

2018

SCA ANNUAL REPORT 2018

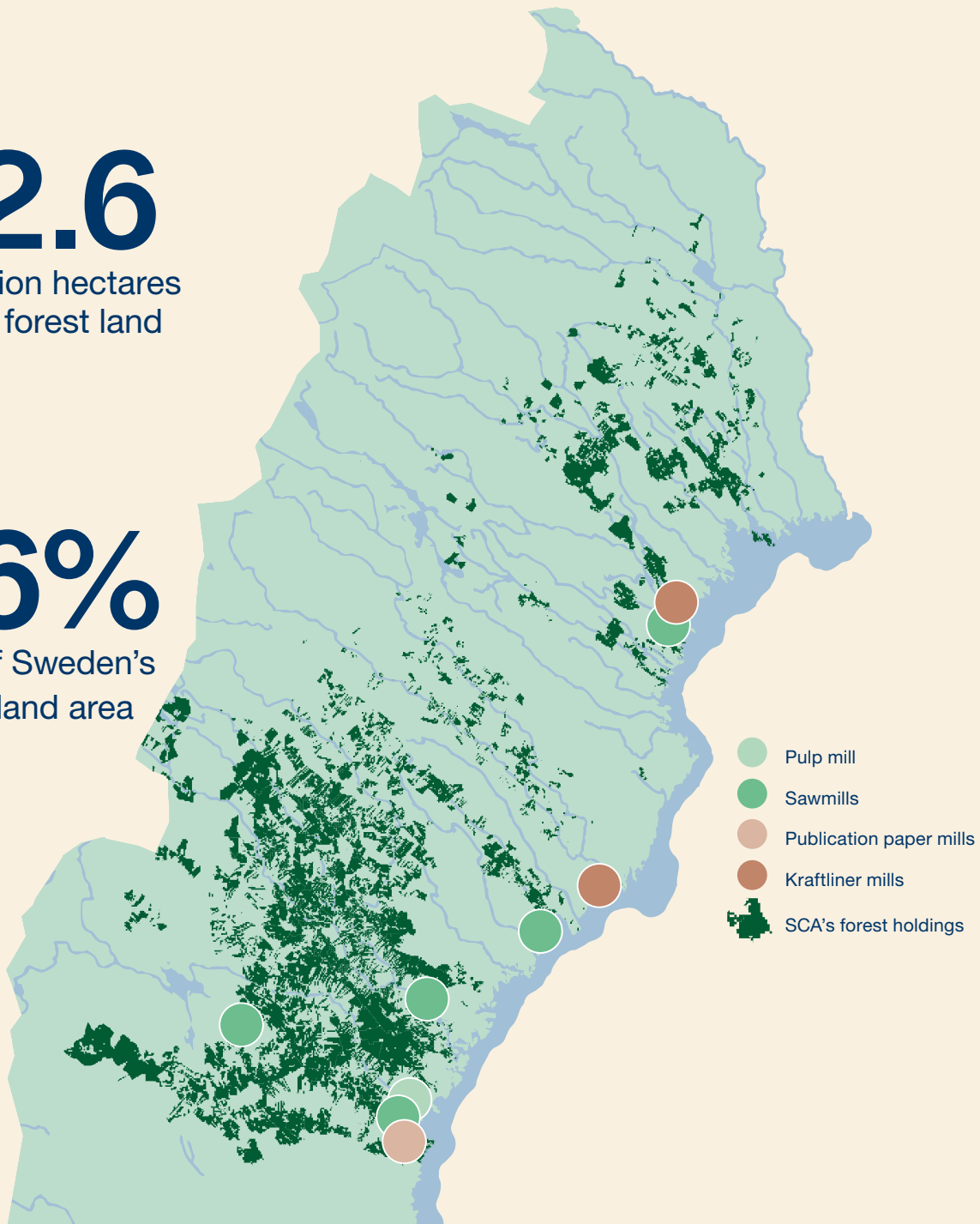


Europe's largest private forest owner

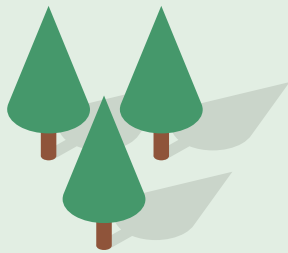
SCA is Europe's largest private forest owner with 2.6 million hectares of environmentally certified forest land in Northern Sweden. Based on this unique resource, SCA has developed a resource-efficient industry to capture the greatest possible value from each tree, making use of every part. The company's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

2.6
million hectares
of forest land

6%
of Sweden's
land area



This is SCA



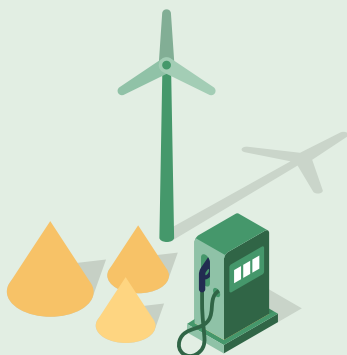
Wood

SCA is one of Europe's leading suppliers of wood-based products for the wood industry and building materials trade, with an annual production capacity of 2.2 million m³ of solid-wood products. SCA has five cost-efficient sawmills located close to its forest holdings in Northern Sweden, as well as wood processing and distribution to the building materials trade in Scandinavia, the UK and France.



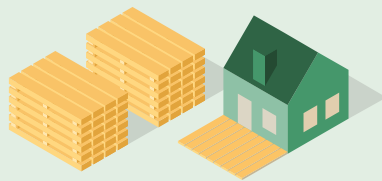
Paper

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



Forest

SCA owns a total of 2.6 million hectares of forest in Northern Sweden, an area nearly the size of Belgium. SCA's unique forest holding is a growing resource that provides access to high-quality forest raw materials while absorbing a net of 8% of Sweden's fossil CO₂ emissions.



Pulp

SCA produces market pulp at Östrand pulp mill. The expansion of the mill was completed in the summer of 2018. Östrand is now one of the largest and most cost-efficient production lines for softwood kraft pulp in the world. Together with chemo thermomechanical pulp production, Östrand's annual capacity amounts to 1 million tonnes. SCA's pulp has high-strength properties, suitable for tissue and specialty paper.



Renewable energy

SCA is now one of Europe's largest producers of forest-based bio-energy, with a total production of about 9 TWh per year. In Sweden, SCA has three pellets factories that have an annual production capacity of 300,000 tonnes. SCA leases out forest land for wind power production. In 2018, 324 wind turbines were operating on SCA's land with a total annual production capacity of 2.6 TWh. SCA also develops products for the next-generation of biofuels and green chemicals.

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SCA's Annual and Sustainability report 2018 is published in Swedish and this is an English translation. If there are differences between the Swedish and the English version, the Swedish version will prevail.

The year at a glance

Sales grew 13% while EBITDA increased 44%.
All segments contributed to the improvement in earnings.

Net sales

SEKm **18,755**

EBITDA

SEKm **5,252**

EBITDA margin

28%

Net debt / EBITDA

1.3x

Industrial return on capital employed

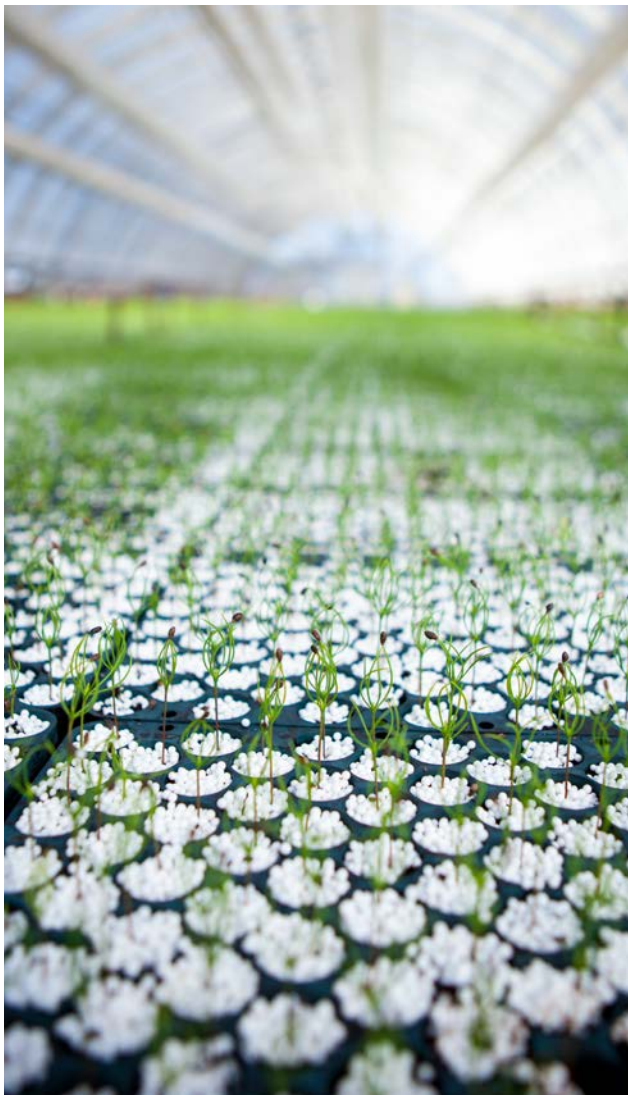
16%

Earnings per share

SEK **5.21**

Proposed dividend per share

SEK **1.75**

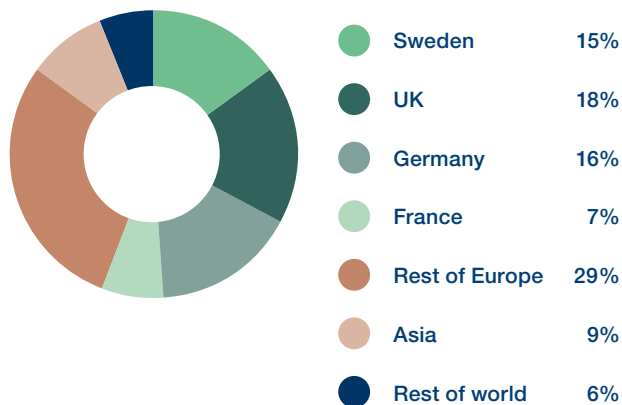


Key figures

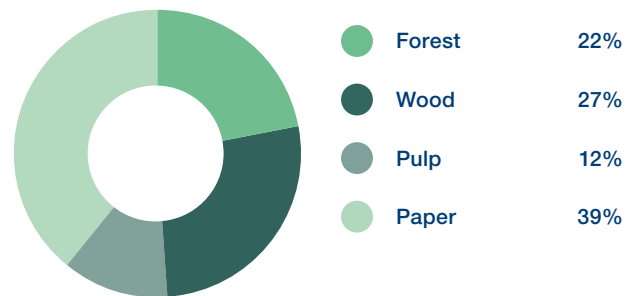
	2018 SEKm	2017 SEKm
Net sales	18,755	16,664
EBITDA	5,252	3,648
EBITDA margin	28.0%	21.9%
Operating profit	4,002	2,511
Operating margin	21.3%	15.1%
Profit for the period	3,659	1,874
Earnings per share, SEK	5.21	2.67
Proposed dividend per share, SEK	1.75	1.50
Operating cash flow	2,751	2,273
Strategic capital expenditures	1,967	2,863
Capital employed	46,082	42,719
Industrial return on capital employed	16.4%	9.7%
Net debt/EBITDA	1.3x	1.6x
Average number of employees	4,216	4,127
Accidents (LTA per million hours worked)	9.1	10.4

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Net sales by geography



Net sales by segment¹



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

A future characterized by sustainable growth

The forest is the future. We create value for the climate, our employees, customers and shareholders, while also generating prosperity and employment opportunities.

SCA's earnings in 2018 were the best to date. Operating profit improved by nearly 60%, at the same time as we completed one of Sweden's largest industrial projects, the expansion of the Östrand pulp mill. We have maintained good cost control and achieved a high level of production efficiency in a strong market.

Doubling pulp capacity

We have invested nearly SEK 8 billion in doubling pulp capacity, an investment financed from operating cash flow. The project was carried out safely and on schedule and budget, and the commissioning has exceeded our expectations in terms of volume and quality. We have every reason to feel proud, together with those who contributed to the success of the project – employees, suppliers and project management. Today, we can offer our customers an exceptionally strong and bright pulp, at the same time as the plant will generate about 1% of the total electricity consumed in Sweden.

Continued growth

We are preparing for continued growth. Rising population and climate change are increasing demand for products based on renewable raw materials, and the growth in e-commerce is driving demand for strong packaging. Our kraftliner, based on strong fiber from Northern Sweden, can meet customers' requirements for strong and sustainably manufactured packaging. This is why we are conducting a pre-project to evaluate the potential production increase of packaging paper in Obbola, in parallel with increasing the capacity for white-top kraftliner in Munksund next year.

Our next major growth area is renewable energy. Every year, 2.6 TWh of electricity is produced from wind power on SCA's land, equivalent to 15% of total wind power production in Sweden. Within the next five years, production capacity on SCA's land will triple.

During the year, we started a strategic partnership with the energy company St1 in order to produce liquid biofuels based on tall oil, and we are working hard with research and development to move Östrand closer to becoming a full-scale biorefinery with complementary products in biofuels and green chemicals.

Sustainability integrated in the business concept

Sustainability is a natural part of SCA's business concept. As Europe's largest private forest owner, we produce renewable raw material in responsibly managed and certified forests. We balance consideration for biodiversity, Sami reindeer herding and other important societal concerns with a high level of production of valuable raw material for products with a low carbon footprint and for a high quality of life.

We work with climate-smart growth opportunities in all of our business areas – paper to replace plastic, wood products to replace steel and concrete, renewable energy instead of fossil fuels. SCA therefore has a crucial role to play in the transition to a sustainable society. We support the UN Global Compact and its principles.

Employees create value

Major investments achieve nothing without motivated and skilled employees. It is employees who realize the value of the investments and it is employees who create the conditions for growth. SCA works proactively to create safe workplaces with a climate of openness, characterized by solidarity and trust. Innovation, efficiency and job satisfaction thrive in such an environment.

SCA is a unique company; Europe's largest private forest holding integrated with an industry that has one of the world's lowest carbon footprints. Through innovations and carefully judged investments, we create value for our owners and build strong customer relationships, growth, prosperity and dynamic communities. Together, we can build the future.

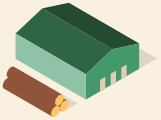
Ulf Larsson,
President and CEO



“We work with climate-smart growth opportunities in all of our business areas”

We use the entire tree

SCA has built an industrial ecosystem that maximizes value creation in and from the forest through renewable products and a resource-efficient value chain.



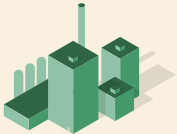
Sawmills

The most valuable part of the tree is processed in the sawmills into wood products. Some of these become window components, painted cladding or shelves. More than half of the log is used for wood products. The remainder becomes chips for pulp production or sawdust that is processed into pellets. The bark is used in energy production.



Bioenergy

Energy used by SCA's plants is almost exclusively from bioenergy. By-products are used to produce heat and electricity. SCA also produces energy for external customers – green electricity, district heating, unrefined and refined biofuels – and is assessing opportunities to produce liquid biofuels.



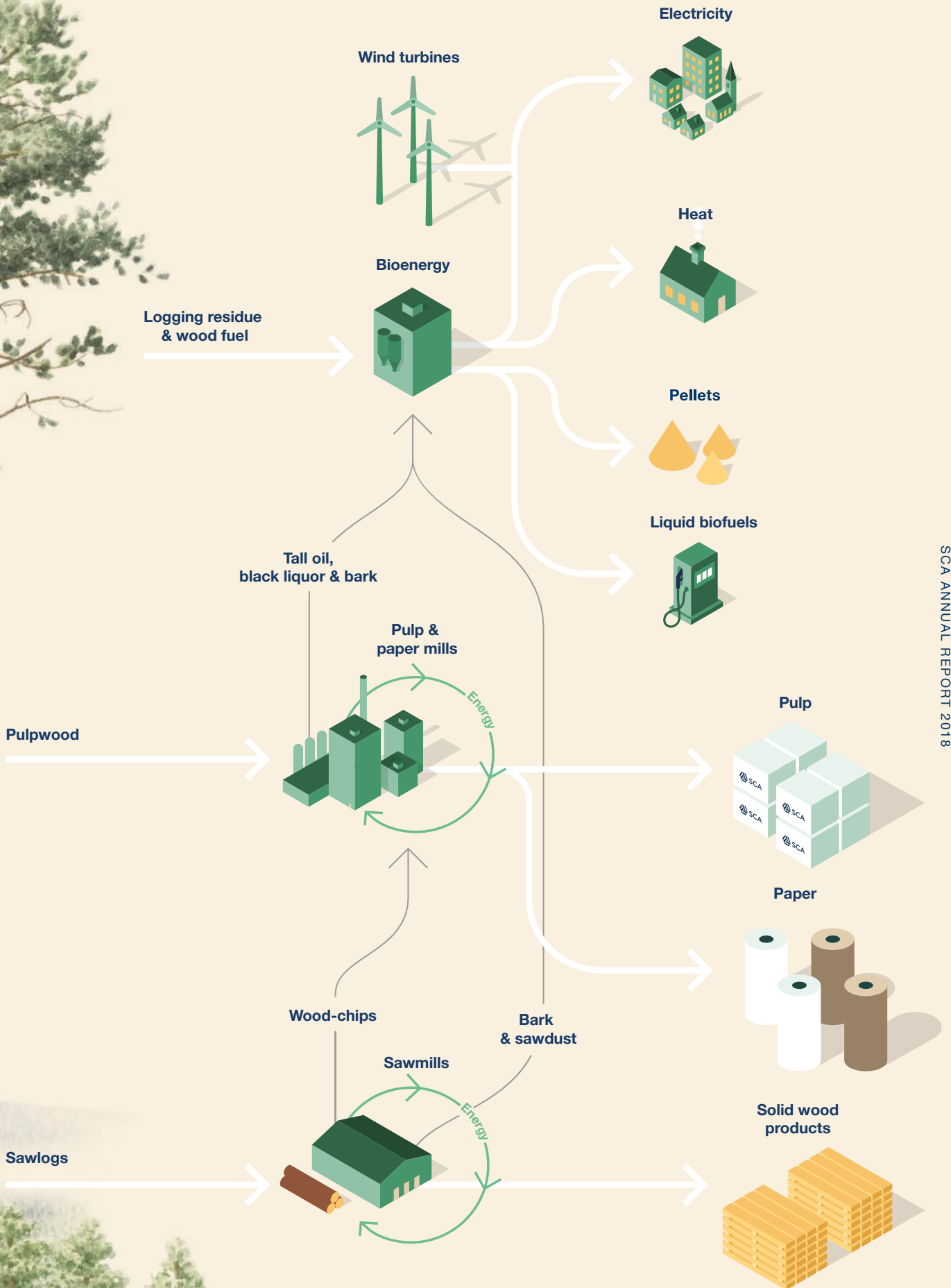
Pulp and paper mills

SCA's fiber industry produces chemical and mechanical pulp, publication paper and packaging paper. The pulp and paper mills are supplied with wood from forests that cannot be used for solid-wood products, and with sawmill chips. Bark is used in energy production. Heat is recycled and steam is used to produce electricity. By-products, such as tall oil and turpentine, are further refined into biofuels and green chemicals. In addition to pulp, a kraft pulp mill also produces large amounts of renewable energy.



Wind power

SCA's 2.6 million hectares of forest contain a large number of locations with favorable wind conditions. SCA prepares wind power projects and leases land to power producers and investors in green energy that generate and sell green electricity.



SCA's contribution to a fossil-free society

1

CO₂

Binds,
net
4
Mt CO₂

Growing forests capture and bind CO₂ – active forest management increases growth by focusing on improved seedlings, active silviculture, contorta pine and fertilization

Fertilization

Contorta pine

Active silviculture

Improved seedlings

2

Higher growth enables more substitution – renewable alternatives replace fossil based products

Replaces 5 Mt CO₂

SCA's renewable products

Non-renewable products

Bioenergy

Fossil fuels

Paper

Plastic

Solid wood products

Concrete

Operations

3

Investments and innovation reduce carbon emissions and increase profitability

Low emissions 0.9 Mt CO₂

SCA's climate benefits amount to 8 million tonnes of CO₂ per annum, which is more than the total emissions from all the truck traffic and domestic air travel in Sweden

Global trends favor renewable materials

Globalization, economic development, a growing population and the realization that we must shift from finite resources to renewable alternatives, all reflect the importance of the forest as a strategic resource.



1. Increased awareness of sustainability

The UN's 17 Sustainable Development Goals were adopted by member countries in 2015. At the COP 21 climate conference in Paris the same year, world leaders reached an agreement to limit global warming to below 2 degrees Celsius. Information and increased knowledge is increasing awareness among consumers and more people are interested in finding renewable alternatives.

2. Increased demand for renewable materials and products

The transition to a sustainable and carbon-neutral society is driving demand for renewable materials and products manufactured in a responsible and resource-efficient manner. Population growth and increased consumption require new climate-smart products. The forest industry has a crucial role to play in this transition. Products from the forest are replacing fossil based products – plastic packaging is being replaced by paper packaging, fossil fuels are being replaced by bio-fuels and wood is replacing steel and concrete.

3. More packaged goods

Mega trends, such as globalization, urbanization, population growth and a growing middle class, are driving demand for packaging paper. Consumption and thus demand for packaging increases as living standards improve for more people. Increasing trade volumes lead to rising demand for transport packaging.

4. E-commerce

Growth in e-commerce is increasing demand for packaging material. A typical corrugated board box may require up to 50% more packaging material in e-commerce compared with traditional retail. At the same time, the market is interested in new, more compact packaging solutions and in more frequent deliveries. Distribution directly to customers imposes greater demands on higher packaging quality and printable surfaces. Product returns further increase demand and quality requirements.

5. Growing demand for fresh fiber

Growing interest in paper-based products and the deteriorating quality of recovered fiber increases demand for fresh fiber. Fresh fiber provides paper products that are strong and pure. Each time fibers are recycled, the fiber volume and quality deteriorate. The system therefore needs to be continuously replenished with fresh fiber. E-commerce and retail-ready packaging, which can be displayed directly in stores, increase the need for high-quality packaging. Higher food safety standards increase demand for fresh fiber-based products that do not contain chemical residues.

Strategy for profitable growth

The forest is a renewable resource which grows and forms the core of SCA's operations. Around the forest SCA has built a well-invested and efficient value chain, creating growth and maximizing the value of each tree.

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Increased value from each tree

Around the growing forest resource, SCA has built a well-invested and efficient value chain that maximizes the value of each tree. SCA's investments help to strengthen the integrated value chain and to achieve favorable returns, at the same time as the company maintains a healthy balance sheet.

Growing forest asset

The forest is a resource that provides stable profitability and increase in value. Active and sustainable forestry maximizes growth in the forest. The forest growth rate is about 4%. Today, SCA only harvests approximately 60% of the growth, which increases the standing volume and future cash flow.

1 Forest: the source of value creation

The forest is the source of SCA's value creation and represents the foundation for a sustainable supply of renewable raw materials. The high level of net growth will yield more timber and increase cash flow in the future. SCA's strategy is to utilize active and sustainable forestry to enhance growth.

2 Wood: moving forward in the value chain

The most valuable part of the tree is used for sawlogs. Efficient sawmill operations ensure that as much as possible of the tree is used for high value wood products. The value of the forest is secured through the focus on value-added products for the industry and the building materials trade.

3 Pulp: doubled capacity

SCA has invested almost SEK 8bn in doubling pulp production to meet rising demand and to become leader in terms of quality, cost-efficiency, environmental performance and competitiveness. The focus for 2019 is on trimming the mill to reach full capacity utilization and the highest quality. A growing market and favorable trends create the potential for further expansion.

4 Paper: possible kraftliner expansion

The kraftliner market – paper for transport packaging – continues to grow. A strong global economy, growth in e-commerce, the transition from plastic packaging to renewable materials and strong industrial development drive demand for transport packaging. SCA is conducting a pre-project to assess the possible expansion of kraftliner.

5 Renewable energy: the next value creator

SCA's forest assets and industrial operations provide the company with excellent possibilities to develop new business in the field of renewable energy, where by-products from the forest and from SCA's industries provide the raw materials. SCA is conducting intensive development work in the fields of biofuels, green chemicals and wind power, and exploring various forms of partnership in these areas.

Strong project portfolio driving profitable growth

SCA has a development plan for each operation. Investment opportunities are continuously evaluated based on a number of criteria.

