthermore we performed walkthroughs with the company's internal audit department in order to take part of their view of the operations, risks and material observations from their review and an assessment of key areas within accounting and auditing from prior years. We conducted a review of the company's internal control system in order to understand the company's business processes and processes for financial reporting. On the basis of this work our audit plan was presented to the audit committee in May 2016 and we have reported status and material observations from our audit throughout the year.

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 89-92. 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 scepticism 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 SCA Hygiene AB (publ) for the year 2016 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.

Other Disclosures

The audit of the annual report for the years 2015 and 2014 has been performed by a different auditor who has issued an auditor's report dated 23 February 2017 with unqualified opinion in the "Report on the annual accounts".

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 scepticism 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.

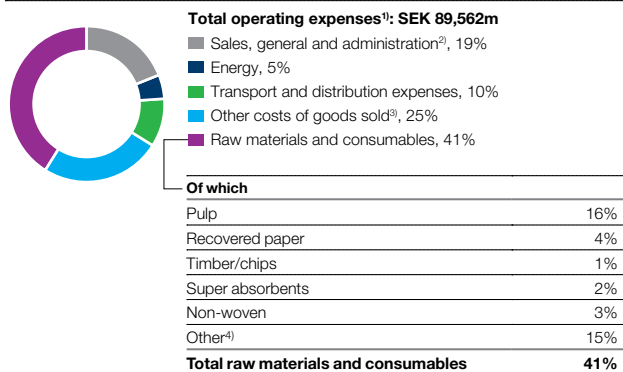
Stockholm 23 February 2017

Ernst & Young AB

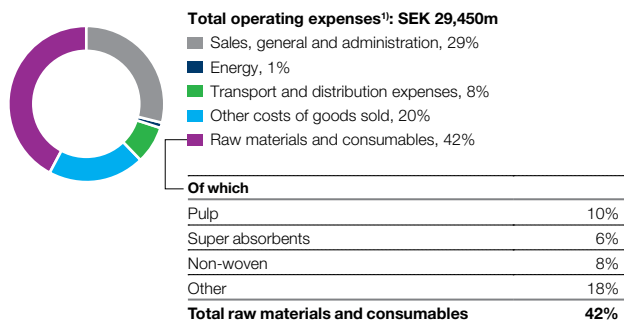
Hamish Mabon
Authorized Public Accountant

Description of costs

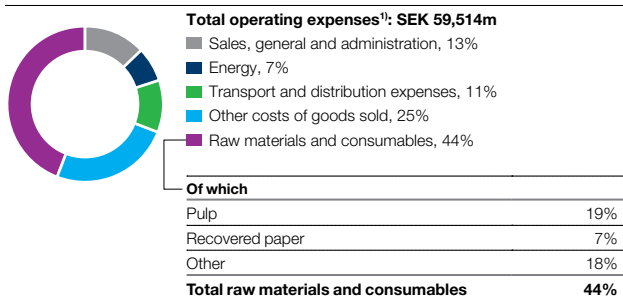
Hygiene Group



Personal Care



Tissue



¹⁾ Excluding items affecting comparability.

²⁾ Sales, general and administration include costs for marketing (6 percentage points).

³⁾ The two largest items in Other costs of goods sold comprise personnel (11 percentage points) and depreciation/amortization (5 percentage points).

⁴⁾ The item Other in Raw materials and consumables includes costs for chemicals, packaging material and plastic material.

Definitions and key figures

Capital definitions

Capital employed The Group's and business areas' capital employed is calculated as an average of the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.

Equity The equity reported in the consolidated balance sheet consists of taxed equity increased by the equity portion of the Group's untaxed reserves and non-controlling interests. (Deferred tax liability in untaxed reserves has been calculated at a 22.0% rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden).

Net debt The sum of consolidated interest-bearing liabilities, including pension liabilities and accrued interest less cash and cash equivalents and interest-bearing current and non-current receivables and capital investment shares.

Equity per share Equity in relation to the total number of registered shares.

Financial measurements

Equity/assets ratio Equity expressed as a percentage of total assets.

Debt/equity ratio Expressed as net debt in relation to equity.

Interest coverage ratio Calculated according to the net method where operating profit is divided by financial items.

Cash earnings Calculated as profit before tax, with a reversal of depreciation and impairment of property, plant and equipment and intangible assets, share of profits of associates, and nonrecurring items, reduced by tax payments.

Debt payment capacity Expressed as cash earnings in relation to average net debt.

Operating surplus Expressed as operating profit before depreciation/impairment of property, plant and equipment and intangible assets and share of profits of associates.

Operating cash flow The sum of operating cash surplus and change in working capital, with deductions for current capital expenditures in property, plant and equipment and restructuring costs.

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 expenditure in plant and equipment Strategic investments increase the company's future cash flow through capital expenditures to expand facilities, or new technologies that boost SCA's competitiveness.

Current capital expenditure Investments to maintain competitiveness, such as maintenance, rationalization and replacement measures or investments of an environmental nature.

Organic sales growth Sales growth excluding exchange rate effects, acquisitions and divestments.

Margins, etc.

Operating surplus margin Operating surplus as a percentage of net sales for the year.

Operating margin Operating profit as a percentage of net sales for the year.

Net margin Profit for the year as a percentage of net sales for the year.

Capital turnover Net sales for the year divided by average capital employed.

Profitability ratios

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.

Return on equity Return on equity is calculated for the Group as profit for the year as a percentage of average equity.

Other measurements

Value added per employee Operating profit plus salaries, wages and payroll expenses divided by the average number of employees.

For additional definitions, refer to Note A2 Use of non-IFRS (International Financial Reporting Standards) performance measures on pages 42–45.

Glossary

Consumer tissue Includes toilet paper, household towels, facial tissues and handkerchiefs.

AfH (Away-from-Home) Tissue sold to bulk consumers such as hospitals, restaurants, hotels, offices and industrial premises.

Personal care products Here defined as incontinence products, baby diapers and feminine care products.

Super absorbents Collective name of a number of synthetic absorbent materials based on polymers. Important material in personal care products such as diapers and pads.



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