Investments must contribute to SCA's value chain and the continued value creation in and from SCA's forest resource. Projects must also provide favorable returns and ensure that the company retains its healthy balance sheet.

Value ↑

2015 → 2018

✓
Doubled pulp production at Östrand

- Investment: SEK 8bn
- Began operating in June 2018

2018 → 2019

✓
Increase the share of white-top kraftliner

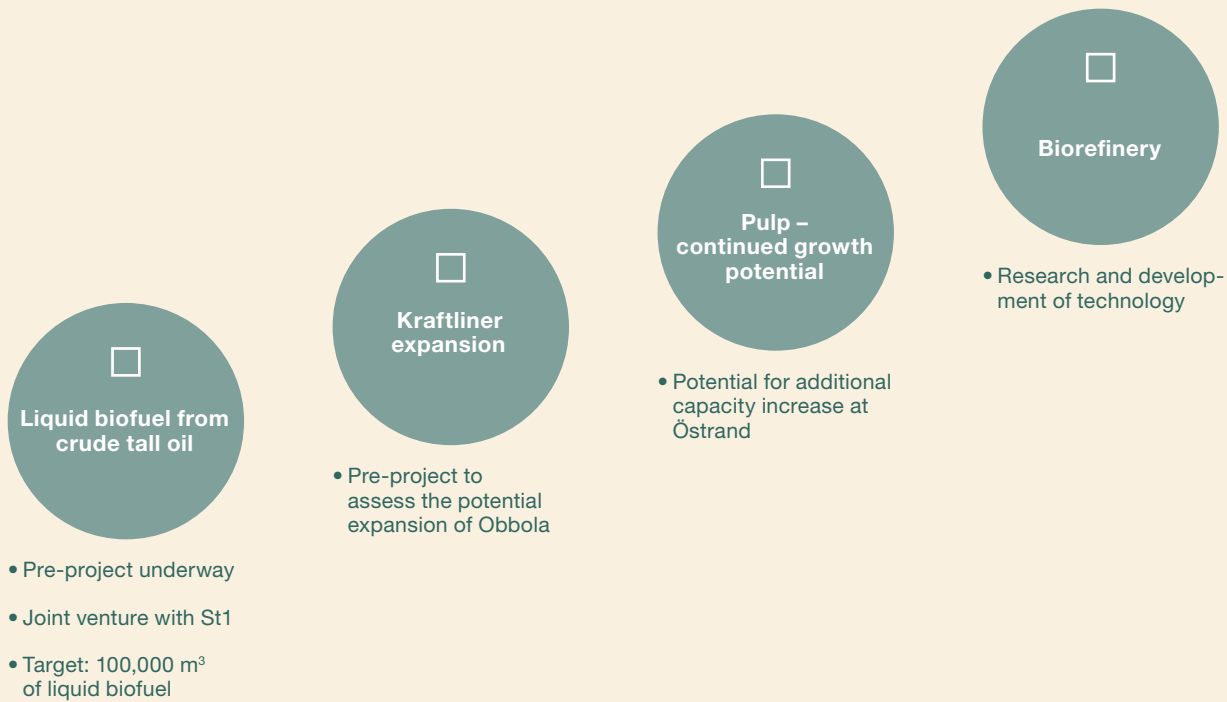
- Investment: SEK 200m
- Result: +50 kt of white-top kraftliner
- Expected start-up in summer 2019

→ 2020

✓
5.0 TWh wind power on SCA's land

- Wind power on SCA land is expected to increase to 6.7 TWh in 2021
- The goal of 5 TWh by 2020 is therefore expected to be achieved
- New long-term goal: 11 TWh

Greater environmental awareness and the transition to renewable products favor SCA. The company is evaluating several projects with attractive market potential. SCA's project portfolio includes the potential expansion of both kraftliner and pulp. Wind power projects increase returns from forest land. Projects to produce biofuels enable by-products from the forest and industries to be refined into high-quality energy products.



- Approved or completed projects
- Potential projects

→
Time

FOREST

Growing forest asset yields more timber in the future

The forest is the source of SCA's value creation. With a forest holding of 2.6 million hectares, an area almost the size of Belgium, SCA is the largest private forest owner in Europe. The forest is managed responsibly and sustainably to provide the foundation for a sustainable supply of raw materials to the company's industries.

The forest is at the core of SCA's operations

The forest is managed sustainably and creates value in three ways:

- **Cash flow.** Harvesting provides raw materials to the industries and generates cash flow. The harvesting volume is determined so it never exceeds future growth and is therefore never reduced. This sustainable strategy and improved approach to forest management has enabled an increase in harvesting volume of approximately 120% since 1950.
- **The forest is growing.** Forest growth exceeds harvesting by 3 million cubic meters per year. Standing volume, which is the volume of the growing trees, has increased by about 60% since 1950. The larger standing volume allows for a higher level of harvesting and an increase in cash flow going forward.
- **Increase in the value of forest land.** The value of forest land in Sweden has risen by more than 260% in real terms and 6,000% in nominal terms since 1950, according to an estimate by Lantmäteriet.

Improved forest management increases growth

Every tree that is harvested is replaced with at least two new. SCA has the largest tree nursery in the world with a capacity to produce 100 million seedlings per year. Through its use of improved forest management methods – site preparation, planting, control of reforestation and pre-commercial thinning – SCA has increased growth in the forest.

- **Improved seedlings.** By using selective breeding, SCA has developed the next generation of seedlings with 20-25% higher growth rates and better protection against pests.
- **Contorta pine** is a tree species from northern North America with growth and CO₂ absorption of around 40% higher compared with Swedish pine trees. Contorta pine is also less affected by damage from grazing and fungus. SCA has planted contorta pine since the early 1970s. The species provides excellent raw materials for pulp production, but also has suitable characteristics for use as raw material for wood products.

- **Fertilizing** forest that is nearing harvesting accelerates growth and yields a significant addition in volume of high-quality timber. Among forest management practises, fertilization is the one that has the fastest effect and highest returns.

Young forest yields high growth

Through its ambitious silvicultural practices, SCA has obtained a high proportion of young forest with high growth. As a result of the young average age of the forest, only approximately 60% of growth is harvested. When the younger forests reach harvestable age in a decade or two, the rate of harvesting can increase. SCA's forest is growing by an average of 9.5 million forest cubic meters per year. Of this, 5.2 million cubic meters is harvested. 1.3 million cubic meters disappear as natural losses, for example felled by storms, insect damage or pre-commercial thinning. The remaining net annual growth is 3.0 million cubic meters, which increases the standing volume and harvesting potential in the future.

Growth in SCA's forest in 2018 ¹	m ³ fo	%
Opening volume, 2018	232 million	
Gross forest growth	9.5 million	+4.1%
Natural losses and pre-commercial thinning	-1.3 million	-0.6%
Available growth	8.2 million	+3.5%
Annual harvesting	-5.2 million	-2.2%
Net forest growth	3.0 million	+1.3%
Closing volume, 2018	235 million	

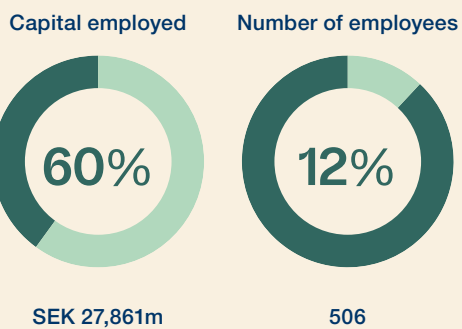
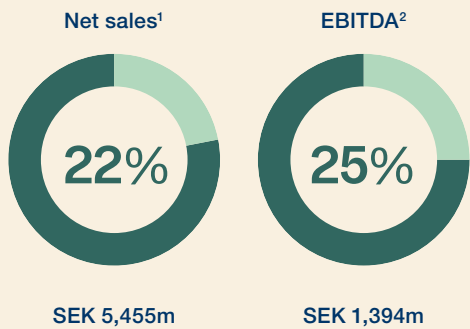
1) Estimated timber volume and growth based on the forest survey performed between 2012 and 2013. A new forest survey is expected to be started in 2019.

+3.0

net forest growth in 2018
(million m³fo)

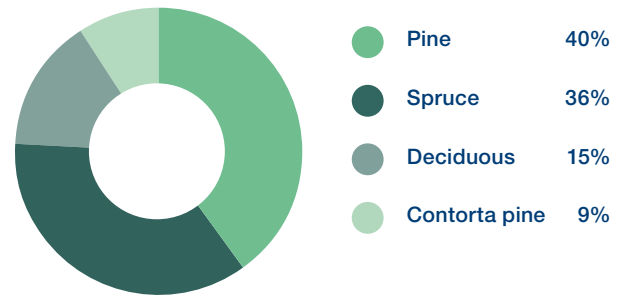


Share of Group 2018



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

Forest portfolio (volume)



Financial Key Figures

SEKm	2018	2017
Net sales	5,455	5,070
EBITDA	1,394	1,363
EBITDA margin	25.6%	26.9%
Operating cash flow	236	585
Strategic capital expenditures	-	-
Capital employed	27,861	26,829
Return on capital employed	4.7%	4.7%
Harvesting of own forest, thousand m ³ sub	4,311	4,449
Average number of employees	506	504

Europe's largest private forest holding secures raw material supply

SCA owns 2.6 million hectares of forest land, of which 2.0 million hectares are productive forest land.

About 50% of SCA's raw material needs are provided by wood from the Group's own forests. The large forest holding provides a reliable supply of raw material, facilitates investments and allows greater flexibility. An abnormally high level of snow fall occurred along the coast of Northern Sweden during the winter of 2018, and thanks to its own forests, SCA could re-deploy harvesting further inland where the depth of snow was at more normal levels. The summer of 2018 was dry, and the risk of fire was high. SCA addressed this by concentrating its harvesting to areas with a lower risk of fire. Because of these measures, SCA could maintain the raw material supply to industry in 2018 without disruptions.

Most of the timber that does not come from SCA's own forest is purchased from private forest owners in Northern Sweden. With its harvesting and forest management organization that covers the four northernmost counties, SCA is an attractive partner for forest owners seeking access to highly competent people and well-suited machines to manage their own forests. Through its competitive industry, SCA secures demand and value also for other forest owners. Moreover, SCA's expertise and resources used in its own forests benefit other forest owners.

Timber purchasing from private forest owners is supplemented by purchasing from other forest companies in Sweden and some imports, mainly from the Nordic countries and the Baltic States.

Responsible forestry

SCA's forests are managed sustainably with the aim that they will remain at least as rich in biodiversity, nature experiences and raw material in the future as they are today. Preserving biodiversity, the many species of animals and plants, is one of the most important sustainability targets of SCA's forestry. Forest areas of high conservation value are set aside from forest management or managed in a way to strengthen the conservation values. Forest is saved in all forestry measures to provide variation and life environments for sensitive animal and plant species.

SCA's forest has been certified since 1999 in accordance with the requirements of the Forest Stewardship Council® (FSC®) (FSC® C004466) and since 2011 also certified in accordance with the Programme for the Endorsement of Forest Certification (PEFC™). Independent auditors verify that SCA's forest operations fulfill the certification requirements. Products based on timber from certified forestry can in turn be certified and offered to customers with stringent demands on sustainability. SCA also encourages its suppliers to certify their forest operations.

Growing trees capture and bind carbon dioxide. SCA's forest has an annual net growth of three million forest cubic meters of timber, which means the forest binds a net of four million tonnes



of CO₂. This is four times more than the total CO₂ emissions from fossil based sources in all of SCA's operations, including the forest operations, industrial production and transportation of raw materials and finished products, as well as input goods.

Valuing forest land

Accounting valuation

In accordance with applicable accounting standards (IFRS), forest land must be divided into two components, the actual land and the forest growing on the land.

The land is valued in accordance with IAS 16 (Property, Plant and Equipment) essentially at acquisition cost and is not depreciated. In addition to acquisition cost, there are investments, primarily forest roads, which are depreciated. The value of the forest land and land improvements in SCA amounted to SEK 1,692m at the end of 2018.

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

Using this model, the recognized value of growing forest at SCA amounted to SEK 32,065m at the end of 2018. This value corresponds to approximately SEK 136 per m³ of standing timber. The value of the forest, including the land (valued in accordance with IAS 16), amounted to SEK 33,757m, corresponding to approximately SEK 144 per m³ of standing timber.

Strategy

- Maximize growth and long-term harvesting potential
- Preserve the forest's biodiversity and contribute to a positive impact on the climate
- Increase the forest holding



Laws that govern forest operations and forestry management in Sweden

The Swedish Silviculture Act, that has existed in different versions since 1905, includes rules for how forest operations must be conducted in Sweden. It states, for example, that reforestation must take place after final harvesting, stipulates limits for the youngest age at which forest may be harvested and includes requirements for consideration for the environment.

The Land Acquisition Act, regulates the acquisition of forest land. The law states that a legal entity may not net acquire forest land from private individuals, but only from other legal entities. The aim of the law is that the legislator wishes that a certain percentage of forest be owned by private individuals.



SCA's forestry is certified in accordance with the requirements of the Forest Stewardship Council® (FSC®) and the Programme for the Endorsement of Forest Certification (PEFC™).

Market values

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

SCA's own transactions provide an indication of the market value of forest land. These transactions, while limited in extent, are conducted on a regular basis. The aim is to improve consolidation, meaning the creation of larger connected areas of forest land, and to increase the share of forest land close to SCA's industries. Prevailing law in Sweden prohibits SCA from the net purchase of forest land from private individuals, which impacts the number of transactions but does not normally impact the market prices.

SCA's purchase of forest land in the past five years is shown in the table to the right. On average during the period, SCA purchased forest land, including standing timber, for an average price of SEK 266 per m³fo. The divestment of forest land during the same period was conducted for an average price of SEK 305 per m³fo.

Market statistics are also available for forest land transactions. Here, transactions also refer to both forest land and the standing timber on the land. One of the major providers of market statistics for forest land is LRF Konsult. According to LRF Konsult, the average price for forest land in SCA's region, Northern Sweden, was approximately SEK 269 m³fo standing timber in 2018.

Purchases and divestments of forest land

Purchase	2014	2015	2016	2017	2018
Volume (thousand m ³ fo)	1,655	185	123	261	197
Price (SEK/m ³ fo)	264	273	263	259	286
Divestment	2014	2015	2016	2017	2018
Volume (thousand m ³ fo)	1,405	270	176	385	192
Price (SEK/m ³ fo)	322	310	274	270	268

Market statistics according to LRF Konsult

Forest land prices in Northern Sweden	2014	2015	2016	2017	2018
Price (SEK/m ³ fo)	261	259	252	278	269

WOOD

Efficient sawmill operations with 20 years of profitable growth

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

Modern and efficient sawmills

SCA operates five sawmills closely connected to the forest raw material base, as well as processing facilities in Sweden, the UK and France. The sawmills are well-invested and are among the largest in Europe with an annual capacity of 2.2 million m³ solid-wood products. They have a high degree of automation and use x-ray technology to maximize the yield from every log. The technology means the sawmills can sort, select and adjust the log to suit the requirements of the end product.

Profitable growth with a focus on value-added products

The slow-growing wood from Northern Sweden has a high proportion of heartwood and small knots, making it suitable for visible wood applications and for interior use. SCA has chosen to focus on two customer segments that suit these characteristics and that offer the best prospects for profitable growth.

- **Wood industry.** As supplier to the wood processing industry, SCA manufactures customized products and components suitable for further processing by customers. Customers are mainly manufacturers of furniture, doors, windows, flooring and roofs.
- **Building materials trade.** For the building materials trade, SCA delivers processed products, ready to be offered to consumers, and advanced distribution solutions. SCA combines its own products with purchases from other suppliers in order to offer a complete range of products. Customers mainly include building materials chains in Scandinavia, the UK and France and the products are used by both professionals and by DIY enthusiasts.

This focus has enabled SCA to achieve higher and more stable margins over a business cycle and it has delivered profitable growth of about 10% per year over the past 20 years.

Innovative solutions

The building materials trade is interested in innovative products that drive sales growth. Thanks to high-quality raw materials, x-ray technology and process control, SCA can offer its customers products such as heart pine decking. This is as resilient as pressure-impregnated timber, but is manufactured without the use of chemicals. Another new product in the building materials industry is SCA's semi-finished cladding with concealed fittings, which provide a more attractive façade, easier assembly and greater sustainability.

Growing market

Global demand is on the increase for renewable materials as is interest in constructing housing in wood. Demand for wood products has noted annual growth of between 2% and 3% in recent years. 2018 was marked by strong demand in all of SCA's key markets. This growth was fueled by a favorable level of construction activity and an expanding renovation market, resulting in higher prices for SCA's wood products.

Strategy

- Strengthen SCA's integrated value chain – sawlogs give the largest revenue from a tree
- Continued profitable growth through:
 - Value-added and customized products
 - Volume growth in Bollsta and Tunadal
- Production optimization to achieve the highest level of efficiency

Sawmills

Munksund, Piteå

Capacity: 420,000 m³/year

Rundvik, Nordmaling

Capacity: 330,000 m³/year

Bollsta, Kramfors

Capacity: 560,000 m³/year

Tunadal, Sundsvall

Capacity: 540,000 m³/year

Gällö (co-owned), Bräcke

Capacity: 330,000 m³/year

Wood processing and distribution

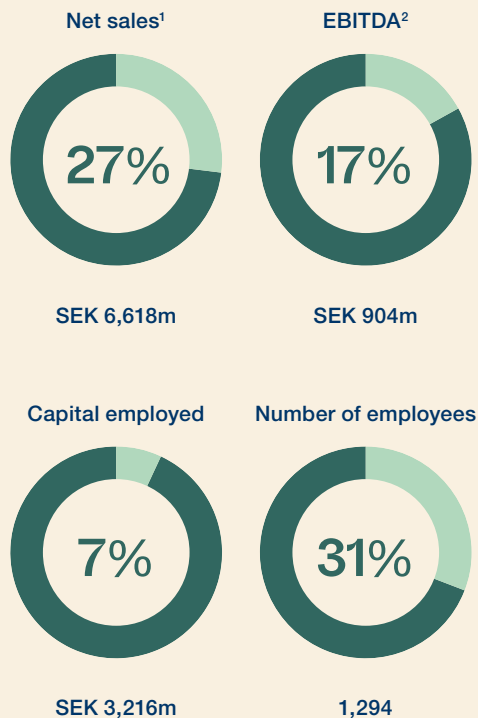
Planned products capacity: 600,000 m³/year

Window component capacity: 5 million linear meters/year

Distribution to building materials trade in Scandinavia, the UK and France.



Share of Group 2018



1) Before elimination of intra-Group sales.

2) Share calculated of total EBITDA, excluding central items.

Financial key figures

SEKm	2018	2017
Net sales	6,618	5,994
EBITDA	904	670
EBITDA margin	13.7%	11.2%
Operating cash flow	460	399
Strategic capital expenditures	2	28
Capital employed	3,216	2,817
Return on capital employed	22.0%	15.7%
Deliveries, wood products, thousand m ³	2,520	2,595
Average number of employees	1,294	1,242

PULP

Doubled production capacity

Following one of Sweden's largest industrial investments, the production capacity at the Östrand pulp mill has doubled. The plant has become industry-leading in terms of quality, cost efficiency and environmental performance.

Investment to double capacity and increase competitiveness

The expanded Östrand mill began operating, as planned, in June 2018. The investment of almost SEK 8bn doubled the annual production capacity of bleached softwood kraft pulp (NBSK) from 430,000 tonnes to about 900,000 tonnes. According to the planned start-up curve, production capacity is expected to gradually increase up to the end of 2019. To date, production at the plant is in line with plan. A good level of production and high quality in terms of purity, brightness and strength was achieved at an early stage.

At full capacity utilization, Östrand's cash costs are expected to decrease by about SEK 350 per tonne relative to cost before the expansion, mainly due to lower indirect costs. This places Östrand in the top quartile of the cost curve for the world's bleached softwood kraft pulp producers.

The investment has increased energy efficiency at Östrand. The mill will use its own energy production to cover its entire heating and electricity needs and also sell about 0.5 TWh of green electricity to the grid and 0.18 TWh of heat to the district heating systems in Sundsvall and Timrå.

In addition to the production of bleached softwood kraft pulp for use in tissue and packaging paper, the Östrand plant also produces approximately 100,000 tonnes of chemically pre-treated mechanical pulp (CTMP) for purposes such as hygiene products and packaging.

Sales were focused on Europe in 2018. The future market focus will be enlarged geographically due to the expanded pulp mill, including sales volumes to North America.

Strong demand and expanding market

The expanded Östrand pulp mill started in a favorable market climate. Demand for bleached softwood kraft pulp has grown by about 2% to 3% per year. This growth is fueled by an expanding global market for tissue and packaging. Demand for tissue has risen in particular in China, with its population growth, urbanization and growing middle class. China's pulp consumption is to a large extent based on imports, as the country has a very limited domestic pulp industry. A limited supply of recovered fiber has further increased demand for pulp based on fresh fiber.

Potential for additional capacity increase

The focus for 2019 is on the continued trimming of the mill to reach full capacity utilization and the highest quality. A strong market and favorable trends create the potential for further expansion, by removing bottlenecks and through minor supplementary investments.

Strategy

- Reach full production and quality
- Improve processes and eliminate bottlenecks to further increase capacity
- Take advantage of the potential for green energy offered by the new plant



Share of Group 2018



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

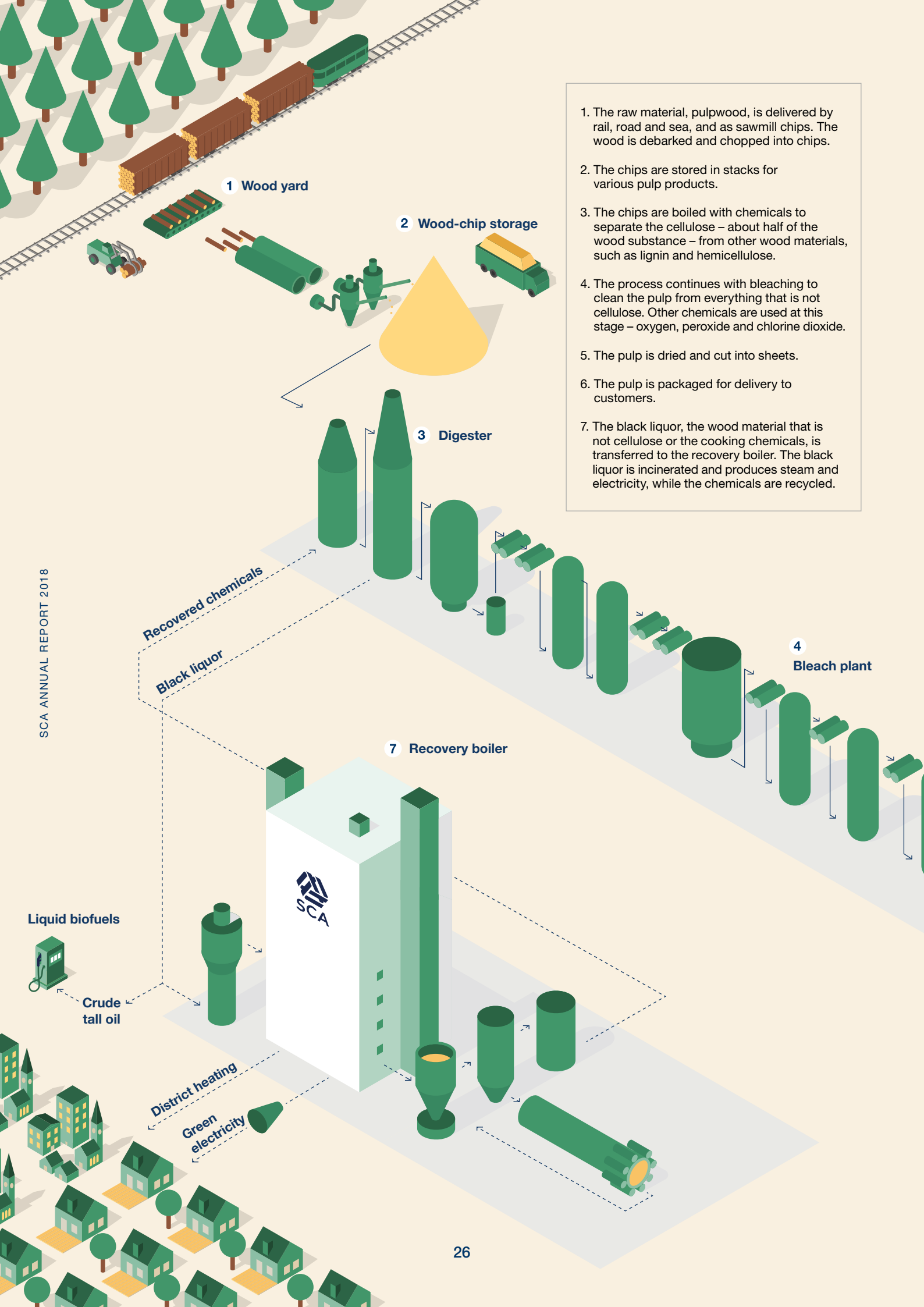
Östrand pulp mill, Timrå

Production capacity:

- **Bleached softwood kraft pulp (NBSK):** 900,000 tonnes/year (2020). The pulp is used in, for example, tissue, packaging, publication paper and filters.
- **Chemical thermomechanical pulp (CTMP):** 100,000 tonnes/year. The pulp is used in, for example, packaging and hygiene products.
- **Green electricity:** 1.2 TWh/year when pulp production is at full capacity (2020)

Financial key figures

SEKm	2018	2017
Net sales	2,866	2,542
EBITDA	709	482
EBITDA margin	24.7%	19.0%
Operating cash flow	137	518
Strategic capital expenditures	1,904	2,816
Capital employed	8,998	7,154
Return on capital employed	4.5%	4.0%
Deliveries, pulp, thousand tonnes	425	495
Average number of employees	385	371



1. The raw material, pulpwood, is delivered by rail, road and sea, and as sawmill chips. The wood is debarked and chopped into chips.
2. The chips are stored in stacks for various pulp products.
3. The chips are boiled with chemicals to separate the cellulose – about half of the wood substance – from other wood materials, such as lignin and hemicellulose.
4. The process continues with bleaching to clean the pulp from everything that is not cellulose. Other chemicals are used at this stage – oxygen, peroxide and chlorine dioxide.
5. The pulp is dried and cut into sheets.
6. The pulp is packaged for delivery to customers.
7. The black liquor, the wood material that is not cellulose or the cooking chemicals, is transferred to the recovery boiler. The black liquor is incinerated and produces steam and electricity, while the chemicals are recycled.

1 Wood yard

2 Wood-chip storage

3 Digester

4 Bleach plant

7 Recovery boiler

Recovered chemicals

Black liquor

Liquid biofuels

Crude tall oil

District heating

Green electricity



Most modern pulp mill in Europe

The expanded pulp mill in Östrand has the capacity to produce one million tonnes of pulp annually and is industry-leading in terms of production cost, pulp quality, environmental performance and energy efficiency.

Energy producer

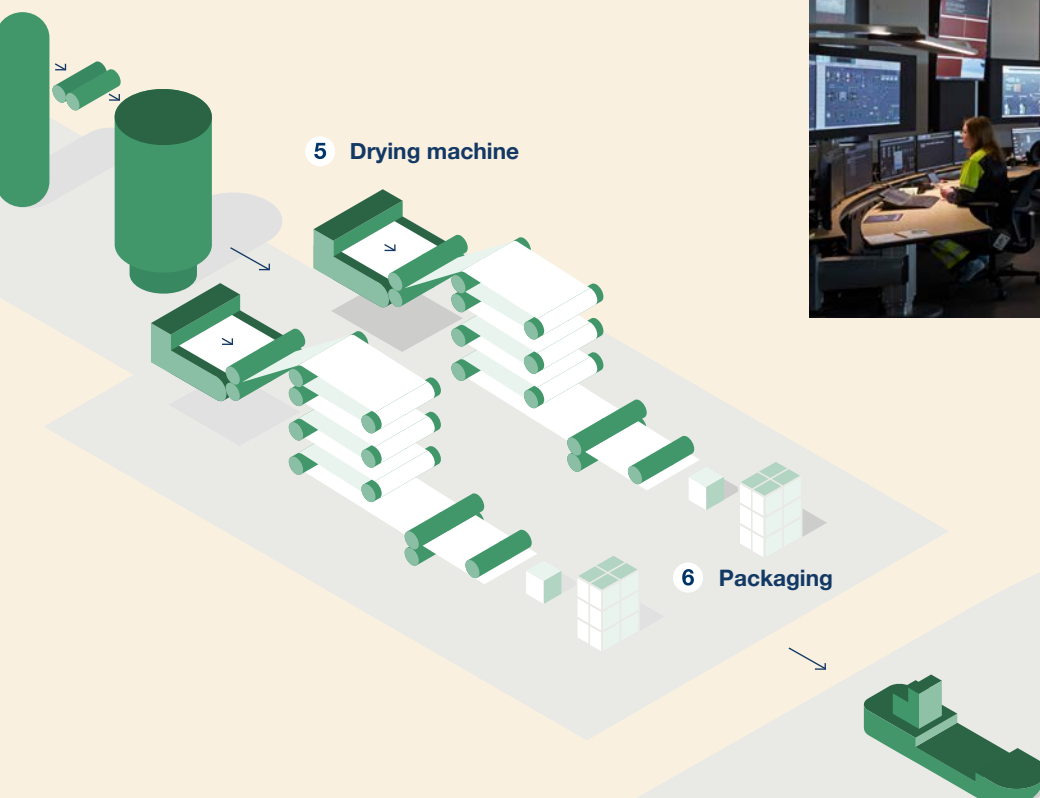
A kraft pulp mill produces pure cellulose. Half of the raw material consists of other wood substances – lignin and hemicellulose. These are incinerated in a recovery boiler to produce steam at high temperature and pressure, which is used in turn to produce green electricity.

The expanded Östrand plant is self-sufficient in electricity and heating. In addition to the needs of the plant, 0.5 TWh of green electricity is sold to the grid and the plant provides energy to the Sundsvall and Timrå district heating systems.

SCA is developing technology to enable the use of black liquor as the raw material to manufacture liquid biofuels and green chemicals.

Operation center

Almost all of the control and monitoring systems in the new plant have been gathered in an operation center, a joint control room for the entire plant. Those who monitor and control the plant's processes work in a modern operating environment, with an overview of operating data in real time. Consolidating the control and monitoring functions in one control room has simplified cooperation between operators and thus the ability to optimize the plant.



PAPER

Leading kraftliner producer

SCA manufactures kraftliner – packaging paper – and publication paper. Kraftliner is a strategic growth area with favorable long-term trends. The focus for publication paper is on maximizing cash flow through specialization and innovation.

Kraftliner – strategic growth area

Kraftliner is a fresh fiber-based packaging paper that is used to manufacture corrugated board packaging, where kraftliner is used for the outer layer of the corrugated board. SCA produces kraftliner at the Munksund paper mill in Piteå and the Obbola paper mill in Umeå.

Leading kraftliner producer

SCA is a leading producer of kraftliner, being the third largest in Europe and the largest independent supplier. The product portfolio includes a range of specialty products, such as kraftliner with a white printable surface (white-top) and wet-strength kraftliner. Wet-strength kraftliner is used for packaging with particularly high demands, for example packaging for food or heavy goods. The slow-growing wood raw material from Northern Sweden provides strength and is well suited for material-efficient packaging of high quality. The key markets are the Nordic region, Germany and the UK.

SCA has efficient and well-invested production plants. The Obbola paper mill has Europe's largest machine for manufacturing kraftliner and the mill in Munksund the third largest. Investments are taking place at Munksund to increase capacity for the manufacture of white-top kraftliner. The upgraded machine will begin operating in 2019.

Favorable long-term trends

The kraftliner market continues to grow. The healthy economy and global megatrends are driving world trade and demand for packaging paper. The expanding e-commerce and the transition from plastic packaging to renewable materials is also boosting demand for high-quality packaging paper. Demands on food safety standards and retail-ready packaging, which can be displayed directly in stores, are increasing interest in fresh fiber-based packaging without chemicals, with high printability and strength.

This increasing demand, combined with limited growth in supply, has resulted in a positive price development for kraftliner in recent years.

Opportunity for increased capacity

The long-term favorable trends, an expanding market and the high rate of capacity utilization provides an opportunity to

increase production capacity. SCA is conducting a pre-project to assess a production increase in Obbola. The pre-project is expected to be completed in the first quarter of 2019.

Publication paper – maximized cash flow

The world's fifth largest publication paper mill

Ortviken is one of the world's largest and most production-efficient publication paper mills. The mill manufactures coated and uncoated printing paper for magazines, catalogs and commercial print for media companies in Europe.

Stabilizing market in structural decline

Publication paper is a structurally declining market that in recent years has decreased by about 5% per year. In 2018, capacity reductions among publication paper producers have created a better balance between supply and demand. The improved market balance has resulted in price increases during the year for both coated and uncoated printing paper.

Innovation for upgrading the product portfolio

SCA's focus for publication paper is on maximizing cash flow through product quality and production efficiency. With a high pace of innovation, the portfolio is upgraded with high-quality products. Ortviken is focusing on niches with stronger demand and is developing new cost-efficient paper products that compete with fine paper. About 35% of sales comprises products launched over the past five years.

Strategy

- Continue to invest in specialty products, such as white-top and wet-strength kraftliner
- Assess a possible investment to increase kraftliner production at Obbola paper mill
- Maximize cash flow in publication paper by optimizing processes and the product and market mix

Kraftliner

Obbola, Umeå

Production capacity: 450,000 tonnes/year

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

Munksund, Piteå

Production capacity: 415,000 tonnes/year

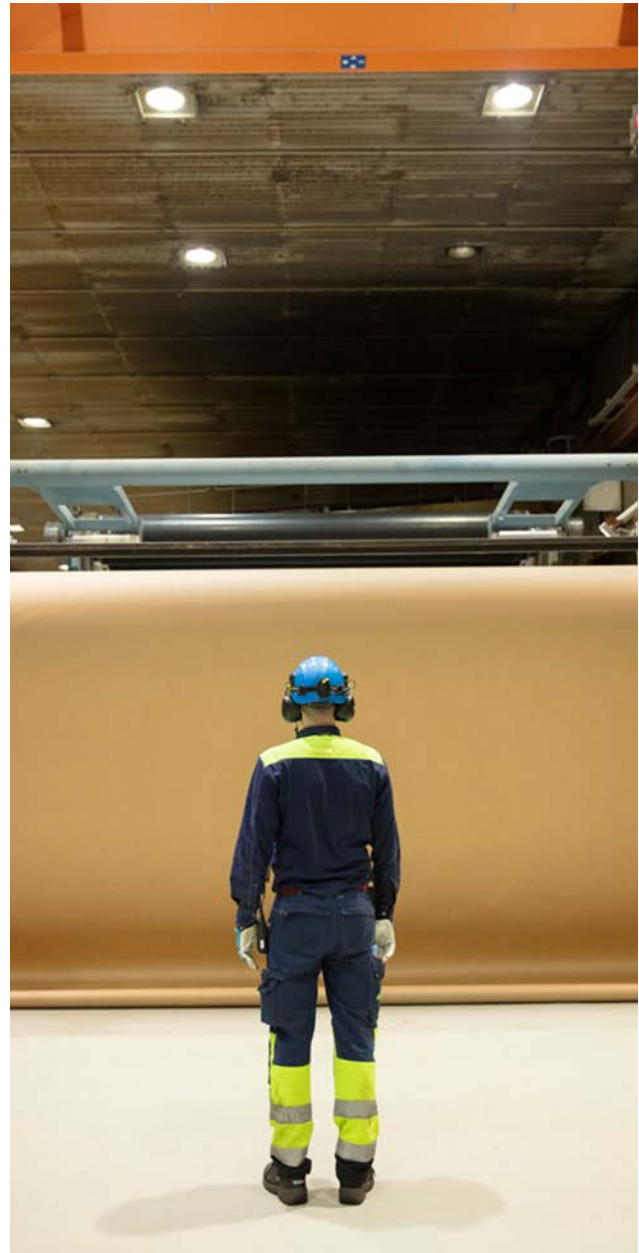
Product range: brown and white-top kraftliner, for consumer and transport packaging. Specialized in heavy-duty, wet-strength and white-top grades.

Publication paper

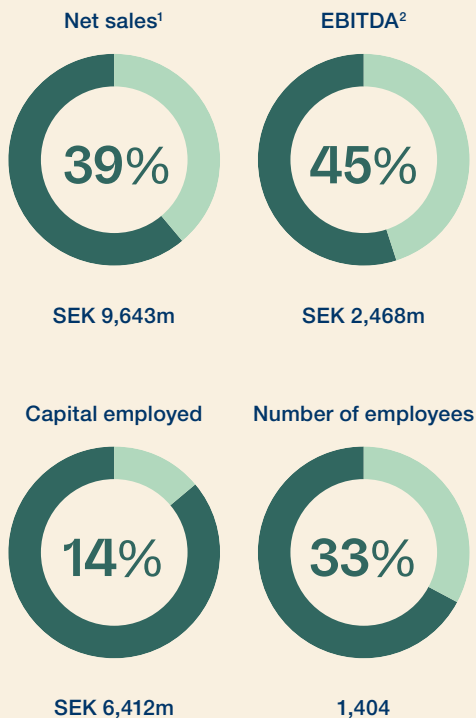
Ortviken, Sundsvall

Production capacity: 775,000 tonnes/year

Product range: Light weight coated (LWC) and uncoated printing paper used for magazines, brochures, catalogs and other publication paper grades with high and specific demands on quality and performance.



Share of Group 2018



1) Before elimination of intra-Group sales.

2) Share calculated of total EBITDA, excluding central items.

Financial key figures

SEKm	2018	2017
Net sales	9,643	8,434
EBITDA	2,468	1,479
EBITDA margin	25.6%	17.5%
Operating cash flow	2,167	1,122
Strategic capital expenditures	45	-
Capital employed	6,412	5,861
Return on capital employed	30.8%	15.8%
Deliveries, kraftliner, thousand tonnes	805	845
Deliveries, publication paper, thousand tonnes	722	732
Average number of employees	1,404	1,429

Renewable energy – the next value creator

SCA's forest assets and industrial operations provide the company with significant potential to develop new business opportunities in the field of renewable energy. Greater value creation from by-products from the forest and industry create conditions for profitable and sustainable growth.



Doubling wind power production on SCA's land by 2020

As Europe's largest private forest owner, SCA owns large areas of forest land with favorable wind conditions. SCA prepares and develops wind power projects for players who are interested in investing in green energy. As land owner, SCA receives a ground lease based on revenue from the sale of the green electricity produced.

At the end of 2018, 324 wind turbines were in operation on SCA's land with an annual capacity of 2.6 TWh. During the year, decisions were taken to build an additional 120 wind turbines and, together with previously agreed projects, production on SCA's land is expected to increase to 6.7 TWh by 2021. SCA has a long-term goal for wind power production on its own land of 11 TWh, equivalent to the electrification of all passenger cars in Sweden.

Leading supplier of biofuels

All timber that can be sawn is used for solid-wood products. The wood raw material that cannot be used for wood products is used to produce paper and pulp. The by-products from forest operations and industry that are not suitable for use as fresh fiber are used in energy production. A large proportion of bioenergy is used at SCA's own plants and contributes toward SCA's very low carbon footprint.

SCA produced 9 TWh of bioenergy in 2018. 7.5 TWh was used in SCA's own plants and 1.5 TWh was delivered to external customers. Of the external deliveries, 0.5 TWh was unprocessed biofuels and 1 TWh was processed biofuels, meaning wood pellets. SCA's production capacity at fully or partially owned plants is 300,000 tonnes of pellets per year.

Östrand investment offers new business opportunities

Doubling production capacity at the expanded pulp mill in Östrand increases the production of tall oil, a by-product from pulp production. In 2018, SCA and the Finnish energy company St1, initiated cooperation to assess the investment in a facility to manufacture liquid biofuel, based on tall oil, at St1's refinery in Gothenburg. The investment could yield annual production of 100,000 m³ of liquid biofuel, equivalent to about 1% of Sweden's total fuel needs. The evaluation is expected to be completed in the first quarter of 2019.

SCA has begun an environmental assessment of a possible biorefinery at Östrand pulp mill. The company is evaluating the potential to manufacture liquid biofuel from black liquor, a by-product from pulp manufacturing. SCA's proprietary process is being assessed in a pilot plant at the Obbola paper mill. SCA is also evaluating the potential to produce liquid biofuel from solid biomass, such as sawdust. Both projects can utilize the industrial infrastructure available at the Östrand pulp mill and the residual products generated by SCA's industrial production.

SCA has a long-term goal to manufacture liquid biofuel from residual forest products of 260,000 m³, a volume corresponding to all fuel used in domestic flights in Sweden.

Strategy

- Maximize wind power on SCA's land and develop the aftermarket business
- Optimize production, product portfolio and profitability in the biofuel business
- Commercialize business opportunities for liquid biofuels

Efficient logistics to ensure competitiveness

Logistics is a central part of SCA's operations. Forest raw materials are shipped to industrial facilities and products are delivered to customers worldwide. SCA's logistics system is customized based on the needs of the company, thereby maximizing the benefit to the other operations and the environment.

The forest industry is a logistics-intensive industry. About 20% of SCA's cost base is for logistics. To optimize freight flows, SCA has set up its own logistics system in both raw material supply and the distribution of finished products. Within forest operations, SCA is one of Sweden's largest users of rail transport, with its own transport system from inland forests to industries on the coast.

Raw-material transportation

Timber is taken from forests throughout Northern Sweden. All timber transportation starts on trucks. If the distance to the industry is short, the timber is driven directly by truck. If the distance is further than about 100 kilometers, the timber is driven to a rail terminal and then transported to the industry by rail.

The increased timber demand from the expanded pulp mill in Östrand will to a large extent be delivered by rail. Timber can also be transported from Southern and Central Sweden at a competitive cost by using efficient rail transportation.

Efficient road transportation is economic and environmentally friendly. 74-tonne timber trucks are now permitted on Swedish roads. These trucks can transport 30% more timber at the same time as reducing environmental impact. In Northern Sweden, only a limited part of the public road network is available for 74-tonne trucks, but SCA is working to make a greater number of roads available for these more efficient trucks.

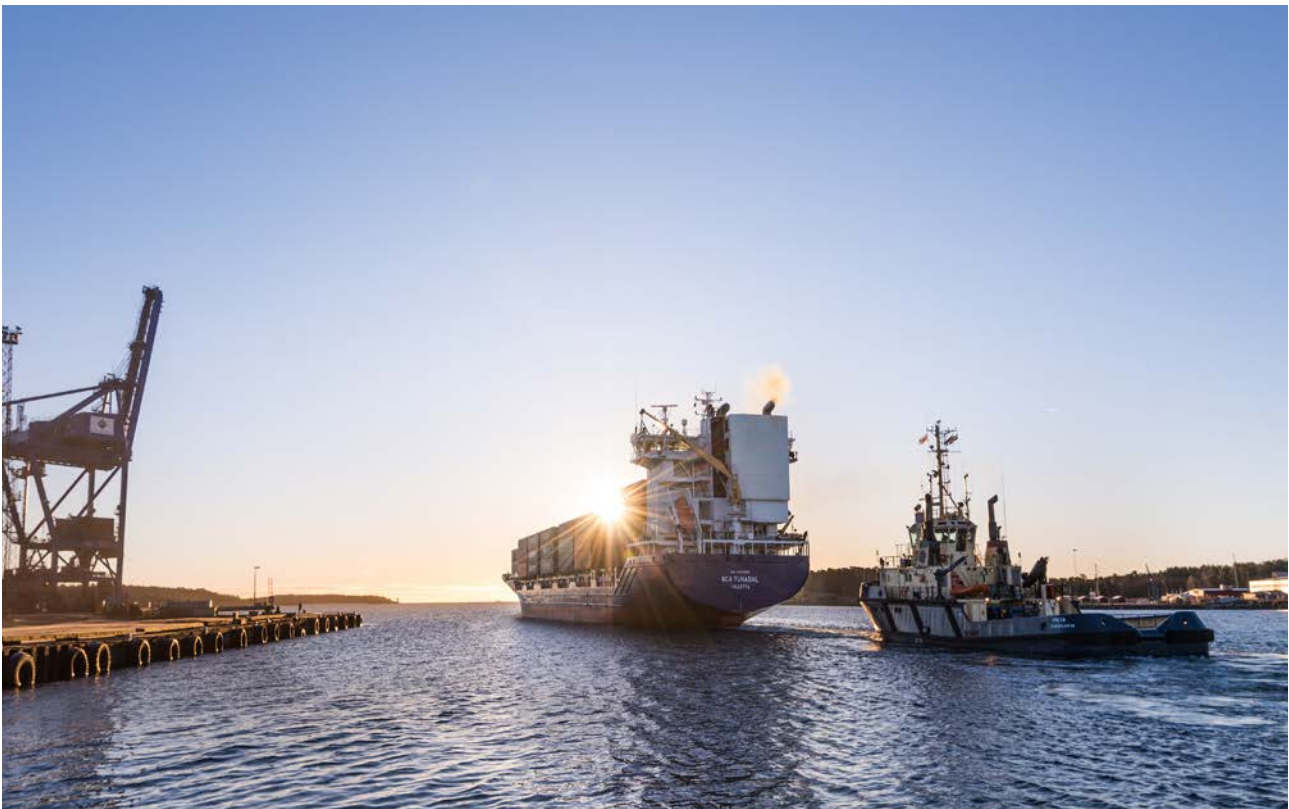
SCA exchange timber with other forest products companies to reduce transport distances to industry and thereby reduce costs and emissions as much as possible.

Delivery of finished products

Most of SCA's product transportation uses ships. SCA owns three RoRo vessels. These operate scheduled services and timetables between SCA's terminals in Umeå, Sundsvall, Kiel, Rotterdam and Sheerness near London. The use of this transportation system enables SCA to maintain a high level of customer service at low transport cost and environmental impact.

For all inter-continental freight and a growing share of European deliveries, cargo is transported in containers on container ships. Container freight is shipped from SCA's terminals in Sweden to terminals on the continent, for onward transport by truck, train or barge or alternatively when shipping to other continents by larger container ships.

To optimize capacity utilization, SCA offers cost-efficient logistics solutions for external customers. Both RoRo and container ships are used to ship freight northwards from terminals on the continent. These deliver, for example, input goods to industry and consumer products to Southern and Central Sweden, before taking the empty containers to SCA's industries in the north.



SCA delivers sustainable development

The sustainability profile covers the entire company's operations. SCA supports the 2030 Agenda and the UN's 17 Sustainable Development Goals and makes a direct or indirect contribution to all of these goals.

SCA ANNUAL REPORT 2018

<p>Fossil-free world</p> <ul style="list-style-type: none"> • Growing forest binds CO₂ • Renewable energy • Forest-based products • Substitution   	<p>Valuable forests</p> <ul style="list-style-type: none"> • Biodiversity • Social values • Healthy growth • Reliable timber supply 	<p>Efficient use of resources</p> <ul style="list-style-type: none"> • High yield from raw materials • Innovation • Continuous improvements   	<p>Responsibility for people and the community</p> <ul style="list-style-type: none"> • Healthy and safe work environment • Dedicated employees • Diversity and inclusion • Viable local communities    
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Profitable growth

Increased value creation for shareholders, customers, suppliers, employees and the community



Values

Purpose
With the force of the forest, we contribute to a sustainable future

Core values
Responsibility, excellence and respect







All stakeholders in society face are facing substantial demands so that future generations can live a happy and healthy life in balance with nature. SCA has a long-term perspective in its operations and takes responsibility for sustainable development in its entire business and throughout its value chain.

This ambition encompasses social, economic and environmental goals, which are integrated into the company's daily work and business development. The sustainability profile covers the company's operations as a whole and is an important component of the SCA brand.

Profitable growth is one part of sustainable development and also a prerequisite for reaching other targets. Long-term economic returns are an integrated part of SCA's sustainability profile.



THE GLOBAL GOALS

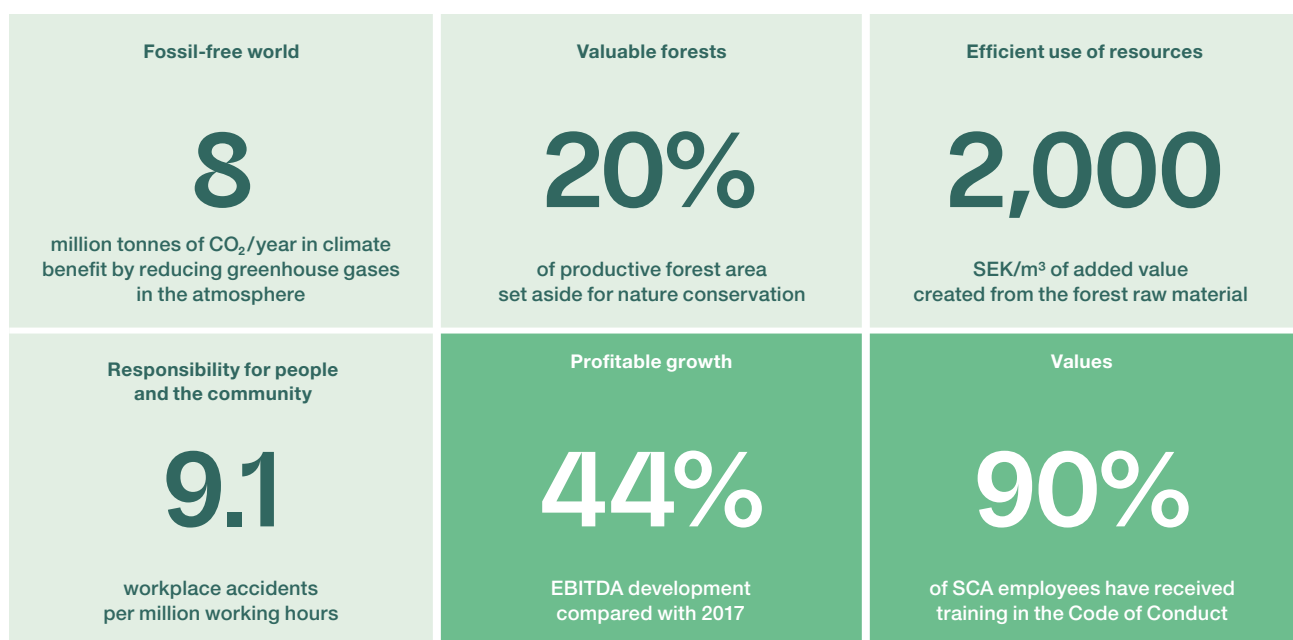
For Sustainable Development

The 2030 Agenda is the plan of action agreed on by world leaders to secure freedom, prosperity and the environment for future generations. The plan is set out in 17 Sustainable Development Goals (SDGs) that together and as a whole express ambitions for a desirable development.

The SDGs were adopted in 2015 and are used as a framework for national plans, international commitments and in the private sector. The inclusion of economic growth with social and environmental dimensions makes the framework highly relevant for responsible companies.

Sweden's action plan for the 2030 Agenda includes the two priorities: "a socially beneficial, circular and bio-based economy" and "a strong business sector with corporate social responsibility". Innovation and regional development are other watchwords.

Main indicators for SCA's sustainability platform



Fossil-free world

SCA's operations are climate positive and contribute in several ways towards important climate solutions and a fossil-free world.

Climate-positive operations

The average world temperature must not increase more than 2°C and should be limited to 1.5°C according to the UN's climate panel, IPCC. Both a sharp decrease in emissions from fossil sources and a substantial increase in carbon storage are required to achieve this.

The forest has a key role to play in the transition as a growing forest captures and binds CO₂ and the renewable, forest-based products can replace alternatives with a greater climate impact, such as plastic and concrete.

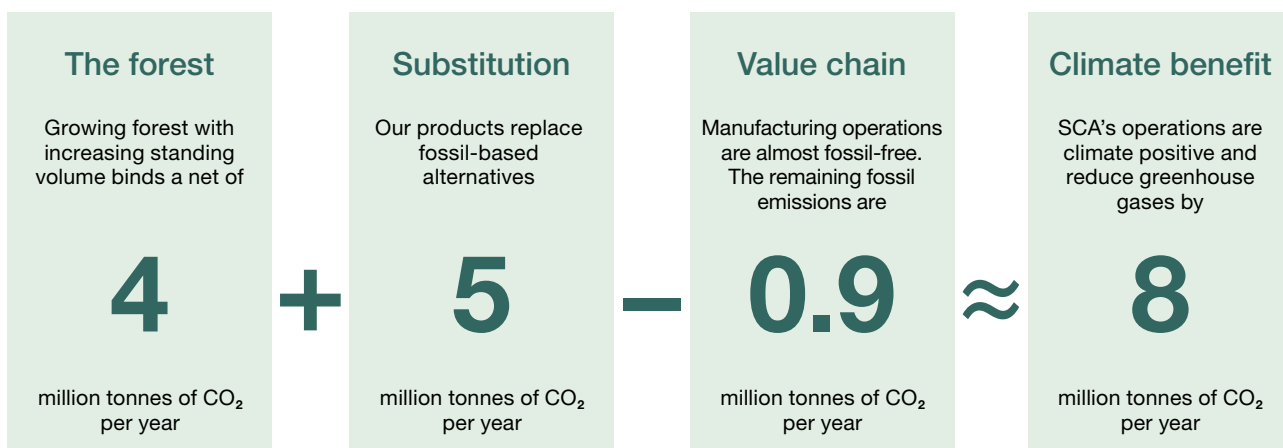
SCA contributes toward a better global climate as the company's own forests become increasingly timber-rich and store about 4 million tonnes of CO₂ net per year. The renewable products contribute through substitution by reducing fossil emissions equivalent to approximately 5 million tonnes of CO₂ per year. Including fossil emissions generated by the company's operations, the net positive climate effect is about 8 million tonnes of CO₂ per year, corresponding to about one-sixth of Sweden's fossil emissions and more than the total emissions from all the

truck traffic and domestic flights in Sweden. The climate impact has been calculated as CO₂ equivalents but is expressed as CO₂ in the text.

Fossil-free value chain

The aim is that SCA's value chain is to become fossil-free. 95% of SCA's own industrial processes are fossil-free due to a deliberate transition to biofuels that come mainly from by-products and forest raw materials. In 2018, this share was temporarily lower due to the start-up of the new pulp mill in Östrand. An estimate of greenhouse gas emissions shows that emissions from all being production, transportation and input goods, meaning the climate impact of the entire operations, totals 0.9 million tonnes of CO₂ per year. Most of these emissions, 77%, are generated outside of the company's factories. Work in future will focus on logistics optimization, fuel selection, energy efficiency and input goods. Key success factors include access to a reliable railway system with a high cargo capacity, 74-tonne road vehicles, larger and more fuel-efficient ships and access to fossil-free fuels.

SCA's climate benefit amounts to 8 million tonnes of CO₂, more than the total emissions from all the truck traffic and domestic flights in Sweden





Substitution to enhance climate benefits

SCA's products are based on renewable raw materials from responsibly managed forests and produced in efficient production facilities with low climate impact. When these products replace fossil-based alternatives or products with a larger climate footprint, a climate benefit is created equivalent to about 5 million tonnes of CO₂ per year. Examples include wood replacing steel and concrete, fiber-based products replacing plastic, and bioenergy replacing fossil-based energy. Innovation work is focused on developing new products and application areas for the company's products. For example, producing liquid biofuels based on the industry's residual flows.

Climate impact from SCA's operations

Area	Million tonnes of CO ₂ e per year (relates to scope 1, 2 and 3)
Transportation	0.38
Harvesting and industrial operations	0.26
Input goods	0.21
Other	0.03
Total	0.88

SCA's contribution to the UN Sustainable Development Goals

Renewable energy is produced in large quantities directly from forest raw materials or as part of the industrial processes. A large amount of the biobased energy is used in SCA's own industries, which are thereby almost fossil-free. District heating is delivered to local towns nearby the company's industries. The production of green electricity is made possible by wind power installed on SCA's forest land and by co-generation at the industries.

Growing forests binding CO₂, fossil-free industrial processes, renewable energy production and the substitution of fossil-based products mean that SCA generates a net positive climate effect resulting in 8 million tonnes less CO₂ in the atmosphere every year.

SCA's products are renewable and contribute toward a circular and bio-based society. The more efficient use of resources reduces greenhouse gas emissions throughout the value chain.

Contamination of the seas with fossil-based non-degradable plastic products is counteracted by the increased use of wood-fiber-based products.



Valuable forests

SCA creates many diverse values for people and nature through responsible forest management.

Responsible forest management

Responsible and active forest management aims to achieve long-term growth in the forest while preserving biodiversity. This creates the conditions for both profitability in the future and for continuing high levels of environmental benefits. The forest's growth potential can be optimally used through active and scientifically based forest management practices.

SCA's forest land shall be at least as rich in biodiversity, nature experiences and raw material in the future as it is today. To this end, 20% of productive forest land is excluded from timber production through voluntary set-asides and conservation measures during final felling.

SCA's own forest holding of 2.6 million hectares and a standing volume of 235 million m³ fo with gross forest growth of approximately 4% per year, can ensure an environmentally certified flow of raw materials to the industries, while safeguarding climate benefits and nature conservation.

Responsible fiber sourcing

Timber that is not from SCA's own forest is purchased by SCA's wood procurement organization and fulfills the FSC Controlled Wood standard as a minimum. SCA's wood procurement is third-party certified in accordance with FSC Chain of Custody and PEFC Chain of Custody. This guarantees, among other factors, that the timber does not originate from controversial sources and is harvested with concern for nature conservation. SCA encourages its timber suppliers to certify their forest operations. In 2018, 2.6 million m³ of timber was delivered to SCA from 17,000 private forest owners.

The company works together with other stakeholders that use SCA's forest land, for example, consultations with Sami communities to create joint solutions and a deeper understanding of each other's needs. Another area is partnerships with wind power companies that lease and build wind turbines on SCA's land. In 2018, 69 consultations were conducted with 30 Sami communities. Issues discussed included the time for harvesting and choice of tree species.



SCA's contribution to the UN Sustainable Development Goals

The responsible management of SCA's own forests and similar commitments from external timber suppliers lead to enhanced conservation values that strive for at least the same level of biodiversity in the future, and higher timber growth that safeguards the future needs of society.



SCA's forests are also managed to safeguard social values for recreation, hunting and fishing, which contributes to better health and well-being.



Job opportunities in SCA's operations and business opportunities for contractors and timber suppliers are secured in local and rural communities.



Partnership for environmental certification of forest operations. Consultation and collaboration with Sami communities to create joint solutions. Partnership with wind power companies to increase the forest's contribution to sustainable development.



Efficient use of resources

Optimizing forest raw materials in
efficient value chains generate both
sustainability and profitability.

Innovation for sustainable development

The forest industry expects to provide a large share of climate solutions by increasing production and developing new materials. New application areas, innovation and changes to value chains are needed to meet greater demand for sustainable solutions.

The Group's product portfolio is being developed to offer new products and services that can contribute towards greater climate benefits for customers and consumers. Two examples are resource-efficient and moisture-resistant kraftliner and chemical-free heart pine decking.

Resource-efficient operations

Today, SCA uses 9.6 million m³ of forest raw materials that are converted into products. The entire tree is utilized and the raw material yield is high. More than 70% of fresh fiber is used for wood products, paper and pulp. The remaining raw material is used for energy and products such as pellets and tall oil. The value added, expressed as sales per used unit of wood volume,

is approximately SEK 2,000/m³ or about five times the average price of wood. Work is continuously ongoing to further increase the yield and added value in the various segments.

The Group is working continuously to improve operations. One example is work to steadily improve energy efficiency. Efforts are pursued and followed up within the Group's energy-saving program ESAVE. The current period runs from 2010 to 2020. The projects completed by the end of 2018 within the program have resulted in energy savings of approximately 150 GWh of electricity and 420 GWh of heating on an annual basis.

SCA is working to reduce its emissions to water and air through investments and continuous improvements. Additional measures are required to reduce emissions as a result of rebuilding work on water treatment plants. The commissioning of the expanded pulp mill in Östrand had a negative impact on the outcome for 2018 as the start-up phase initially required oil-firing instead of using biofuels.



SCA's contribution to the UN Sustainable Development Goals

All forest raw materials are used to produce renewable products. Bioenergy and biofuels play a central role in the product mix.



Efficiency enhancements in flows and processes are key to both profitability and low environmental impact. Innovation continuously leads to the creation of new, renewable products.



Production systems utilize the forest raw material in the best way possible with responsibility for health and safety and nature conservation. Greater raw material yield increases the potential for substitution of fossil-based products to facilitate more sustainable consumption.



The industrial processes are to a high degree fossil-free due to renewable energy from forest raw materials. Efficiency enhancements and adaptation further reduce the climate impact.



Effective control and systematic work minimize emissions to water and marine environments to safeguard access to clean water.



Responsibility for people and the community

Success and sustainable development are dependent on dedicated employees and partnerships in local communities.



The equal value of everyone

SCA is an attractive and inclusive employer where health and safety is given the highest priority and where diversity is part of the culture. Employees are offered an opportunity to develop to their full potential and to work in an atmosphere of respect and trust.

SCA's core values are responsibility, excellence and respect which form the basis of the sustainability profile and describe how we treat people, conduct operations, do business and contribute to the development of the local community. These relate to fundamental human rights and ethical requirements on operations, such as zero tolerance for corruption and victimization. The core values encompass company standards, sustainability across the value chain and justice and equality in the world around us. SCA has chosen to support the UN Global Compact and been a member since 2008.

The Group's vision of zero workplace accidents means that all employees and other people working at the company's facilities should return home healthy and unharmed from work. SCA runs the ZERO program to develop our shared health and safety culture through enhancing leadership and changing behavior.

Dedicated employees ensure profitable growth

SCA holds regular employee surveys where all employees can take part. The results are then used to draw up action plans to develop and improve SCA as employer. Participation in 2018 was high, just over 90%, and the survey reflects a high level of engagement.

Diversity in the workplace is a success factor and a development area for SCA. The company is actively striving to increase diversity by broadening its recruitment base, increasing awareness within the Group and knowledge about the industry.

Community involvement for sustainable development

SCA's operations generate direct and indirect values, such as job opportunities, revenues from timber sales for private forest owners and work opportunities for contractors and sub-suppliers. Moreover, SCA enables income and experiences from hunting, fishing, recreation and associations. SCA thereby makes an active contribution to sustainable local communities and to regional development.



SCA's contribution to the UN Sustainable Development Goals

Program ZERO for a healthy and safe work environment with no accidents. Work to increase diversity and an inclusive company culture through a wider recruitment base and a living Code of Conduct.



Good working conditions and excellent possibilities for upskilling and skills development. Participation in external training programs, work experience for young people through work placements and vacation work.



Long-term economically viable operations contribute to sustainable local communities. Dialogue and influence through SCA's Supplier standard. Sponsorship of local associations.



Partnership with stakeholders in the local community. Member of the UN Global Compact.



The share and shareholders

The SCA share is quoted and traded on Nasdaq Stockholm. The company's market capitalization was approximately SEK 48bn at the end of the year.

Share performance 2018

In 2018, SCA's Class B share decreased by 19% to SEK 68.72 at the end of the year. During the corresponding period, the index of the 30 most traded shares, OMX30 Stockholm, fell by 11%. The highest closing price for SCA's Class B share was SEK 107.75, which was noted on August 30. The lowest closing price was SEK 67.96 on December 27.

Share trading

During 2018, trading volume on all marketplaces amounted to approximately 1,883 million SCA shares, which corresponds to 268% of the total number of shares outstanding. The largest share of trading was on Nasdaq Stockholm, where some 728 million SCA shares exchanged hands. Average daily trading for SCA on Nasdaq Stockholm amounted to approximately 2.9 million shares. During the year, trading on CBOE Chi-X amounted to approximately 199 million SCA shares, trading on Turquoise to about 73 million SCA shares and trading on other marketplaces to approximately 883 million SCA shares.

Ownership structure

SCA had approximately 100,000 shareholders as of December 31, 2018. Some 55% of the share capital is owned by Swedish investors and 45% by foreign investors. The US, Norway and the UK account for the highest percentage of shareholders registered outside Sweden.

Share structure

SCA's share capital comprises two classes of shares, shares of Class A and of Class B. Each Class A share carries ten votes and each Class B share carries one vote. Class A and Class B shares hold the same right to dividends. Both share classes are listed on Nasdaq Stockholm.

Dividend and dividend policy

SCA aims to provide long-term stable and rising dividends to its shareholders. When cash flow from current operations exceeds what the company can invest in profitable growth over the long term, and under the condition that the capital structure target is met, the surplus shall be distributed to the shareholders.

The Board of Directors proposes a dividend of SEK 1.75 per share for the 2018 fiscal year. A dividend of SEK 1.50 per share was paid in 2017.

5.21

SEK
Earnings per share,
2018

1.75

SEK
Proposed dividend
per share, 2018

SCA's ten largest shareholders, as of December 31, 2018

Shareholders	No. of Class A shares	No. of Class B shares	Capital	Votes
Industrivärden	35,000,000	31,800,000	9.5%	29.7%
Norges Bank	8,066,000	42,530,137	7.2%	9.6%
AMF Insurance and Funds	675,000	41,395,623	6.0%	3.8%
Handelsbanken Pension fund	3,827,747	5,846,050	1.4%	3.4%
Swedbank Robur Funds	0	27,348,418	3.9%	2.1%
Livförsäkringsbolaget Skandia	1,658,169	1,681,136	0.5%	1.4%
Pensionskassan SHB Insurance	1,303,000	3,576,950	0.7%	1.3%
Vanguard	0	16,054,445	2.3%	1.3%
Invesco	5,580	13,655,876	2.0%	1.1%
Nordea Funds	0	13,641,603	1.9%	1.1%
Ten largest	50,535,496	197,530,238	35.3%	54.8%
Other	14,052,176	440,224,579	64.7%	45.2%
Total	64,587,672	637,754,817	100.0%	100.0%

Source: Monitor by Modular Finance. Compiled and processed data from various sources, including Euroclear, Morningstar and Finansinspektionen. The verification date may vary for certain shareholders.

Percentage of foreign ownership, capital

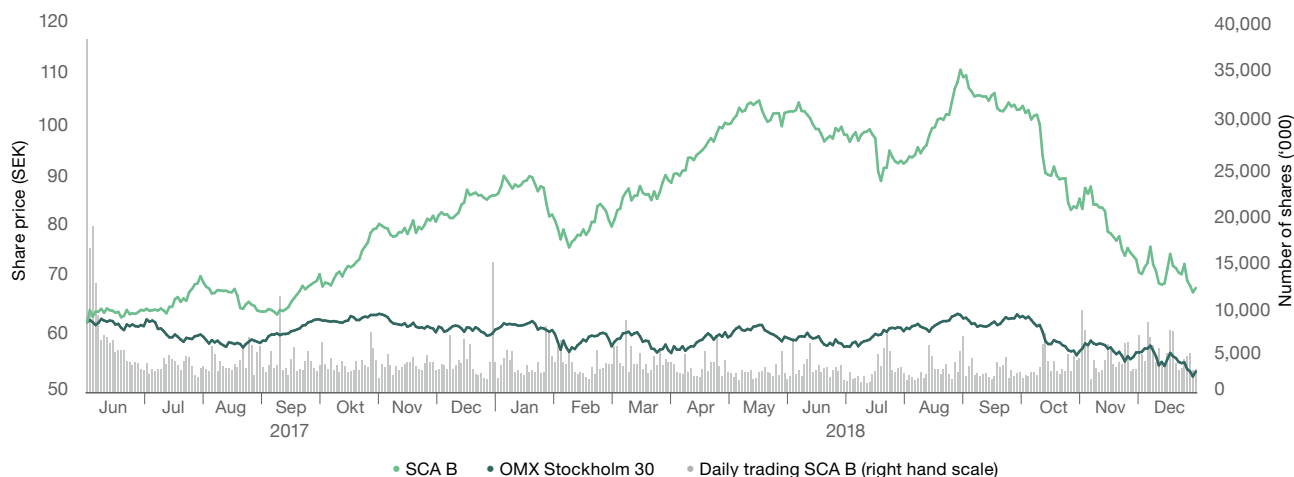


Shareholder structure, as of December 31, 2018

Holding	No. of shareholders	No. of shares	Capital	Votes
1–500	69,169	10,245,274	1.5%	1.7%
501–1,000	12,865	9,977,204	1.4%	1.6%
1,001–5,000	14,030	30,790,642	4.4%	4.9%
5,001–10,000	1,863	13,469,316	1.9%	2.1%
10,001–20,000	770	10,971,119	1.6%	1.5%
20,001–50,000	401	12,693,688	1.8%	1.7%
50,001–100,000	145	10,288,596	1.5%	1.3%
100,001–	271	526,278,399	74.9%	78.9%
Anonymous owners		77,628,251	11.1%	6.1%
Total	99,514	702,342,489	100.0%	100.0%

Source: Euroclear and Modular Finance

Share performance



Board of Directors' Report

SCA is Europe's largest private forest owner with 2.6 million hectares of forest land in Northern Sweden. The forest is a real asset, which grows each year and forms the core of SCA's operations. Around this renewable resource SCA has built a well-invested and efficient value chain, which maximizes the value of each tree.

Operations and organizational structure

The core of SCA's operations is the forest, with SCA's forest being the largest private forest holding in Europe. Around this resource, SCA has built an integrated and well-invested industry, which utilizes and maximizes the value of the entire tree. Using the raw materials, SCA develops products for customers all over the world with high demands on quality, delivery reliability, service and sustainability.

The most valuable part of the tree is used for sawlogs and as much as possible of the timber is sawn to become solid-wood products for industry and the building materials trade. Bark is used in energy production. Chips together with tree-tops and smaller trees are used to make pulp and paper for further processing by customers into tissue, packaging and publication paper. Sawdust is used to make pellets for energy production at SCA and externally. Steam and by-products from pulp production are used to deliver heat to the local district heating system, generate green electricity and in the future also produce liquid biofuels.

The forest land also contains favorable sites for wind power.

Logistics is an important element in SCA's efficient value chain and the transport solutions created for SCA's own products are also offered to other customers.

Organization and reported segments

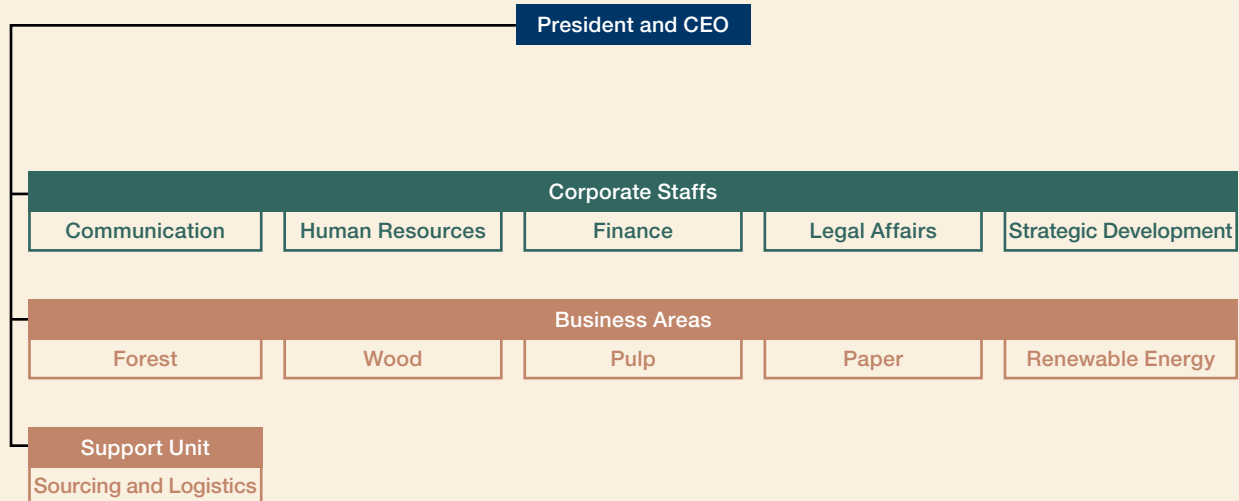
SCA is organized into five business areas and one support unit.

Business areas

- The Forest business area has overall responsibility to supply SCA's forest industries with wood raw material. This means the Forest business area is responsible for managing SCA's own forest land in Sweden, for sourcing wood raw material from other forest owners and for transporting the wood raw material to SCA's industries.
- The Wood business area is responsible for the solid-wood business, which comprises five sawmills in Sweden and wood processing units and distribution and wholesale operations for wood products in Sweden, the UK and France.
- The Pulp business area is responsible for the pulp business, consisting of kraft pulp (NBSK) and chemical thermomechanical pulp (CTMP), both produced at the Östrand pulp mill.
- The Paper business area is responsible for the kraftliner business, with manufacturing of containerboard at the Obbola and Munksund paper mills, and for the publication paper business, with manufacturing of publication paper for magazines, catalogues and commercial print at the Ortviken paper mill.
- The Renewable Energy business area is developing SCA's business in the renewable energy segment, which includes the development of wind power projects, pellets manufacturing and sales, and the use of biomass and by-products from industry in energy production.

The support unit Sourcing and Logistics includes SCA's common sourcing functions. The unit is also responsible for SCA's logistics system for deliveries to customers using specially adapted vessels and terminals both in Sweden and in key foreign markets.

Organization



Staff functions

SCA has five corporate staffs: Communications, Human Resources, Finance, Legal Affairs and Strategic Development.

Segments

SCA's financial reporting is conducted in four segments, which are slightly different to the business areas described above. The forest segment includes the Forest business area and activities in sustainable energy linked to the forest that are managed by the Renewable Energy business area, primarily wind power leases and the sale of by-products from the forest for energy purposes. The Wood segment includes the Wood business area and the activities linked to the sawmills that are managed by the Renewable Energy business area, primarily pellets production.

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

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

Distribution of hygiene business, Essity

On April 5, 2017, the Annual General Meeting of SCA resolved in accordance with the Board of Director's proposal to distribute all the shares in the hygiene and health business, Essity Aktiebolag (publ), to SCA's shareholders. Essity was listed on Nasdaq Stockholm on June 15, 2017.

The distribution of shares in Essity had a substantial impact on SCA's key figures for 2017. The hygiene and health business is presented for the comparative year 2017 on a separate line in the income statement called "discontinued operations" and is therefore not included in SCA's net sales and operating profit. Unless otherwise stated, only SCA's continuing operations, the forest and forest products business, are described in this Annual Report. Where the hygiene business is included, it is presented as discontinued operations.

Financial performance

Net sales

The market trend in 2018 was positive in all of SCA's product areas, with healthy demand and higher prices. Net sales amounted to SEK 18,755m (16,664), an increase of 13% compared with 2017. Of this increase, higher prices and mix effects accounted for 13%, delivery volumes for -5% and currency for 5%.

In addition to net sales, SCA's other operating income amounted to SEK 1,927m (1,603) in 2018, an increase of 20% compared to 2017. Other operating income comprises products and services that are not finished products in Wood, Pulp and Paper, such as energy products, sales of freight services to external customers and wind power leases.

SCA is an export-oriented company and approximately 85% of net sales were sold outside Sweden. The largest individual export markets are the UK (18%), Germany (16%) and France (7% of net sales).

Condensed consolidated income statement

SEKm	2018	2017	Change %
Net sales	18,755	16,664	13
Other operating income	1,927	1,603	20
Operating expenses	-15,430	-14,619	6
EBITDA	5,252	3,648	44
Depreciation	-1,250	-1,137	10
Operating profit	4,002	2,511	59
Financial items	-29	-93	
Profit before tax	3,973	2,418	64
Taxes	-314	-544	
Profit for the period	3,659	1,874	95
Key figures			
EBITDA margin	28.0%	21.9%	
Earnings per share	5.21	2.67	

Cost structure

SCA's total operating expenses in 2018 amounted to SEK 15,430m (14,619), an increase of 6% compared to 2017. Operating expenses were reduced due to a positive change in the value of biological assets of SEK 679m (617), which reduced the cost for timber, chips and recovered fiber. The largest share of the cost base comprises sourced timber, chips and recovered fiber (13%), other raw materials and consumables (16%), personnel costs (20%) and transportation and distribution costs (23%).

Research and development (R&D) costs during the year amounted to SEK 48m (52), corresponding to 0.3% of consolidated net sales.

Performance

EBITDA increased 44% to SEK 5,252m (3,648), which corresponds to an EBITDA margin of 28.0% (21.9). The increase was primarily attributable to higher selling prices. Earnings were positively impacted by exchange rate effects, but adversely impacted by higher raw material costs and lower delivery volumes, primarily in Pulp.

During the year, the expansion of the Östrand pulp mill was completed, an investment that doubles production capacity. The expanded mill was put into operation in June following a planned expansion stop in the second quarter. Since start-up, production has gradually increased and has made a contribution to higher sales and EBITDA. EBITDA was also impacted by costs for the start-up of the expanded pulp mill: (i) expansion stop costs of SEK 251m (131); (ii) project costs of SEK 59m (100); and (iii) higher direct costs of SEK 150m (0).

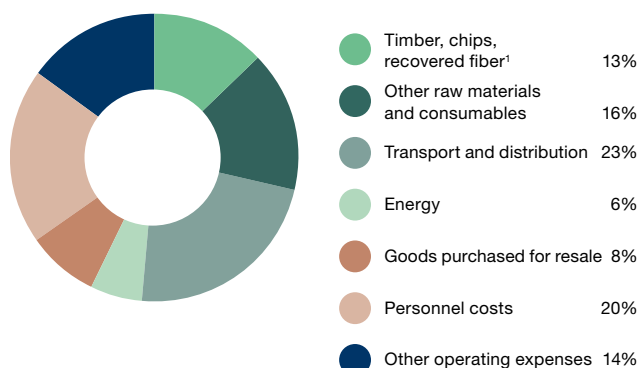
Costs for planned maintenance stops in Paper had a negative impact of SEK 116m (122) on earnings.

Depreciation amounted to SEK 1,250m (1,137). The increase was mainly attributable to investments in the expanded pulp mill that increased depreciation from the third quarter of 2018.

Operating profit increased 59% to SEK 4,002m (2,511).

Financial items amounted to SEK -29m (-93).

Cost structure 2018



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

Reasons for changes in EBITDA (%) in 2018 compared with 2017

	%
Price/mix	62
Volume	-4
Raw material costs	-17
Energy costs	1
Currency	10
Other	-8
Total	44

The Swedish Parliament has decided to reduce the corporate tax rate in two steps. On January 1, 2019, tax will be reduced from 22.0% to 21.4%. In January 2021, tax will be further reduced from 21.4% to 20.6%. The reduction of the corporate tax rate resulted in a revaluation of deferred tax liabilities in 2018, resulting in a positive one-off item of SEK 551m in the second quarter of 2018. The tax charge, including the revaluation of deferred tax liabilities, amounted to SEK -314m. Excluding the revaluation of deferred tax liabilities the tax charge amounted to SEK -865m (-544), corresponding to a tax rate of 21.8% (22.5).

Earnings per share amounted to SEK 5.21 (2.67)

Investment in expanded pulp capacity in Östrand

In 2015, SCA decided to invest in increased pulp production capacity at the Östrand pulp mill. The annual production capacity of bleached softwood kraft pulp is expected to increase from the current level of 430,000 tonnes to about 900,000 tonnes.

The expanded pulp mill was put into operation according to plan in June 2018 following the expansion stop that commenced in April 2018. At the end of 2018, some SEK 7.4bn had been invested, corresponding to about 95% of the total investment. The investment was financed from operating cash flow.

Cash flow

The operating cash surplus amounted to SEK 4,503m (3,145). The cash flow effect of changes in working capital was SEK -843m (-143). Current capital expenditures, net, totaled SEK 1,002m (638). Operating cash flow was SEK 2,751m (2,273).

Income tax payments totaled SEK 229m (30). The relatively low income tax payments were primarily a result of large taxable deductions for depreciation on SCA's new investments, including the Östrand project, and accumulated tax losses carried forward from previous years.

Operating cash flow statement

SEKm	2018	2017
Operating cash surplus	4,503	3,145
Change in working capital	-843	-143
Current capital expenditures, net	-1,002	-638
Other operating cash flow	93	-91
Operating cash flow	2,751	2,273
Financial items	-29	-93
Paid tax	-229	-30
Other	2	-41
Cash flow from current operations	2,495	2,109
Strategic capital expenditures in non-current assets	-1,967	-2,863
Cash flow before dividend	528	-754

Financial position

SCA's capital employed totaled SEK 46,082m (42,719) as of December 31, 2018, an increase during the year of SEK 3,363m. The increase was mainly attributable to investments in the Östrand pulp mill and the revaluation of SCA's forest assets.

SCA's net debt totaled SEK 7,020m (5,966) as of December 31, 2018, an increase of SEK 1,054m. Net debt totaled 1.3 times EBITDA and the debt/equity ratio was 18%.

At December 31, 2018, gross debt amounted to SEK 8,353m, with an average maturity of 3.8 years and an average fixed-interest rate period of 12 months. Unused credit facilities amounted to SEK 8,000m. Cash and cash equivalents amounted to SEK 648m at the end of the period.

Balance sheet structure

SEKm	Dec 31, 2018	Dec 31, 2017
Biological assets	32,065	31,386
Deferred tax liabilities related to growing forest	-6,605	-6,905
Biological assets, net	25,460	24,481
Working capital	3,735	2,861
Other capital employed, net	16,887	15,377
Total capital employed	46,082	42,719
Net debt	7,020	5,966
Net debt/EBITDA	1.3x	1.6x
Equity	39,062	36,753
Net debt/Equity	18%	16%

Credit structure and available credit facilities

Committed credit amount, SEKm ¹	Maturity years						
	Dec 31 2018	2019	2020	2021	2022	2023	2024+
Syndicated credit facilities ²	8,000		4,500		3,500		
Commercial paper	2,550	2,550					
Bond issues	2,200		1,000	1,200			
Svensk Exportkredit	1,500				500	500	500
European Investment Bank	1,480				160	160	1,160
Total	15,730	2,550	5,500	1,200	4,160	660	1,660

1) Whereof drawn loans amounted to SEK 7,730m

2) All credit facilities are unutilized

Other Group information

Parent Company

The object of the Group's Parent Company, Svenska Cellulosa Aktiebolaget SCA (publ), is to own and manage shares in a number of subsidiaries and perform Group-wide management and administrative functions. The Parent Company also owns a large share of the company's forest assets. The company's corporate registration number is 556012-6293.

In 2018, operating income amounted to SEK 224m (225) and profit after financial items to SEK 857m (-575). For more information, refer to pages 113-118.

Holdings of treasury shares

SCA holds no treasury shares.

Distribution of shares

In 2018, 319 Class A shares were converted to Class B shares at the request of shareholders. The total number of shares as per December 31 amounted to 702,342,489, of which 64,587,672 Class A shares and 637,754,817 Class B shares.

Dividend

The Board of Directors proposes a dividend of SEK 1.75 per share or SEK 1,229m. The record date for entitlement to receive dividends is proposed as March 22, 2019.

Environmental impact in Sweden

In 2018, SCA operated 12 manufacturing sites for which a permit is required in Sweden. The value of deliveries from operations for which permits are required accounted for more than 90% of consolidated net sales in 2018. Four permits relate to the manufacture of pulp and paper. These operations impact the environment through emissions to air and water, solid waste and noise. Seven permits relate to the production of solid-wood and processed wood products, and biofuels and one permit pertains to the manufacture of fuel pellets. These operations impact the environment through emissions to air and water, and noise.

Guidelines for remuneration of senior executives

The Board of Directors has decided to propose to the 2019 Annual General Meeting (AGM) the following guidelines for determining salaries and other remuneration for senior executives to apply for the period following the AGM.

“Remuneration of the President and other senior executives will be comprised of a fixed amount, variable remuneration, pension and additional benefits, which, altogether is referred to as total remuneration. 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 President and other senior executives, variable remuneration is to be limited and linked to the fixed remuneration, based on earnings results in relation to annual and long-term established targets. The long-term goal is to be linked to the performance of the SCA share. Programs for variable remuneration must be designed

so that the Board has the possibility to limit 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. Variable remuneration is not pensionable income. If termination of employment is initiated by the company, the notice period should be up to two years. If termination is initiated by the executive, the notice period is to be no more than one year. There will be no severance pay. Pension benefits shall, to the extent possible, solely contain defined premium pension benefits. The planned retirement age is 65. The Board of Directors shall have the right to depart from the established guidelines if there in an individual case are special grounds to do so. The guidelines are not applicable to existing contracts. Matters of remuneration to senior executives are to be dealt with by a Remuneration Committee and, as regards the President, be resolved by the Board of Directors.”

For information concerning SCA’s guidelines for remuneration of senior executives, the application of the previously approved guidelines and information on the company’s calculated expenses for remuneration of senior executives, see Note C3.

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

In the Board of Directors’ Report and in the Financial Reports and Notes in this Annual Report, a number of non-IFRS performance measurements can be found. The performance measurements are used to help investors and management to analyze the company’s development, and several of these are generally accepted financial measures. A description of these performance measurements and their use is found in Note A2.

Events after the end of the year

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

SCA’s sustainability reporting in accordance with the Annual Accounts Act

Sustainability work is integrated into SCA’s operations, which makes it natural to allow sustainability reporting, in accordance with the Swedish Annual Accounts Act Chapter 6, Section 11, to be part of a combined Annual Report and Sustainability Report 2018. This report relates to Svenska Cellulosa Aktiebolaget SCA (publ) and its subsidiaries, refer to Note F1 on page 105. The SCA Group, its operations and business model are described overall in the Board of Directors’ Report on page 46. The Sustainability Report was submitted to the auditor at the same time as the Annual Report.

Governance of the sustainability agenda is described in the Corporate Governance Report and in Sustainability facts. SCA’s Code of Conduct is the Group’s foremost steering document and constitutes, together with the Group’s Sustainability Policy, the basis of SCA’s sustainability

agenda. Follow-up and evaluation of these policies complies with SCA’s procedures for internal control and audits, as described in the Corporate Governance Report on pages 55, 56, 58 and 59. In addition, SCA’s sustainability targets and priorities are also monitored through the Group’s Sustainability Council.

The management of material risks in the area of sustainability constitutes part of the Group’s general work with identifying and handling risks. This process, identified risks and managing these risks are described in the Board of Directors’ Report.

The strategic priorities for sustainability work, where SCA’s value chain can be influenced, how the areas are material for SCA’s stakeholders, how they are governed and the most important result indicators are described in the sustainability facts, refer to the table on pages 126-127.

The table also shows how social conditions, personnel issues, the environment, human rights and anti-corruption are related to SCA’s sustainability agenda.

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

- Social conditions and personnel issues, refer to pages 42-43, 128-129, 131-133 and 139.
- Environment, see pages 36-41, 134-138 and 140-141.
- Human rights and combating corruption, refer to pages 128-129.
- Diversity policy for the Board of Directors, refer to page 58.

Risks and risk management

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

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

Processes for risk management

SCA's Board determines the Group's strategic direction based on recommendations from the Executive Management Team. Responsibility for the long-term, overall management of risks corresponds with the company's delegation scheme, from the Board to the President and from the President to the business area presidents. This implies that most of SCA's operational

risks are managed by SCA's business areas at the local level, but that they are coordinated when deemed necessary. The tools for this work primarily comprise continuous reporting by the business areas and the annual strategy process, where identifying, evaluating and managing risks are a part of the process. In this process, identified risks have been classified according to the likelihood of the risk materialising and the impact on SCA's goal fulfillment. The outcome of this evaluation constitutes a part of the assessment of the risks described in this section.

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

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

Risk	Risk management
Operational risks	
Demand and market price for SCA's products	
<p>Demand for SCA's products is influenced by a variety of factors, such as the general GDP development, and also by more specific trends, such as an increase in e-commerce, a decline in newspaper reading and the resulting changes in the advertising market. Other sectors whose development influences demand for SCA's products include construction activity and DIY. Other products and services can substitute SCA's products at the same time as SCA's products can also replace other products and materials.</p>	<p>For most of the product areas where SCA operates, there are a number of competing producers and distinct market prices. Supply is determined by the available production capacity at SCA and its competitors. Market price is determined at any time based on demand and supply. Sales contracts for SCA's products may reflect that SCA's price is a form of market price, though sometimes with a certain time lag compared with the development of the market, published price indexes, etc. Sales contracts can also state a specific price, which normally is for an open-ended period. Variations in market prices can cause significant fluctuations in profit for SCA. Several methods can be applied to address the risk of a fluctuating market price. Long-term contracts at fixed prices or price hedging only occur in exceptional cases. To reduce the impact of price movements, at least in cases where these are negative and are expected to be long-term, measures can be taken to adapt the cost scenario to the situation, for example, by renegotiating purchasing agreements, implementing personnel or capacity reductions, and reviewing the business structure. A transition to alternative production can also be considered where this is possible.</p>

Risk**Risk management****Operational risks, cont.****Raw material prices and other costs for input goods and services**

The market price fluctuates over time for many of the input goods and services used in the manufacture of SCA's products. This could influence SCA's profit. 80% of SCA's cost base of SEK 15,430m is made up of raw materials, energy and other input goods and services, including distribution services. SCA's cost structure is described in the Board of Directors' Report.

The risk of price movements related to input goods and services and the impact of this variation on earnings can be managed in several ways. SCA's integrated value chain ensures that the raw material flows are integrated from forest land to the finished forest products. This integration entails, in itself, risk reduction. In 2018, 56% of SCA's wood raw material requirements were sourced from its own forests and chips from its own sawmills. Wood fiber is used for SCA's manufacturing of solid-wood products, pulp, kraftliner and publication paper. Logging residues from SCA's activities are used to manufacture biofuels and sawdust to manufacture pellets. The energy generated in the production process is used internally or sold.

Another method used to manage the price risk is by entering financial hedges and long-term contracts. SCA is an energy-intensive company and can, according to internal rules, hedge the electricity price risk for up to 36 months. Electricity price hedging is effected through financial instruments and fixed pricing in supply agreements. In 2018, SCA's net purchases of electricity totaled 2.3 TWh (2.3). For 2019, 70% of forecast electricity purchases have been hedged, and for 2020, 39%. No hedging has been carried out for 2021. Under normal circumstances, no other price risks in input goods are hedged except for electricity. Other alternatives to manage variations in costs include renegotiating contracts, looking for new suppliers or replacing input goods and services where prices have risen with other products and services that fulfill the same function.

Environmental impact

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

A number of years ago, SCA established a Sustainability Policy, detailing guidelines for the Group's actions in the areas of environmental and social responsibility. In addition to this, targets for people and nature are an integrated part of SCA's business strategy. Risks are minimized through preventive work in the form of certified environmental management systems, environmental risk inspections in conjunction with acquisitions, and remediation projects in connection with plant closures. SCA's large forest holding has a significant positive climate impact through the absorption of CO₂. The forest also guarantees access to renewable forest raw materials and provides valuable ecosystem services for society. Through its Resource Management System (RMS), SCA monitors how the company utilizes energy, water, transport activities and raw materials. The data is used for internal control and follow-up of established targets.

SCA works proactively to decrease its carbon footprint by reducing its energy consumption and emissions of greenhouse gases from its own operations and by offering renewable products with low climate impact. Continuous efforts are conducted to increase the proportion of renewable energy and biofuels. SCA also works to reduce the volume of production waste. A description of SCA's work and governance in this area is provided in the Sustainability facts section.

Business ethics

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

To ensure that SCA's organization lives up to the company's core values and is not involved in or tied to unethical business practices, there has been a Code of Conduct established since 2004. This includes general rules for how the company conducts its business and how its employees are to act toward each other and in business relationships. The Code is revised each year. The Code includes principles on business ethics, relationships to employees, respect for human rights and the environment. SCA's Group policies, including its Code of Conduct and Sustainability Policy, apply to all markets and geographies in which SCA conducts operations. Training of all of SCA's employees regarding the Code of Conduct takes place continuously. To ensure that SCA works with business partners that share these values, potential partners are evaluated before cooperation is initiated. The evaluation comprises both business issues and issues concerning existing policies and processes regarding, for example, the work environment and business ethics. Suppliers are expected to comply with SCA's Code of Conduct, which is regulated as a part of the supplier agreements. SCA uses a number of methods to monitor and safeguard the implementation of the Code of Conduct. These include due diligence in connection with acquisitions, risk evaluation of the company's own units and suppliers, and regular on-site audits of SCA's units and of suppliers deemed to have a higher risk level. More detailed information on operations can be found in the Sustainability facts section.

Risks in the forest land holding

SCA is Europe's largest private forest owner, with 2.6 million hectares of forest land, of which 2 million hectares is productive forest land. There is a risk that the value of the forest portfolio decreases through infestation by pests and grazing moose, by storms or fire. Value can also change through variations in demand for wood raw material in SCA's region, which in turn would impact price levels in the region. SCA's forest management may conflict with the activities of reindeer herding Sami pertaining to land use. This may also be the case for land leased out for wind power projects.

SCA works proactively to improve forestry methods and seedlings to enhance forest growth. Active forest operations combined with an industry that adds value to the forest raw material is essential to secure the value of the forest asset. Since 1950, the sustainable harvesting level has more than doubled at the same time as the standing volume has increased by about 60%.

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

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

Risk

Risk management

Operational risks, cont.

Risks at production plants

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

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

SCA has a vision of zero workplace accidents and is actively and systematically running a health and safety program to minimize the risk of personal injury.

Impact of political decisions

SCA's operations are influenced by political decisions and administrative rules, primarily in Sweden where SCA has much of its business, but also at EU level. This influence could be from general regulations, such as taxation and financial reporting. SCA is also impacted by more specific regulations, such as the granting of permits in accordance with the Environmental Code in Sweden and political decisions concerning transportation and forest operations in Sweden. Political decisions can have an impact on future harvesting levels. One important individual political decision is the UK's decision to leave the EU (Brexit). The UK is one of SCA's most important markets and accounts for about 18% of SCA's net sales.

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

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

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

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

Customer dependency

In 2018, SCA's ten largest customers accounted for about 29% of SCA's net sales. The risk of too great a dependency on an individual customer is that lost sales from an individual customer could have a negative impact on SCA's earnings.

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

Suppliers

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

To reduce this risk, SCA has supply contracts with multiple suppliers. For timber supply in the part that is not sourced from the company's own forests, SCA has built up a sourcing organization with about 80 timber purchasers, distributed between local offices across the region. Through this organization, SCA has relationships with approximately 17,000 private forest owners in the region. SCA may also sell silvicultural services to these forest owners. About 100 contractors are responsible for most of the harvesting, about 100 for transportation to SCA's industries and another 110 for forest management. For most important input goods and services, there are a number of suppliers available in the market. This is also often the case for suppliers of maintenance and building services for facilities. A SCA Supplier Standard has been established that for example includes working conditions, health and safety and business ethics. SCA's suppliers must agree to follow the standard and may be required to undergo an audit.

IT security and IT risks

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

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

Risk**Risk management****Operational risks, cont.****Employee-related risks**

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

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

Financial risks**Currency**

SCA's focus on exports makes SCA's operations highly dependent on currency. About 85% of sales are conducted in currencies other than SEK. Most purchasing is conducted in SEK. Only a minor share of purchasing is carried out in other currencies. Fluctuations in currency rates have a substantial impact on SCA's revenue and thereby on earnings.

The table shows the net exposure for the three largest currencies in 2018, and the total of other foreign currencies, measured as sales in each foreign currency less purchases in the same currency.

In accordance with SCA's Financial Policy, this exposure is hedged as follows: All balance-sheet items in foreign currency are hedged, as is exposure in major approved and contracted investments in non-current assets. According to the policy, transaction exposure regarding expected future net flows may also be hedged for up to 18 months. At December 31, 2018, SCA had hedged about 70% of the expected net EUR and USD exposure from sales less purchases in the first six months of 2019, about 50% for the third quarter and approximately 25% for the fourth quarter 2019 at the average EUR/SEK exchange rate of 10.23 and average USD/SEK exchange rate of 8.59.

Translation exposure, meaning the risk to which SCA is exposed when translating foreign subsidiaries' balance sheets and income statements to SEK, is less important to SCA as the total assets in these companies only amount to 3% of SCA's total assets. Translation exposure in the foreign subsidiaries is not currency-hedged.

Net exposure	2018
EUR	EUR 599m
USD	USD 368m
GBP	GBP 146m
Others (translated to SEK)	SEK 643m
Total	SEK 11,716m

Credit risk

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

Credit exposure in accounts receivable amounted to SEK 2,629m as per December 31, 2018. Credit risk in accounts receivable is managed through credit checks of customers using credit rating companies. Credit limits are set and regularly monitored. Accounts receivable are recognized at the amount that is expected to be received based on an individual assessment of each customer.

The financial credit exposure, in which the counterparty is a financial actor or a pension fund manager, amounted to SEK 1,725m as per December 31, 2018. This exposure includes credit risk of SEK 648m for cash and cash equivalents and credit exposure in derivative instruments amounting to SEK 401m. The objective is that financial counterparties must have a credit rating of at least A- from at least two credit rating institutes.

Liquidity and refinancing risk

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

As of December 31, 2018, SCA's gross debt amounted to SEK 8,353m and the average duration, including unutilized credit facilities, to 3.8 years. Unutilized credit facilities amounted to approximately SEK 8,000m at the end of the year, and cash and cash equivalents to SEK 648m.

To ensure good access to loan financing, SCA strives to achieve an investment grade rating. On April 7, 2018, the credit rating agency Standard and Poor's (S&P) assigned SCA the credit rating of "BBB" with a stable outlook.

SCA is to maintain financial flexibility in the form of a liquidity reserve consisting of cash and cash equivalents and unutilized credit facilities totaling at least 10% of the Group's annual sales. SCA limits its refinancing risk by having a good distribution in the maturity profile of its gross debt. The gross debt must have an average maturity in excess of three years, taking into account unutilized credit facilities. Surplus liquidity should primarily be used to amortize external liabilities. As of December 31, 2018, SCA's financing mainly comprised credit facilities from a group of four banks with high credit ratings, bilateral loans from the Swedish Export Credit Corporation and the European Investment Bank and issued bonds and commercial papers.

Interest rate risks

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

SCA's policy is that the average fixed-rate period shall be within the interval 3-36 months. SCA's average interest period for the gross debt, including derivatives, was 12 months as of December 31, 2018. The risk is managed using fixed-interest loans or through interest rate derivatives. A sensitivity analysis is presented in Note E7.

Corporate governance

Corporate governance aims to ensure SCA's commitments to all of its stakeholders, including shareholders, customers, suppliers, creditors, society and employees. In addition, corporate governance supports the company's long-term strategy, market presence and competitiveness.

Corporate governance shall be reliable, clear, straightforward and business-oriented. This Corporate Governance Report forms part of the Board of Directors' Report for SCA's 2018 Annual Report in accordance with Chapter 6, Section 6 of the Swedish Annual Accounts Act (1995:1554). The report has been reviewed by the company's auditor.

Corporate governance, including remuneration, pages 55–61.

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

Risks and risk management, page 51–54

SCA's processes to identify and manage risks are part of the Group's strategy work and are pursued at a local and Group-

wide level. The section dealing with risk management describes the most significant risks, and the governing documents and measures that the Group applies to manage these.

Sustainability, pages 34–43 and 119–141

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

Governance at SCA

Shareholder meeting/Annual General Meeting

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

Nomination Committee

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

Board of Directors

The Board of Directors has the overall responsibility for the company's organization and administration through regular monitoring of the business and by ensuring the appropriateness

of the organization and management team, and also compliance with guidelines and internal control. The Board approves strategies and targets, and decides on major investments, acquisitions and divestments of operations, among other matters.

At the 2018 AGM, it was resolved that the Board of Directors shall comprise ten members elected by the AGM with no deputies. In addition, the Board shall include three employee representatives and three deputies.

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

Chairman of the Board

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

Audit Committee

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

Remuneration Committee

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

Internal audit

At SCA, it is the employees' responsibility to ensure sound internal governance and control in the operation or process for which they are responsible. Internal audit is a separate function with the task of evaluating and improving the efficiency of SCA's internal governance and control, as well as its risk management. This function reports to the Audit Committee and the Board in relation to internal audit issues. The function examines, among other aspects, SCA's internal processes for sales, purchases, annual accounts and financial reporting, non-current assets, compensation and benefits, HR issues, information security and IT systems, various types of projects and compliance with SCA's policies including follow-up on the Code of Conduct and general instructions.

FACT BOX:

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

- SCA's Articles of Association
- Link to the Swedish Corporate Governance Code
- Information from previous Annual General Meetings since 2015 (notices, minutes, President and CEO's speeches) and press releases since 2012
- Information from the Nomination Committee since 2006 (composition, proposals and work done)
- Information ahead of the 2019 Annual General Meeting (notice, Nomination Committee proposals including the Audit Committee's recommendation, Board proposal for principles for remuneration of senior executives, information on routines for notifying attendance to the Meeting, etc.)
- Earlier Corporate Governance Reports, since 2007

President and CEO and Executive Management

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

Internal rules and regulations include

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

External rules and regulations include

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

COMPLIANCE WITH STOCK MARKET REGULATIONS

In 2018, SCA was not sanctioned by the Swedish Financial Supervisory Authority, the stock exchange's disciplinary board or any other authority or self-regulating body for violations of the rules concerning the stock market.

SCA adheres to the principle of distinct decentralization of responsibility and authority. The business areas are fully responsible for developing their respective operations through established objectives and strategies, a process that is also centrally coordinated. Each business area is responsible for its operating result, capital and cash flow. The position of the business and results are followed up by the entire Executive Management Team on a monthly basis. Each quarter, business review meetings are conducted during which the management of each business area personally meet with the President, the CFO and others. These meetings function as a complement to the daily monitoring of operations.

External auditors

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

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

Activities during the year

Annual General Meeting

The AGM was held on Friday, March 23, 2018 in Sundsvall. A total of 650 shareholders were represented at the Meeting, either personally or by proxy, representing approximately 59.6% of the votes in the company. Eva Hägg, Attorney-at-Law, was elected Chairman of the Meeting.

The Meeting resolved that a dividend of SEK 1.50 per share be paid for the 2017 fiscal year. The AGM decided on the re-election of Board members Pär Boman, Charlotte Bengtsson, Lennart Evrell, Annemarie Gardshol, Ulf Larsson, Martin Lindqvist, Lotta Lyrå and Barbara Milian Thoralfsson. Anders Sundström was newly elected. Pär Boman was re-elected as the Chairman of the Board. Ernst & Young was reelected as auditor for the period until the 2019 AGM. Moreover, guidelines for determining the salary and other remuneration of the President and other senior executives were adopted; see Note C3. The minutes of the Meeting in full and information on the 2018 AGM, including the President's speech, are available at www.sca.com.

Nomination Committee

The 2017 AGM decided that the following procedure for appointing the Nomination Committee is to apply until further notice. The Nomination Committee is to comprise representatives from the four largest shareholders in terms of voting rights as per the shareholders' register maintained by the company on the final banking day of August, as well as the Chairman of the Board. The Chairman of the Board is to convene the first meeting of the Nomination Committee. The member representing the largest shareholder in terms of votes is to be appointed as Chairman of the Nomination Committee. If necessary, due to subsequent ownership changes, the Nomination Committee is entitled to call

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

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

When preparing its proposal for the election of auditors and remuneration, the Nomination Committee has also considered the Audit Committee's recommendation.

Composition of the Nomination Committee for the 2019 AGM

The composition of the Nomination Committee for the 2019 AGM is as follows:

- Karl Åberg, AB Industrivärden, Chairman of the Nomination Committee
- Petter Johnsen, Norges Bank Investment Management
- Javiera Ragnartz, AMF Insurance and Funds
- Håkan Sandberg, Handelsbanken Pension Foundation, among others
- Pär Boman, Chairman of the Board, SCA

Shareholders have had the opportunity to submit proposals to the Nomination Committee. The Nomination Committee's proposal for the 2019 AGM is presented in the notice convening the AGM on SCA's website www.sca.com. The 2019 AGM will be held on March 20.

The Nomination Committee was convened on three occasions up to January 31, 2019. The Chairman of the Board has presented the Board evaluation and provided the Nomination Committee with information regarding Board and committee work during the year.

Diversity policy

When preparing proposals for the Board for the 2018 AGM, the Nomination Committee has applied Item 4.1 of the Swedish Corporate Governance Code as its diversity policy. The policy aims to ensure that the Board has an, with regards to the company's operations, stage of development and circumstances in general, an appropriate composition characterized by diversity and breadth as regards the AGM-elected members' expertise, experience and background with the endeavor to achieve an even gender ratio. The 2018 AGM resolved in accordance with the Nomination Committee's proposal, which meant ten members were elected, of which four were women and six men.

When preparing proposals for the Board for the 2019 AGM, the Nomination Committee has worked with and applied the diversity policy in a corresponding manner, which resulted in the proposal for the Board described in the notice convening the AGM.

The Nomination Committee's proposal entails the appointment of ten Board members, of which four are women and six men.

Board of Directors

SCA's Board of Directors comprises ten members elected by the AGM on March 23, 2018. In addition to these members, there are three employee representatives and their three deputies.

The SCA Board of Directors comprises the AGM-elected members Pär Boman (Chairman), Charlotte Bengtsson, Lennart Evrell, Annemarie Gardshol, Ulf Larsson (President and CEO), Martin Lindqvist, Lotta Lyrå, Bert Nordberg, Anders Sundström and Barbara Milian Thoralfsson.

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

The following three employee representatives were appointed to the Board for the period until the 2019 AGM: Roger Boström, Johanna Viklund Lindén and Hans Wentjärv, and their deputies Per Andersson, Maria Jonsson and Stefan Lundkvist. Further information concerning the Board members can be found on pages 62–63.

Board activities

In 2018, the Board was convened ten times. The Board has established working procedures. The working procedures describe in detail which ordinary agenda items are to be addressed at the various Board meetings of the year. Recurring

agenda items are finances, the market situation, investments and adoption of the financial statements. The Board also establishes and evaluates the company's overall objectives and strategy and decides on significant internal rules. Another task is to continuously monitor the internal control and compliance of the company and its employees with internal and external rules, and that the company has well-functioning procedures for market disclosures. On a regular basis throughout the year, the Board also deals with reports from the Audit and Remuneration Committees and reports on internal control and financial operations. The company's auditor regularly presents a report on the audit work and these issues are discussed by the Board.

Board activities in 2018, in addition to standard duties, have involved strategy issues, training and site visits for the Board members to SCA's business areas.

Evaluation of the Board's work

The work of the Board, as that of the President, is evaluated annually using a systematic and structured process, the purpose of which is to obtain a sound basis for the Board's own development work and to provide the Nomination Committee with relevant analysis for its nomination work. In 2018, the evaluation took the form of an anonymous questionnaire and interviews as well as group and individual discussions between the Chairman of the Board and the members. The evaluation covers such areas as the Board's methods of work, effectiveness, expertise and the year's work. The Board was provided with feedback after the results were compiled. The Nomination Committee was also informed of the full results of the evaluation.

Audit Committee

The Audit Committee comprises Barbara Milian Thoralfsson (Chairman), Pär Boman and Martin Lindqvist. The Audit Committee held six meetings in 2018. In its monitoring of the financial reporting, the Committee dealt with relevant accounting issues, internal auditors' reviews, auditing work and a review of internal control procedures and the measurement of the Group's forest assets. The Audit Committee also prepared a recommendation to be used by the Nomination Committee when deciding on its proposal to the AGM regarding the election of auditors and remuneration.

Remuneration Committee

The Remuneration Committee comprises Pär Boman (Chairman), Bert Nordberg and Lennart Evrell. The Remuneration Committee held six meetings in 2018. Activities in 2018 mainly concerned remuneration and other employment terms and conditions for senior executives, and current remuneration structures and remuneration levels in the Group.

Internal audit

The basis of the work with internal audit is a risk-based annual plan. The plan derives from a risk assessment process based on

documentation from operations, management and the Board. The annual plan is approved by the Audit Committee. In 2018, 14 internal audit assignments were conducted. Observations from the assessments are reported to the Audit Committee.

During 2018, work included follow-up of the organization's work concerning the effectiveness of internal controls and monitoring regulatory compliance, which primarily consisted of SCA's control documents, including the Code of Conduct.

External auditors

The 2018 Annual General Meeting appointed accounting firm Ernst & Young AB as the company's auditor for a mandate period of one year. The accounting firm notified the company that Hamish Mabon, Authorized Public Accountant, would be the auditor in charge. Hamish Mabon is also the auditor for Skanska AB, Essity AB and Husqvarna AB. The auditor owns no shares in SCA.

In accordance with its working procedures, the Board met with the auditor at four scheduled Board meetings in 2018. The auditor also attended each meeting of the Audit Committee. At these meetings, the auditor presented and received opinions on the focus and scope of the planned audit and delivered verbal audit and review reports. Further, at the Board's third scheduled autumn meeting, the auditor delivered a preliminary report on the audit for the year. The working procedures specify a number of mandatory issues that must be covered. These include matters of importance that have been a cause for remark or discussion during the audit, business routines and transactions where differences of opinion may exist regarding the choice of accounting procedures. The auditor shall also provide an account of consultancy work assigned to the audit firm by SCA and the audit firm's independence in relation to the company and its management. On each occasion, Board members have had an opportunity to ask the auditor questions. Certain parts of the detailed discussion on the accounts take place without representatives of company management being present.

Board of Directors and committees

Names	Elected	Dependence	The Board of Directors		Audit Committee		Remuneration Committee	
			Attendance	Attendance	Attendance	Attendance		
Pär Boman	2010	●	Chairman	10	Member	6	Chairman	6
Charlotte Bengtsson	2017	●	Board member	10				
Lennart Evrell	2017		Board member	10			Member	6
Annemarie Gardshol	2015		Board member	10				
Ulf Larsson	2017	●	Board member	10				
Martin Lindqvist	2017		Board member	10	Member	6		
Lotta Lyrå	2017		Board member	10				
Bert Nordberg	2012		Board member	10			Member	6
Anders Sundström	2018		Board member	6 ¹				
Barbara Milian Thoralfsson	2006		Board member	10	Chairman	6		

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

1) Elected 2018.

	Number of meetings in 2018
The Board of Directors	10
Audit Committee	6
Remuneration Committee	6

The largest shareholders

As of December 31, 2018, AB Industrivärden was the company's largest shareholder, with a holding totaling 35,000,000 Class A shares and 31,800,000 Class B shares, corresponding to 9.5% of the total number of shares and 29.7% of the total number of votes in the company. No other shareholder in the company has a direct or indirect shareholding whose voting rights represent one-tenth or more of the total number of votes in the company.

Remuneration, Executive Management Team and Board of Directors

Guidelines

The 2018 Annual General Meeting adopted guidelines for remuneration of senior executives. The total remuneration package comprises a fixed salary, variable salary, other benefits, and a pension. See Note C3.

Remuneration of the President and CEO and other senior executives

Remuneration of the President and other senior executives is presented in Note C3.

Variable remuneration and strategic targets

Programs for variable remuneration are designed to support the Group's strategic targets. The short-term program is individually adapted and based mainly on profit, cash flow and capital efficiency. The long-term program is based on the SCA share's long-term total shareholder return.

Remuneration of the Board

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

Internal control and financial reporting

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

The Audit Committee has an important task of preparing the Board's work to assure the quality of financial reporting. This preparation work includes issues relating to internal control and regulation compliance, control of recognized values, estimations, assessments and other activities that may impact the quality of the financial statements. The Committee has charged the company's auditor with the task of specifically examining the degree of compliance in the company with the rules for internal control, both general and detailed.

Financial reporting to the Board

The Board's formal work plan stipulates which reports and information of a financial nature shall be submitted to the Board at each scheduled meeting. The President ensures that the Board receives the reports required to enable the Board to continuously assess the company's and Group's financial position. Detailed instructions specifically outline the types of reports that the Board is to receive at each meeting.

External financial reporting

The quality of external financial reporting is guaranteed via a number of actions and procedures. The President is responsible for ensuring that all information issued, such as press releases with financial content, presentation material for meetings with the media, owners and financial institutions, is correct and of a high quality. The responsibilities of the company's auditors include reviewing accounting issues that are critical for the financial reporting and reporting their observations to the Audit Committee and the Board of Directors. In addition to the audit of the annual accounts, a review of the six-month report and of the company's administration and internal control is carried out.

Risk management

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

Control activities and follow-up

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

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

Financial results are reported and examined regularly within the management teams of the operating units and communicated to SCA's management at monthly and quarterly meetings. Before reports are issued, results are analyzed to identify and eliminate any mistakes in the process until closing.

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

Internal control of other processes

The basis for the internal control is identifying and assessing risks. A review of identified risks is conducted every year with the addition of any new identified risks. At the same time, an evaluation is carried out of the potential impact of the risks on profits and the brand, and the probability that the risk will occur. Risks that threaten business objectives are linked to the company's processes. For each process and identified risks, the control activities are defined that must be established to manage risks, and a description of how self-assessments are used to monitor the effectiveness of the control activities.

Control activities to mitigate the identified risks are documented, and the effectiveness of each control is tested on an annual basis through self-assessments. The Group's internal control function summarizes the result of the self-assessments and reports to management and the Board.

Activities in 2018

In 2018, SCA has continued to develop the framework for internal control. The scope of the self-assessment of control procedures has been extended to include more processes and units. The results of the self-assessment have been reported to the Board.

Board of Directors and Auditors



Pär Boman (1961)
*Engineering and Business/
Economics degree*

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

Elected: 2010
Class B shares: 10,000

Independent of the company and corporate management.



Charlotte Bengtsson (1971)
*MSc Civil Engineering, PhD in
Steel and Timber Structures*

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

Elected: 2017

Independent of SCA's major shareholders.



Lennart Evrell (1954)
MSc Eng. and Econ.

Board member of Epiroc, the Confederation of Swedish Enterprise and Industriarbetsgivarna. Former CEO of Boliden, Sapa and Munters.

Elected: 2017
Class B shares: 4,000

Independent of the company, corporate management and SCA's major shareholders.



Annemarie Gardshol (1967)
MSc Eng.

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

Elected: 2015
Class B shares: 3,300

Independent of the company, corporate management and SCA's major shareholders.



Ulf Larsson (1962)
BSc Forestry

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

Elected: 2017
Employed since: 1992
Class B shares: 85,000

Independent of SCA's major shareholders.



Martin Lindqvist (1962)
*Engineer and Master of Business
Administration*

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

Elected: 2017

Independent of the company, corporate management and SCA's major shareholders.



Lotta Lyrå (1975)
MSc Econ.

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

Elected: 2017

Independent of the company, corporate management and SCA's major shareholders.



Bert Nordberg (1956)
Engineer

Chairman of TDC A/S, Chairman of the Board of Vestas Wind Systems A/S. Board member of Essity AB, AB Electrolux (until the 2019 AGM) and SAAB AB. Previously held various management positions at Digital Equipment Corp. and Ericsson. President of Sony Ericsson Mobile Communications AB from 2009-2012.

Elected: 2012
Class B shares: 16,800

Independent of the company, corporate management and SCA's major shareholders.



Anders Sundström (1952)
Bachelor's degree

Chairman of the board at Kaunis Holding, NMI Group, Hedlunda Industri AB and Ekhaga Utveckling AB as well as Board member of other unlisted companies. Previously Chairman of the Board at Swedbank and CF, among others. Many years of operating experience within both the industry and the financial sector, including as CEO for Folksam. Several ministerial posts and other political assignments.

Elected: 2018
Class B shares: 6,000

Independent of the company, corporate management and SCA's major shareholders.



Barbara Milian Thoralfsson (1959)
MBA, BA

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

Elected: 2006

Independent of the company, corporate management and SCA's major shareholders.

Employee representatives



Roger Boström (1971)
Chairman of the Swedish Paper Workers' Union dept. 167 at SCA Graphic Sundsvall AB, Östrand pulp mill
Member of the Swedish Trade Union Confederation (LO).

Appointed: 2013
Class B shares: 55



Hans Wentjärv (1963)
Chairman GS trade union, Rundvik Sawmill, SCA Timber
Member of the Swedish Trade Union Confederation (LO).

Appointed: 2017
Class B shares: 420



Johanna Viklund Lindén (1973)
Chairman Unionen, SCA Graphic Sundsvall AB/SCA Sourcing & Logistics
Member of the Council for Negotiation and Cooperation (PTK).

Appointed: 2017

Employee representatives, deputies

Per Andersson (1955)
Swedish Paper Workers Union, dept 29, SCA Obbola AB
Member of the Swedish Trade Union Confederation (LO). Appointed 2013.

Maria Jonsson (1966)
Chairman Unionen, SCA staff functions
Member of the Council for Negotiation and Cooperation (PTK). Appointed 2017.

Stefan Lundkvist (1977)
Chairman of Swedish Paper Workers Union, dept 158, SCA Munksund AB
Member of the Swedish Trade Union Confederation (LO). Appointed 2017.

Honorary Chairman

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

Auditors

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

Secretary to the Board

Jan Svedjebrant (1955)
Master of Laws
Senior Vice President, Legal Affairs Group Function, General Counsel.

Employed since: 2001
Class B shares: 9,130

Information regarding individuals' own and related parties' shareholdings pertains to the situation on December 31, 2018.

Executive Management Team



From left to right; Magnus Svensson (President, Sourcing & Logistics), Jan Svedjebrant (General Counsel), Jerry Larsson (President, Wood), Stina Danielsson (Senior Vice President, Human Resources), Mikael Källgren (President, Renewable Energy), Ulf Larsson (President and CEO), Mats Nordlander (President, Paper), Björn Lyngfelt (Senior Vice President, Communications), Kristina Enander (President, Pulp), Toby Lawton (CFO), Ole Terland (Senior Vice President, Strategic Development) and Jonas Mårtensson (President, Forest).

Ulf Larsson

President and CEO
BSc Forestry
 Employed since: 1992
 Class B shares: 85,000

Stina Danielsson

Senior Vice President, Human Resources
BA
 Employed since: 2005
 Class B shares: 2,459

Kristina Enander

President, Pulp
*MSc Eng. chemical engineering
 in physics*
 Employed since: 1993
 Class B shares: 8,389

Mikael Källgren

President, Renewable Energy
BSc Energy
 Employed since: 2015
 Class B shares: 1,135

Jerry Larsson

President, Wood
MSc Eng., MBA
 Employed since: 2003
 Class B shares: 3,225

Toby Lawton

CFO
MA
 Employed since: 2017
 Class B shares: 3,782

Bjorn Lyngfelt

Senior Vice President, Communications
BSc Forestry
 Employed since: 1986
 Class B shares: 9,500

Jonas Mårtensson

President, Forest
MSc Eng.
 Employed since: 2005
 Class B shares: 22,500

Mats Nordlander

President, Paper
Dipl. Eng.
 Employed since: 2015
 Class B shares: 7,425

Jan Svedjebrant

Senior Vice President Legal Affairs
 and General Counsel
Master of Laws
 Employed since: 2001
 Class B shares: 9,130

Magnus Svensson

President, Sourcing & Logistics
MSc Eng.
 Employed since: 1993
 Class A shares: 20,700
 Class B shares: 39,680

Ole Terland

Senior Vice President, Strategic
 Development
Doctor of Technology
 Employed since: 2016
 Class B shares: 41,000

Financial statements and notes

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

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

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

PIS Parent company income statement

PISC Parent company statement of comprehensive income

PBS Parent company balance sheet

PEQ Parent company statement of change in equity

PCF Parent company cash flow statement

Consolidated income statement IS

SEKm	Note	2018	2017
Net sales	B1	18,755	16,664
Other operating income	B2	1,927	1,603
Change in inventories		588	-159
Change in value in biological assets	D3	679	617
Raw materials and consumables	B3	-6,799	-5,951
Personnel costs	C1	-3,041	-2,763
Other operating expenses	B4, G2	-6,858	-6,251
Result from participations in associated companies	F2	1	1
Items affecting comparability	B5	-	-113
EBITDA		5,252	3,648
Depreciation and impairment		-1,250	-1,137
Operating profit		4,002	2,511
Financial income	E7	36	29
Financial expenses	E7	-65	-122
Profit before tax		3,973	2,418
Taxes	B6	-314	-544
Profit for the period, continuing operations		3,659	1,874
Profit for the period, discontinued operations	G1	-	140,281
Profit for the period		3,659	142,155
Profit for the period attributable to:			
<i>Owners of the Parent</i>			
Profit for the period, continuing operations		3,659	1,873
Profit for the period, discontinued operations		-	3,041
Impact on earnings from the distribution of Essity		-	136,914
Profit for the period		3,659	141,828
<i>Non-controlling interests</i>			
Profit for the period, continuing operations		-	1
Profit for the period, discontinued operations held for distribution		-	326
Profit for the period		-	327
Average number of shares, millions		702.3	702.3
Earnings per share			
Earnings per share, SEK – owners of the Parent continuing operations ¹⁾		5.21	2.67
Earnings per share, SEK – owners of the Parent discontinued operations ¹⁾		-	4.33
Earnings per share, SEK – of which, impact on earnings from the distribution of Essity ¹⁾		-	194.94
Earnings per share, SEK		-	201.94
Dividend per share, SEK		1.75 ²⁾	1.50

1) There are no dilution effects, as potential ordinary shares no longer exist.

2) Board proposal.

Consolidated statement of comprehensive income **ISC**

SEKm	Note	2018	2017
IS Profit for the period, continuing operations		3,659	1,874
Profit for the period, discontinued operations	G1	-	140,281
IS Profit for the period		3,659	142,155
Other comprehensive income for the period:			
<i>Items that cannot be transferred to profit for the period</i>			
Transitional effect from the implementation of the new accounting standard		-3	-
Result from equity instruments measured at fair value		-1	-
Remeasurement of defined benefit pension plans		-504	144
Income tax attributable to components in other comprehensive income		111	-32
Total continuing operations		-397	112
Total discontinued operations		-	630
Total		-397	742
<i>Items that have been or can be transferred to profit for the period</i>			
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity		156	32
Transferred to the income statement for the period		-16	3
Transferred to cost of hedged investments		-	-18
Translation differences in foreign operations		19	-4
Income tax attributable to components in other comprehensive income		-26	-4
Total continuing operations		133	9
Total discontinued operations		-	-689
Total		133	-680
Other comprehensive income for the period, net after tax		-264	62
Of which, continuing operations		-264	121
Of which, discontinued operations		-	-59
Total comprehensive income for the period		3,395	142,217
Of which, continuing operations		3,395	1,995
Of which, discontinued operations		-	140,222
Total comprehensive income attributable to:			
EQ Owners of the Parent		3,397	142,049
EQ Non-controlling interests		-2	168

Consolidated balance sheet **BS**

SEKm	Note	2018	2017
ASSETS			
Non-current assets			
Goodwill	D1	3	3
Other intangible assets	D1	125	91
Buildings, land, machinery and equipment	D2	18,713	17,104
Biological assets	D3	32,065	31,386
Holdings in associated companies	F2	29	28
Shares and participations	F3	-	-
Surplus in funded pension plans	C5	630	1,002
Non-current financial assets	E2	46	28
Deferred tax assets	B6	9	22
Other non-current assets		74	43
Total non-current assets		51,694	49,707
Current assets			
Inventories	D4	4,499	3,460
Trade receivables	E3	2,629	2,299
Current tax assets	B6	10	4
Other current receivables	D5	1,060	694
Current financial assets	E2	9	9
Cash and cash equivalents	E2	648	538
Total current assets		8,855	7,004
Total assets		60,549	56,711
EQUITY AND LIABILITIES			
Equity			
<i>Owners of the Parent</i>			
Share capital		2,350	2,350
Other capital provided		6,830	6,830
Reserves		-113	-219
Retained earnings		29,995	27,790
Total equity owners of the Parent		39,062	36,751
Non-controlling interests		-	2
Total equity		39,062	36,753
Non-current liabilities			
Non-current financial liabilities	E4	5,263	3,675
Provisions for pensions	C5	528	366
Deferred tax liabilities	B6	8,269	8,381
Other non-current provisions	D7	22	13
Other non-current liabilities	D6	93	103
Total non-current liabilities		14,175	12,538
Current liabilities			
Current financial liabilities	E4	2,562	3,502
Trade payables	D8	3,368	2,900
Current tax liabilities	B6	120	22
Current provisions	D7	122	19
Other current liabilities	D6	1,140	977
Total current liabilities		7,312	7,420
Total liabilities		21,487	19,958
Total equity and liabilities		60,549	56,711

Consolidated statement of change in equity EQ

SEKm	2018	2017
Attributable to owners of the Parent		
Value, January 1	36,751	73,142
ISC Total comprehensive income for the period	3,397	142,049
Cash flow hedge, transferred to cost of hedged investments	-34	-
Tax on cash flow hedge, transferred to cost	7	-
Cash dividend	-1,054	-4,214
Distribution of shares in Essity	-	-174,448
Private placement to non-controlling interests	-	499
Private placement to non-controlling interests, dilution	-	-288
Acquisition of non-controlling interests	-	15
Remeasurement effect upon acquisition of non-controlling interests	-5	-4
Value, December 31	39,062	36,751
Non-controlling interests		
Value, January 1	2	6,377
ISC Total comprehensive income for the period	-2	168
Cash dividend	-	-130
Distribution of shares in Essity	-	-7,242
Private placement to non-controlling interests	-	461
Private placement to non-controlling interests, dilution	-	288
Acquisition of non-controlling interests	-	80
Value, December 31	-	2
Total equity, value December 31	39,062	36,753

For further information, see Note E8 Equity.

Consolidated cash flow statement **CF**

SEKm	Note	2018	2017
Operating activities			
Profit before tax, continuing operations ¹⁾		3,973	2,419
T:1 Adjustment for non-cash items		604	509
		4,577	2,928
Paid tax	B6	-229	-30
Cash flow from operating activities before changes in working capital, continuing operations		4,348	2,898
Cash flow from operating activities before changes in working capital, discontinued operations		-	5,651
Cash flow from operating activities before changes in working capital		4,348	8,549
Cash flow from changes in working capital, continuing operations			
Change in			
Inventories		-1,025	-60
Operating receivables		-694	-100
Operating liabilities		876	17
Cash flow from operating activities, continuing operations		3,505	2,755
Cash flow from changes in working capital, discontinued operations		-	-1,134
Cash flow from operating activities, discontinued operations	G1	-	4,517
Cash flow from operating activities		3,505	7,272
Investing activities			
T:2 Investments in intangible assets and property, plant and equipment		-3,086	-3,577
T:2 Sale of property, plant and equipment		117	76
Sale of securities		-	264
Cash flow from investing activities, continuing operations		-2,969	-3,237
Distribution of Essity ²⁾		-	-4,170
Cash flow from investing activities, discontinued operations	G1	-	-15,591
Cash flow from investing activities		-2,969	-22,998
Financing activities			
Loans raised		3,686	7,100
Amortization of debt		-3,068	-1,980
Listing costs		-	-123
Dividend ³⁾		-1,054	-4,214
Cash flow from financing activities, continuing operations		-436	783
Cash flow from financing activities, discontinued operations	G1	-	11,022
Cash flow from financing activities		-436	11,805
Cash flow for the period			
		100	-3,921
Cash and cash equivalents, January 1		538	4,482
Exchange differences in cash and cash equivalents		10	-23
Cash and cash equivalents, December 31	E2	648	538

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

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

3) Including dividend to non-controlling interests.

For the Group's liquidity reserve, refer to the risk section on page 54.

T:1 Adjustment for non-cash items, SEKm	2018	2017
Depreciation and impairment of non-current assets	1,250	1,137
Fair-value measurement of forest assets	-679	-617
Gain/loss on asset sales and swaps	-52	2
Unpaid relating to efficiency program	-	47
Payments relating to efficiency program already recognized	-6	-20
Other	91	-40
Total	604	509

T:2 Net investments in intangible assets and property, plant and equipment, SEKm	2018	2017
Strategic net investments in intangible assets and property, plant and equipment	-1,967	-2,863
Current net investments in intangible assets and property, plant and equipment	-1,002	-638
Total	-2,969	-3,501

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

A1. GENERAL ACCOUNTING PRINCIPLES AND NEW ACCOUNTING RULES

Reading instructions

General accounting principles **AP** and new accounting rules are presented below. Other accounting principles considered material by SCA are presented in conjunction with the respective 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. The preparation of financial statements in conformity with IFRS (International Financial Reporting Standards) and generally accepted Swedish accounting principles requires assessments and assumptions to be made that affect recognized asset and liability items and income and expense items, respectively, as well as other information disclosed.

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

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

Segment reporting and revenue from contracts with customers, Note B1
Taxes, Note B6
Remuneration after employment, Note C5
Biological assets, Note D3

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

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

Basis for preparation

The SCA Group's financial statements are prepared in accordance with the Annual Accounts Act and IFRS as adopted within the EU, and the Swedish Financial Reporting Board, Recommendation RFR 1 Supplementary Accounting Rules for Groups. The Parent Company's financial statements are prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2, Reporting by Legal Entities, and the Annual Accounts Act. The accounts for both the Group and the Parent Company relate to the fiscal year that ended on December 31, 2018. SCA applies the historical cost method as basic principle for measurement of assets and liabilities. Biological assets (standing timber) and financial assets and liabilities, including derivative instruments, are, however, measured at fair value in the income statement. Financial assets in the form of equity instruments not held for trading are measured at fair value in other comprehensive income. In the Parent Company, biological assets are not measured at fair value. As of January 1, 2018, the Parent Company changed its method of measurement of derivatives from historical cost to fair value. The change in method of measurement of derivatives has entailed an adjustment of the comparative year. For further information, refer to

Note PC9. As stipulated in the following section, IFRS 9 and IFRS 15 are applicable from January 1, 2018. SCA has elected to not restate 2017. For a detailed description of the accounting principles applied in 2017, refer to the 2017 Annual Report.

Changes to accounting principles

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments has been applicable since January 1, 2018 and has replaced IAS (International Accounting Standards) 39 Financial Instruments: Accounting and measurement. The standard is divided into three areas: Classification and measurement of financial assets and liabilities, impairment and hedge accounting.

1) Classification and measurement of financial assets and liabilities

SCA has classified and measured financial assets according to the categories stated in IFRS 9 without any significant impact on the balance sheet. A non-current financial asset of SEK 19m that was previously classified as available-for-sale financial assets has been classified in the measurement category of fair value through other comprehensive income. The reclassification had no impact on the recognized amount in the balance sheet. IFRS 9 entails essentially unchanged recognition of financial liabilities.

2) Impairment

The standard has introduced a model for impairment of financial assets based on expected losses and not, as previously under IAS 39, when the loss event has already occurred. SCA's trade receivables are mainly affected and the impairment model for doubtful trade receivables has been adapted. SCA recognized a non-recurring effect of SEK 3m in the first quarter of 2018 due to the changed impairment model for expected credit losses on trade receivables. For a description of the model, refer to Note E3.

3) Hedge accounting

IFRS 9 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. SCA has established that all hedge relationships qualify for hedge accounting. All hedging documentation has been adapted to the rules of IFRS 9. Cash flow hedges transferred at cost to the hedged investments were previously recognized in other comprehensive income but are now recognized in the consolidated statement of change in equity, without transfer in the statement of other comprehensive income. The transition to the new hedge accounting rules did not otherwise impact carrying amounts in the balance sheet or income statement.

IFRS 15 Revenue from Contracts with Customers

This standard is applicable from January 1, 2018 and replaced IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations, and applies to all revenue deriving from contracts with customers, with a few exceptions.

SCA's sales mainly comprise sales of goods. Freight services are sometimes included as part of the contract on sale of goods. The scope of these services currently totals insignificant amounts and as a result they are not recognized separately. The new reporting standard has transitioned from a risks and rewards concept to focusing more on when control has been passed to the customer, which has given cargo clauses a more prominent role. SCA applies the Delivered at Place (DAP) terms for approximately 70% of sales revenues, meaning risk is transferred when the goods are made available to the customer at the agreed destination. For other freight terms applied, the risk is

transferred when the goods are loaded on to the vessel or other freight vehicle. SCA also has separate sales of logistics services. These services typically comprise "freight home," which means that SCA sells the freight space on a vessel or other freight vehicle for the return journey, after the scheduled freight has reached its end destination. SCA does not have control over the goods delivered through these logistics services, but simply acts as a freight carrier. Performance obligations in connection with logistics services comprise solely the freight itself. The transaction price for these obligations pertains in its entirety to fixed parts. Control of the logistics services is deemed to be passed to the customer over time as the shipment approaches the agreed destination. The progress toward completion for the company's own means of transportation is measured in terms of shipment time in relation to total transport time and SCA thus recognizes revenue in line with the transport taking place. Revenue for these logistics services is recognized as Other operating income in the consolidated income statement.

SCA applied a practical solution for contracts changed prior to January 1, 2018, entailing that the contracts were not retrospectively restated. Instead, consideration was given to the aggregated effect of all of the changes that had occurred prior to January 1, 2018 when the satisfied and unsatisfied performance obligations were determined, the transaction price was determined and the transaction price was allocated to the satisfied and unsatisfied performance obligations. Applying this practical solution was deemed to have a very minor effect since SCA mostly has short contract periods with few contract modifications.

SCA applied the modified retrospective method on all contracts that were not concluded on January 1, 2018. The new standard did not entail any translation effects when it was introduced and thus there was no need to adjust opening equity.

SCA has decided to recognize additional costs for securing a contract as a cost in profit or loss. SCA has no contracts with customers longer than one year and has elected to apply a practical solution to not present information on remaining performance obligations.

New or amended accounting standards after 2018

IFRS 16 Leases has not yet come into effect and has not been applied in advance in preparing the Group's and the Parent Company's financial statements. The potential effect of IFRS 16 on these financial statements is described below. SCA estimates that other new or amended standards or interpretations will not have any impact on the Group's or the Parent Company's financial statements.

IFRS 16 Leases

The standard is applicable to fiscal years beginning on January 1, 2019 or later and will replace IAS 17 Leases and associated interpretations: the International Financial Reporting Interpretations Committee (IFRIC) 4 Determining Whether an Arrangement Contains a Lease, the Standing Interpretations Committee (SIC) 15 Operating Leases—Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard requires that all leases are to be recognized in the balance sheet, regardless of whether they were previously recognized as operating or finance, with a few exceptions. 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 standard includes exemptions for short-term leases (leases with a lease term of 12 months or less) and leases where the underlying asset has a low value. The exemption allows a lessee to decide not to recognize leases in the balance sheet. At the commencement date of contract, the lessee is to recognize a lease liability in the balance sheet, that represents the present value of future lease payments, and a right-of-use asset that represents the right of use of the underlying asset over the lease term. Lease payments are to be discounted by using the interest rate implicit

in the lease contract, if it can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. The lessee is to recognize the interest expenses related to the lease liability and amortization of the right-of-use asset in the income statement. IFRS 16 entails the reclassification of cash flow statements. Cash flow from operating activities will change since amortization of the lease liability will be presented in the financing activities. Interest can be recognized in the financing activities or the operating activities.

After the date of initial application, the lessee is to measure the right-of-use asset at cost less accumulated amortization and any accumulated impairment. This measurement is to take into account any remeasurement of the lease liability. The liability will increase by the interest on the lease liability but reduce by paid lease payments. The measurement of the liability is also to reflect changes in lease payments. Remeasurement of the lease liability is normally to be recognized as an adjustment of the right-of-use asset. The lease liability is to be remeasured if, for example, the lease term is changed, if the assessment of a purchase option is changed, if the amounts expected to be payable under residual value are changed or if the future lease payments are changed due to changes in an index or interest rate.

Transition to IFRS 16

When the standard becomes effective, SCA will apply the modified retrospective approach, meaning that comparative figures will not be restated. The lease liability has been measured at the present value of the outstanding lease payments. The right-of-use asset for all leases totals an amount corresponding to the lease liability, adjusted for the prepaid lease payments. The transition does not have any impact on equity. SCA has elected to use the available exemption for short-term leases and leases for which the underlying asset has a low value. Examples of leases for which the underlying asset has a low value are photocopiers and coffee machines. SCA has also chosen, on the first date of application, not to remeasure whether a contract is or contains a lease agreement. The modified retrospective approach entails that the lessee's incremental borrowing rate must be applied on initial measurement of the lease liability. SCA has prepared a method for determining the incremental borrowing rate, which includes the credit rating of the individual company, the economic environment, contract duration and class of asset. The incremental borrowing rate will be updated continuously. The average incremental borrowing rate on January 1, 2019 was 3.5%.

In 2018, SCA has worked intensely on studying and evaluating existing lease contracts and analyzed the effects of IFRS 16. In connection with this, SCA identified components that are not to be classified as lease components according to IFRS 16. These components mainly comprise service components of leases for rail transportation and accounted for about SEK 1,000m of future minimum lease payments of 2017. When the standard came into force, a lease liability of SEK 1,211m was recognized and a right-of-use asset of SEK 1,221m. The additional lease liability resulted in an increase of SEK 1,211m in net debt. IFRS 16 will impact SCA's financial statements in future years. Based on the existing lease portfolio, SCA estimates that EBITDA in 2019 will be positively impacted by approximately SEK 200m and the EBITDA margin in 2019 will improve by about 1%. EBIT in 2019 will be charged with amortization of approximately SEK 180m and net financial items in 2019 will be charged with interest expenses of about SEK 50m. The impact on profit after tax in 2019 is expected to amount to approximately SEK 20m. SCA estimates that net debt in relation to EBITDA in 2019 will increase about 0.2 times. The Group's cash flow from operating activities in 2019 will increase by approximately SEK 200m. Cash flows from investing activities will decrease by approximately SEK 1,200m and cash flow from financing activities will decrease by about SEK 50m due to interest. ROCE in 2019 is expected to decrease by approximately 0.1%.

Principles of consolidation

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

Subsidiaries

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

Translation of foreign currency

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

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

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

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

Transactions and balance sheet items in foreign currency

Transactions in foreign currency are translated to a functional currency using the rate prevailing on the transaction date. At accounting year-end, monetary assets and liabilities are translated at the closing day rate and any exchange rate effects are recognized in the income statement. In cases where the

exchange rate effect is related to the operations, the effect is recognized net in operating profit. Exchange rate effects pertaining to borrowing and financial investments are recognized as other financial items. Non-monetary assets and liabilities recognized at historical cost are translated at the exchange rate prevailing on the transaction date.

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

For financial assets in the form of equity instruments that are not held for trading, the portion of the value change pertaining to currency is recognized in the income statement. Any other unrealized change is recognized in equity under other comprehensive income.

Revenue recognition

Sales revenue, which is synonymous with net sales, includes the consideration for goods and services sold within the Group's main business. This consists entirely of revenue from contracts with customers and is recognized in accordance with IFRS 15. Other operating income includes compensation for sales that are not included in the Group's main business, for instance, logistics income from SCA's transport activities, income from sales of by-products from the production of the Group's main products, income from sales of forest seedlings and gravel, lease income from hunting and fishing rights and for wind power, and capital gains from the sale of fixed assets. The translation differences on trade receivables are also recognized as other operating income as of 2018. Most other operating income consists of revenue from contracts with customers and is recognized in accordance with IFRS 15. For more information about revenue from contracts with customers, refer to Note B1. Income from the sale of self-produced energy, electricity certificates and emission allowances is recognized as reduced energy costs. Interest income is recognized in accordance with the effective interest method, meaning the estimated change in value (effective interest) is recognized as interest income or interest expense in the income statement. Dividends received are recognized when the right to receive a dividend has been established.

Government grants

Government grants are recognized at fair value when there is reasonable assurance the grants will be received and that the Group will comply with the conditions attached to them. Government grants related to acquisition of assets are recognized in the balance sheet by the grant reducing the carrying amount of the asset. Government grants received as compensation for costs are accrued and recognized in the income statement during the same period as the costs. If the government grant or assistance is neither related to the acquisition of assets nor to compensation for costs, the grant is recognized as other income. For more information about Government grants, refer to Notes B2 and B4.

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

The Annual Report refers to a number non-IFRS performance measures used to assist investors and company management to analyze the company's operations. A description of the various

non-IFRS performance measures used as a complement to the financial information reported according to IFRS is presented below.

Calculation of financial measures not included in IFRS

PERFORMANCE MEASURES		
Various types of performance measures and margin measures expressed as a percentage of sales		
Key figure	Description	Application of the measure
EBITDA	Profit before depreciation, amortization and impairment, financial items and taxes.	This measure is a complement to operating profit, as it shows the cash surplus from operations. Management uses the measure to control the company's business areas.
Adjusted EBITDA	Profit before depreciation, amortization and impairment, financial items and taxes excluding items affecting comparability.	This measure is a complement to operating profit, as it shows the cash surplus from operations adjusted for the impact of items affecting comparability.
EBITDA margin	Profit before depreciation, amortization and impairment, financial items and taxes as a percentage of net sales for the year.	This measure is a complement to operating margin, as it shows the cash surplus in relation to net sales. Management uses the measure to control the company's business units.
Adjusted EBITDA margin	Adjusted EBITDA as a percentage of net sales for the year.	This measure is a complement to operating margin, as it shows the cash surplus in relation to net sales adjusted for the impact of items affecting comparability.
Items affecting comparability	Under items affecting comparability, SCA includes costs in connection with acquisitions, divestments, restructuring and other specific events, refer to Note B5.	Separate reporting of items affecting comparability between periods provides a better understanding of the company's operating activities.
Restructuring costs	Costs for impairment together with personnel costs in connection with structural changes to the company's operations.	This measure shows the specific costs that have arisen in connection with structural changes of an operation, which contributes to an understanding of the underlying cost level in the continuing operations.
Operating margin	Operating profit as a percentage of net sales during the period.	Operating margin describes operating profit in relation to net sales.
Adjusted operating margin	Operating profit as a percentage of net sales during the period excluding items affecting comparability.	Adjusted operating margin describes how large a share of net sales remains as operating profit excluding items affecting comparability.
Adjusted operating profit	Operating profit excluding items affecting comparability.	Adjusted operating profit is a key ratio for control of the Group's profit centers and provides an understanding of earnings performance of the operations excluding items affecting comparability.
Net margin	Profit for the period as a percentage of net sales for the period.	Net margin describes how large a share of net sales remains after costs and tax have been deducted.
CAPITAL MEASURES		
Show how capital is utilized and the company's financial strength		
Key figure	Description	Application of the measure
Equity/assets ratio	Equity excluding non-controlling interests expressed as a percentage of total assets.	A traditional measure for showing financial risk. Expresses the percentage of total assets that is financed by the owners of the Parent.
Capital employed	Calculated as the balance sheet's total assets excluding financial assets and pension assets, less any non-interest-bearing liabilities.	The management follows this measure to reduce the capital used in operations that is financed by owners and creditors.

SEKm	2018	2017
CAPITAL EMPLOYED		
Total assets	60,549	56,711
Financial assets and pension assets	-1,333	-1,577
Non-current, non-interest-bearing liabilities	-8,384	-8,497
Current, non-interest-bearing liabilities	-4,750	-3,918
Capital employed	46,082	42,719
CAPITAL EMPLOYED PER SEGMENT		
Forest	27,861	26,829
Wood	3,216	2,817
Pulp	8,998	7,154
Paper	6,412	5,861
Other	-405	58
Capital employed	46,082	42,719

Key figure	Description	Application of the measure
Working capital	Working capital is calculated as current operating receivables (inventories, trade receivables and other non-interest-bearing current receivables) less current operating liabilities (trade payables and other non-interest-bearing current liabilities).	The management monitors this measure to reduce capital tied up in the balance sheet from the company's operations.
Working capital as a percentage of net sales	Calculated as an average of working capital for 13 months as a percentage of 12-month rolling net sales.	The management monitors this measure to reduce capital tied up in the balance sheet from the company's operations.

SEKm	2018	2017
WORKING CAPITAL		
Inventories	4,499	3,460
Trade receivables	2,629	2,299
Other current receivables	1,060	694
Trade payables	-3,368	-2,900
Other current liabilities	-1,140	-977
Adjustments ¹⁾	55	285
Working capital	3,735	2,861

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

Key figure	Description	Application of the measure
Net debt	Calculated as current and non-current financial liabilities and provisions for pensions with deductions for financial assets (surplus in funded pension plans, financial assets and cash and cash equivalents).	Net debt describes the company's total debt financing and is monitored by the management.

SEKm	2018	2017
NET DEBT		
Net debt, January 1	5,966	35,361
Net cash flow	526	27,225
Net debt, discontinued operations ¹⁾	-	56,010
Remeasurements to equity	505	1,027
Exchange rate effects and market value changes	23	417
Net debt, December 31	7,020	5,966
Surplus in funded pension plans	630	1,002
Non-current financial assets	46	28
Current financial assets	9	9
Cash and cash equivalents	648	538
Financial assets	1,333	1,577
Non-current financial liabilities	5,263	3,675
Provisions for pensions	528	366
Current financial liabilities	2,562	3,502
Financial liabilities	8,353	7,543
Net debt	7,020	5,966

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

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

RETURN MEASURES Return is a financial term that describes how much the value of an asset changes from an earlier point in time

Key figure	Description	Application of the measure
Return on capital employed	Accumulated return on capital employed is calculated as 12-month rolling operating profit as a percentage of average capital employed for the five most recent quarters. The corresponding key figure for a single quarter is calculated as operating profit for the quarter multiplied by four as a percentage of average capital employed for the two most recent quarters.	Used to measure return on capital tied up in operations.
Return on capital employed – industrial portion	Calculated as the Group's adjusted return on capital employed, excluding operating profit and capital employed from the Forest operating segment and a share of other activities.	This is the most important ratio for management to measure return on capital tied up in the industrial operations.

	Forest	Wood	Pulp	Paper	Other activities	Total Group
2018 fiscal year						
<i>Return on capital employed, ROCE</i>						
Operating profit, SEKm	1,277	685	364	1,925	-249	4,002
Average capital employed, SEKm	27,359	3,113	8,143	6,249	-442	44,422
Return on capital employed, ROCE, %	4.7%	22.0%	4.5%	30.8%		9.0%
2017 fiscal year						
<i>Return on capital employed, ROCE</i>						
Operating profit, SEKm	1,244	443	236	956	-368	2,511
Average capital employed, SEKm	26,599	2,830	5,853	6,051	51	41,384
Return on capital employed, ROCE, %	4.7%	15.7%	4.0%	15.8%		6.1%

CASH FLOW PERFORMANCE MEASURES		
Various performance measures and costs that have impacted the company's cash flow		
Key figure	Description	Application of the measure
Operating cash surplus	Adjusted profit before depreciation, amortization and impairment (adjusted EBITDA) with deductions for capital gains and capital losses from property, plant and equipment and intangible assets and the reversal of the result of participations in associated companies and the result of the forest valuation.	This measure shows cash flow generated by the income statement when calculating operating cash flow.
Operating cash flow	Operating cash flow comprises the sum of operating cash surplus and change in working capital, with deductions for current net investments in property, plant and equipment and restructuring costs.	The management control the business areas using this measure that shows the combined cash flow from operating activities that the units can themselves influence.

SEKm	2018	2017
OPERATING CASH FLOW		
Forest		
Operating cash surplus	663	744
Change in working capital	-191	-16
Current capital expenditures, net	-239	-143
Restructuring costs, etc.	3	-
Operating cash flow	236	585
Wood		
Operating cash surplus	902	669
Change in working capital	-188	-91
Current capital expenditures, net	-210	-172
Restructuring costs, etc.	-44	-7
Operating cash flow	460	399
Pulp		
Operating cash surplus	706	496
Change in working capital	-379	62
Current capital expenditures, net	-154	-27
Restructuring costs, etc.	-36	-13
Operating cash flow	137	518
Paper		
Operating cash surplus	2,487	1,469
Change in working capital	-109	-114
Current capital expenditures, net	-332	-246
Restructuring costs, etc.	121	13
Operating cash flow	2,167	1,122

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

Consolidated operating cash flow statement

SEKm	2018	2017
IS EBITDA	5,252	3,648
Change in value in biological assets and other non-cash items ¹⁾	-749	-503
Operating cash surplus	4,503	3,145
Change in working capital	-843	-143
Current capital expenditures, net	-1,002	-638
Other operating cash flow	93	-91
Operating cash flow	2,751	2,273

1) Figures from the preceding year include the reversal of items affecting comparability

B. SALES AND EARNINGS

B1. SEGMENT REPORTING AND REVENUE FROM CONTRACTS WITH CUSTOMERS

AP ACCOUNTING PRINCIPLES

Segments

Operating segments are recognized in accordance with IFRS 8 Operating Segments in a manner that complies with the internal reporting submitted to the chief operating decision maker. The chief operating decision maker is the function that is responsible for allocating resources and assessing the result of the operating segments. At SCA, this function has been identified as the company's President and CEO, who is responsible for and manages the day-to-day administration of the Group in accordance with the Board's guidelines and terms of reference. The Executive Management support the President in his work: see the section Corporate governance in the Board of Directors' Report on page 55.

A description of the four operating segments can be found on pages 18-29.

Revenue from contracts with customers

SCA has applied IFRS 15, which has replaced IAS 11 and IAS 18, since January 1, 2018. The new standard is designed according to a control-based five-step model. It requires that revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for promised goods or services to customers. The standard regulates commercial agreements (contracts) with customers in which delivery of goods and services is divided into separately identifiable performance obligations that are recognized independently. 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 or service, at which point it is deemed to have been transferred. Control may be passed at a given point in time, which is usually the case for sale of goods. In other cases, a performance obligation may be satisfied over time, which is common on sale of services.

CAA KEY ASSESSMENTS AND ASSUMPTIONS

SCA has determined that control passes to the customer under IFRS 15 when the risk is transferred according to the applicable delivery terms.

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

The transaction price primarily consists of a fixed price per sold quantity. Variable parts, such as cash discounts, volume discounts and delivery bonuses, only occur to a small extent, but then reduce the transaction price. The transaction price is estimated at the value that is expected to accrue to SCA when entering into the agreement. The transaction price is continuously updated if the circumstances that form the basis of the estimate change. Performance obligations consist of sales of goods, which are satisfied at a point in time. The control is transferred to the customer at the same time as the risk for the goods is transferred, in accordance with the Incoterms applicable in the contract. Payment terms follow industry practice without long credit periods.

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

SEKm	Forest	Wood	Pulp	Paper	Other activities	Eliminations	Total Group
2018 fiscal year							
TB1:1 External sales	-	6,618	2,494	9,643	-	-	18,755
of which goods	-	6,618	2,494	9,643	-	-	18,755
Internal sales	5,455	-	372	-	-	-5,827	-
IS Total net sales	5,455	6,618	2,866	9,643	-	-5,827	18,755
Other operating income	843	949	410	1,777	120	-2,172	1,927
of which goods	744	609	-	112	14	-302	1,177
of which services	48	379	441	1,755	72	-1,871	824
of which other operating income	51	-39	-31	-90	34	1	-74
Operating expenses	-4,904	-6,664	-2,567	-8,951	-343	7,999	-15,431
Result from participations in associated companies	-	1	-	-	-	-	1
EBITDA	1,394	904	709	2,468	-223	-	5,252
Depreciation and impairment	-117	-219	-345	-544	-26	-	-1,250
Performance by operating segment	1,277	685	364	1,925	-249	-	4,002
IS Operating profit	1,277	685	364	1,925	-249	-	4,002
Other disclosures							
Capital employed	27,861	3,216	8,998	6,412	-405	-	46,082
Net investments	-239	-212	-2,059	-376	-83	-	-2,969

SEKm	Forest	Wood	Pulp	Paper	Other activities	Eliminations	Total Group
2017 fiscal year							
TB1:1 External sales	-	5,994	2,236	8,434	-	-	16,664
of which goods	-	5,994	2,236	8,434	-	-	16,664
Internal sales	5,070	-	306	-	-	-5,376	-
IS Total net sales	5,070	5,994	2,542	8,434	-	-5,376	16,664
Other operating income	679	796	285	1,736	49	-1,942	1,603
of which goods	649	469	-	100	-	-	1,218
of which services	30	327	285	1,636	49	-1,942	385
Operating expenses	-4,385	-6,122	-2,344	-8,691	-396	7,318	-14,620
Result from participations in associated companies	-	1	-	-	-	-	1
EBITDA ¹⁾	1,364	669	483	1,479	-347	-	3,648
Depreciation and impairment	-120	-226	-247	-523	-21	-	-1,137
Performance by operating segment	1,244	443	236	956	-368	-	2,511
IS Operating profit	1,244	443	236	956	-368	-	2,511
Other disclosures							
Capital employed	26,829	2,817	7,154	5,861	58	-	42,719
Net investments	-143	-199	-2,843	-246	-70	-	-3,501

1) Items affecting comparability are included in EBITDA. These relate to other activities and concern personnel and other operating expenses.

Operating segments

SCA recognizes four operating segments in accordance with IFRS 8:

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

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

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

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

The Paper segment comprises packaging paper (kraftliner) manufactured in Obbola and Munksund, and publication paper manufactured in Ortviken, and used for magazines, catalogues and commercial print.

Intra-group deliveries

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

Customers

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

Revenue from contracts with customers

SEKm	Forest	Wood	Pulp	Paper	Other activities	Eliminations	Total Group
2018 fiscal year¹⁾							
Net sales	5,455	6,618	2,866	9,643	-	-5,827	18,755
of which revenue from contracts with customers, goods	5,455	6,618	2,866	9,643	-	-5,827	18,755
Other operating income	843	949	410	1,777	120	-2,172	1,927
of which revenue from contracts with customers, goods	744	590	0	112	26	-302	1,170
of which revenue from contracts with customers, services	48	347	377	1,688	0	-1,679	781
of which other operating income	51	12	33	-23	94	-191	-24

1) SCA applied the modified retrospective method and has reported no values for 2017.

TB1:1 Group by country	Net sales – sold to ¹⁾				Net sales – sold by ¹⁾			
	2018		2017		2018		2017	
	SEKm	%	SEKm	%	SEKm	%	SEKm	%
Sweden	2,717	15	2,396	14	16,080	86	14,111	85
EU excl. Sweden								
UK	3,363	18	2,823	17	1,547	8	1,360	8
Germany	2,897	16	2,617	16	-	-	-	-
France	1,385	7	1,248	7	392	2	332	2
Netherlands	720	4	645	4	-	-	-	-
Denmark	655	3	520	3	-	-	-	-
Belgium	437	2	425	3	-	-	-	-
Poland	518	3	421	3	-	-	-	-
Spain	523	3	355	2	-	-	-	-
Italy	428	2	413	2	-	-	-	-
Finland	350	2	316	2	-	-	-	-
Rest of EU	740	4	648	4	-	-	-	-
Total EU excl. Sweden	12,016	64	10,431	63	1,939	10	1,693	10
Rest of Europe								
Norway	794	4	652	4	-	-	-	-
Switzerland	173	1	146	1	-	-	-	-
Other	112	-	116	-	-	-	-	-
Total, rest of Europe	1,079	5	914	5	-	-	-	-
Rest of world								
Japan	631	3	778	5	130	1	216	1
China	688	4	614	3	-	-	-	-
US	346	2	270	2	-	-	-	-
Morocco	347	2	296	2	-	-	-	-
India	78	-	161	1	-	-	-	-
Egypt	127	1	158	1	-	-	-	-
Hong Kong	6	-	22	-	606	3	644	4
Other	720	4	624	4	-	-	-	-
Total, rest of world	2,943	16	2,923	18	736	4	860	5
Total Group	18,755	100	16,664	100	18,755	100	16,664	100

1) Net sales have been recognized from two perspectives. The first column "Net sales – sold to" is based on sales to the countries where SCA has its customers. The second column "Net sales – sold by", meaning revenue from external customers where the company is domiciled and in other countries from which the company receives revenues. Items Net sales - sold by Sweden and Rest of EU 2017 have been adjusted compared to Annual Report 2017.

Group by country	Average number of employees						Non-current assets ¹⁾	
	2018	Of whom men, %	Of whom women, %	2017	Of whom men, %	Of whom women, %	SEKm 2018	SEKm 2017
Sweden	3,677	80	20	3,592	82	18	50,453	48,149
EU excl. Sweden								
Germany	46	43	57	45	46	54	1	1
UK	306	88	12	305	88	12	151	165
France	84	82	18	85	78	22	56	42
Netherlands	79	90	10	77	89	11	243	225
Belgium	2	100	-	2	100	-	1	1
Portugal	-	-	-	1	-	100	-	-
Rest of EU	11	71	29	11	68	32	1	1
Total EU excl. Sweden	528	83	17	526	83	17	453	435
Rest of world								
Japan	3	30	70	4	27	73	-	-
Hong Kong	8	38	62	5	52	48	-	-
Total, rest of world	11	35	65	9	42	58	-	-
Total Group	4,216	81	19	4,127	82	18	50,906	48,584

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

B2. OTHER OPERATING INCOME**Specification of other operating income**

SEKm	2018	2017
Revenues from energy	931	776
Revenues from transportation	756	675
Other	240	152
IS Total	1,927	1,603

Other disclosures

Government grants received increased other operating income by SEK 10m (8).

B3. RAW MATERIALS AND CONSUMABLES**Specification of raw materials and consumables**

SEKm	2018	2017
Timber and chips	-3,221	-2,863
Other raw materials and consumables	-2,405	-2,032
Purchase of goods for resale	-1,173	-1,056
IS Total	-6,799	-5,951

B4. OTHER OPERATING EXPENSES**Specification of other operating expenses**

SEKm	2018	2017
Transportation	-3,522	-3,330
Energy ¹⁾	-958	-950
Repairs and maintenance	-816	-750
IT, telephony and lease of premises	-369	-308
Other	-1,193	-913
IS Total	-6,858	-6,251

1) After deduction for revenues for energy in the amount of SEK 336m (158).

Other disclosures

Government grants received reduced operating expenses by SEK 38m (44). Costs for research and development amounted to SEK -48m (-52) during the period.

Specification of auditing expenses

SEKm	2018	2017 ¹⁾
EY		
Audit assignments	-9	-8
Auditing activities other than the audit assignment	-1	-3
Total EY	-10	-11
Other auditors		
Audit assignments	0	-1
Tax consultancy services	-	-1
Other assignments	-	-1
Total other auditors	0	-3
Total	-10	-14

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

B5. ITEMS AFFECTING COMPARABILITY**AP ACCOUNTING PRINCIPLES**

Profit/loss items of a non-recurring nature (items affecting comparability) with a significant impact on profit are reported separately to facilitate the understanding of the underlying development of the business. Such items include costs in connection with acquisitions, divestments, restructuring, impairment and other specific events. No items affecting comparability were recognized for 2018.

Items affecting comparability by type of cost

SEKm	2018	2017
Personnel costs	-	-51
Impairment of property, plant and equipment	-	4
Other operating expenses	-	-66
IS Total	-	-113

Items affecting comparability by activity

SEKm	2018	2017
Costs of split of SCA Group into two listed companies	-	-118
Reversal of impairment warehouse	-	4
Other	-	1
IS Total	-	-113

B6. TAXES**AP ACCOUNTING PRINCIPLES**

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

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

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

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

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

KEY ASSESSMENTS AND ASSUMPTIONS

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

As of December 31, 2018, SEK 9m was recognized as deferred tax assets based on best assessment of future taxable profits in the Group. At year-end 2018, the Group also had tax loss carryforwards of SEK 47m, for which no deferred tax asset had been recognized. Accordingly, a changed assessment of the probability of future taxable profits could have a positive or negative effect.

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

Tax expense

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

SEKm	2018	% ¹⁾	2017	% ¹⁾
Current tax				
Income tax for the period	319	8.0	26	1.1
Adjustments for prior periods	1	-	33	1.4
Current tax expense	320	8.0	59	2.5
Deferred tax				
Changes in temporary differences	525	13.2	492	20.3
Adjustments for prior periods	21	0.6	-5	-0.2
Revaluation	-552	-13.9	-2	-0.1
TB6:3 Deferred tax expense	-6	-0.1	485	20.0
IS Tax expense	314	7.9	544	22.5

1) percentage of profit before tax.

Explanation of tax expense

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

SEKm	2018		2017	
	SEKm	%	SEKm	%
Profit before tax	3,973		2,418	
IS Tax expense	314	7.9	544	22.5
Expected tax expense	854	21.5	521	21.5
Difference	-540	-13.6	23	1.0
The difference is explained by:				
Permanent differences between accounting and taxable result				
Other permanent effects ¹⁾	7	0.2	-6	-0.2
Taxes related to prior periods ²⁾	5	0.1	29	1.2
Changes in the value of deferred tax assets	-	-	2	0.1
Changes in tax rates ³⁾	-552	-13.9	-2	-0.1
Total	-540	-13.6	23	1.0

- 1) Other permanent effects in 2018 mainly refer to non-deductible and non-taxable permanent items. Other permanent effects for 2017 related primarily to issuance costs associated with the distribution of Essity, which were recognized directly against equity and the utilization of replacement reserves.
- 2) Taxes attributable to prior periods for 2018 relate, for the most part, to adjustments relating to temporary differences for forest land. Taxes attributable to prior periods for 2017 relate, for the most part, to a tax expense of SEK 29m for the reversal of the tax asset relating to the divestment of the Laakirchen publication paper mill.
- 3) The Swedish Parliament has decided to reduce the corporate tax rate in two steps. On January 1, 2019, tax will be reduced from 22% to 21.4%. On January 1, 2021, tax will be further reduced from 21.4% to 20.6%. The reduction of the corporate tax rate resulted in a revaluation of deferred tax liabilities in 2018, resulting in a positive one-off item of SEK 551m. SCA has elected to remeasure all deferred tax to 20.6% for the Swedish companies.

Current tax liability

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

SEKm	2018	2017
Value, January 1	18	194
TB6:1 Current tax expense	320	59
CF TB6:2 Paid tax	-229	-30
Other changes from acquisitions, divestments and reclassifications	-	-30
Translation differences	1	-
Changes relating to discontinued operations	-	-175
Value, December 31	110	18
BS of which current tax liability	120	22
BS of which current tax asset	-10	-4

TB6:2 Paid tax

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

SEKm	2018	2017
France	-6	-6
Netherlands	-	-15
Japan	-4	-1
Sweden	-207	-4
UK	-7	-
Germany	-5	-4
CF Total	-229	-30

TB6:3 Deferred tax liability 2018

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

SEKm	Value, January 1	Deferred tax expense	Other changes ¹⁾	Value, December 31
Intangible fixed assets	3	0	0	3
Property, plant and equipment ²⁾	8,218	-43	0	8,175
Financial non-current assets	217	-13	-85	119
Current assets	-3	18	-12	3
Provisions	-87	3	-20	-104
Liabilities	21	-18	5	8
Future tax credits and tax loss carryforwards	-28	16	0	-12
Other	18	31	19	68
BS Total³⁾	8,359	-6	-93	8,260

1) Other changes include deferred tax recognized directly in equity according to IAS 19 of SEK -112m, IFRS 9 hedge accounting derivatives of SEK 20m and opening impairment of trade receivables according to IFRS 9 of SEK -1m.

2) The item deferred tax on property, plant and equipment includes SEK 6,605m in deferred tax on biological assets. Deferred tax is recognized on all of the temporary difference pertaining to biological assets. For further information, refer to Note D3.

3) The closing deferred tax liability comprises deferred tax assets of SEK -9m (-22) and deferred tax liabilities of SEK 8,269m (8,381).

Loss carryforwards

Future tax credits and loss carryforwards for which deferred tax assets were recognized have been reported at the tax amount of SEK -12m on the line Future tax credits and tax loss carryforwards in table **TB6:3**. Loss carryforwards for which no deferred tax assets were recognized amounted to SEK 47m (48), gross, at December 31, 2018, **TB6:4**. The tax value of uncapitalized tax loss carryforwards amounted to SEK 12m (12). In SCA's opinion, it is not probable that loss carryforwards for which no deferred tax was recognized will be offset against future profits as these largely concern saved capital losses with a limited right of deduction against future capital gains. The expiry dates of these loss carryforwards are distributed as shown in table **TB6:4**.

The change in uncapitalized loss carryforwards for the period included an additional SEK 1m and SEK 2m expired in 2018.

TB6:4 Loss carryforwards, gross, for which no deferred tax assets were recognized as per December 31, 2018

Year of maturity	SEKm
2019	-
2020	-
2021	1
2022	3
2023 and later	17
Indefinite life	26
Total	47

C. EMPLOYEES**C1. PERSONNEL COSTS****Personnel costs**

SEKm	Note	2018	2017
Salaries and remuneration		-2,073	-1,878
TC3:1A of which Executive Management		-62	-31 ¹⁾
of which Board	C4	-8	-9
Pension costs		-246	-210
of which defined benefit pension costs	C5	-71	-64
of which other pension costs		-175	-146
Other social security costs		-610	-575
Other personnel costs		-112	-100
IS Total personnel costs		-3,041	-2,763

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

C2. PERSONNEL DATA**Average number of employees**

	2018	2017
Average number of employees	4,216	4,127
of whom men	3,395	3,377
of whom women	821	750

C3. REMUNERATION OF SENIOR EXECUTIVES

Remuneration was paid to senior executives in SCA for work in this company during 2018.

Guidelines for salary and employment conditions for senior executives

These guidelines apply to the President, Business Area Presidents and equivalents as well as Central Staff Managers. For the composition of this group, see pages 64-65.

Annual General Meeting guidelines for remuneration of senior executives

The 2018 Annual General Meeting adopted the following guidelines for remuneration and other employment conditions for senior executives:

Remuneration of the President and other senior executives will be a fixed amount, variable remuneration, pension and additional benefits, which, altogether, is referred to as total remuneration. 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 senior executive's responsibility and authority.

For the President, and other senior executives, variable remuneration is to be limited and linked to the fixed remuneration, based on earnings results in relation to annual and long-term established targets. The long-term goal is to be linked to the performance of the SCA share. Programs for variable remuneration must be designed so that the Board has the possibility to limit payment of variable remuneration if such action is considered reasonable and in compliance with the company's respon-

sibility to shareholders, employees and other stakeholders. Variable remuneration is not pensionable income.

If termination of employment is initiated by the company, the notice period should be up to two years. If termination is initiated by the executive, the notice period is to be no more than one year. There will be no severance pay.

Pension benefits shall, to the extent possible, solely contain defined premium pension benefits. The planned retirement age is 65.

The Board of Directors shall have the right to depart from the established guidelines if there in an individual case are special grounds to do so. The guidelines are not applicable to existing contracts.

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

Fixed salary

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

Variable remuneration

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

The short-term variable remuneration (Short Term Incentive "STI") can, for the President, amount to a maximum of 50% of the fixed salary and for other senior executives to 40% of the fixed salary. The established STI targets in 2018 for the President and senior executives with staff functions focus on the Group's profit before tax, EBITDA margin, operating cash flow and working capital. For Business Area Presidents and President of Sourcing and Logistics, the targets primarily focus on operating cash flow, cost control, production volume and EBITDA for each business area and the support unit.

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

The LTI goal is based on the performance of the company's Class B share over a three-year period, measured as a higher "Total Shareholder Return" (TSR) compared with a weighted index, composed of OMX Stockholm 30, Holmen, Stora Enso, UPM Kymmene and BillerudKorsnäs. The maximum outcome requires the performance target (TSR) for the company to be 5% stronger than the outcome for the peer group.

Outcome, variable remuneration

For the President and Central Staff Managers, STI resulted in 50% and 40% respectively of fixed salary for 2018. STI resulted in variable remuneration corresponding to 20-38% of fixed salary for other senior executives with responsibility for a business area (50-94% outcome). The LTI target was achieved for 2016-2018, resulting in maximum outcome for the President and other senior executives, which provided LTI compensation equivalent to 50% and 40% respectively of the fixed salary.

Pensions

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

Other benefits

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

Notice period and severance pay

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

Other senior executives have a notice period, if such notice is given by the company, of 12 months, which after five years of service, from their last employment, increases to 18 months. The executive's notice period toward the company is 6 months. One senior executive has differing conditions, with a notice period, if such notice is given by the company, of 18 months, which after three years of service increases to 24 months. If requested by the company, this executive is obligated to be available to the company during the notice period. Any new salary from other positions will be deducted from the salary received during the notice period. The agreements have no stipulations with regard to severance pay.

Preparation and decision process for remuneration

During the year, the Remuneration Committee submitted recommendations to the Board regarding the principles for remuneration of senior executives. The Board discussed the Remuneration Committee's proposal and decided on the basis of the Committee's recommendations. The remuneration of senior executives for the fiscal year was based on the Remuneration Committee's recommendation. Matters of remuneration of the President were resolved by the Board of Directors. The executives concerned did not participate in remuneration matters pertaining to themselves. When it was deemed necessary, the work of the Remuneration Committee was carried out with the support of external expertise. For information about the composition of the Remuneration Committee, see page 58.

TC3:1A Remuneration and other benefits during the year 2018

SEK	Fixed salary ¹⁾	Variable remuneration ²⁾	Other benefits	Total salaries and remuneration
President and CEO Ulf Larsson	8,000,000	8,000,000 ³⁾	121,560	16,121,560
Other senior executives (12 persons)	25,574,350	19,528,815 ⁴⁾	884,096	45,987,261
Total	33,574,350	27,528,815	1,005,656	62,108,821

1) Fixed salary consists of salary paid and vacation pay supplement for the period, and, where applicable, the value of housing benefits.

2) Variable remuneration covers the 2018 fiscal year but is paid in 2019.

3) Of which LTI program SEK 4,000,000.

4) Of which LTI program SEK 9,559,509.

Remuneration and other benefits in 2017 (until June 14)

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

Remuneration and other benefits in 2017 (from June 15)

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

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

TC3:1B Pension costs 2018¹⁾

SEK	
President and CEO Ulf Larsson ²⁾	3,322,479
Other senior executives (12 persons) ²⁾	8,771,984
Total	12,094,463

- 1) The pension costs pertain to the costs that affected profit for 2018, excluding special payroll tax.
- 2) Outstanding pension obligations to all senior executives, including the President and CEO, amounted to SEK 36,841,000 (value as of December 31, 2018). These primarily consist of defined benefit pension plans, including ITP.

Pension costs for 2017 (until June 14)¹⁾

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

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

Pension costs for 2017 (from June 15)¹⁾

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

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

C4. FEES TO BOARD MEMBERS IN THE PARENT COMPANY

Remuneration to non-executive Board members refers to the established fees approved at the AGM (Annual General Meeting) on March 20, for the period until the next AGM in March 2019. No remuneration is paid to the President and CEO and other employees.

SEK	Board fee		Audit Committee fee		Remuneration Committee fee		Remuneration SCA Forest Products		Extra remuneration ¹⁾		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Pär Boman	1 800,000	1 800,000	250,000	250,000	135,000	135,000	-	-	-	57,534	2,185,000	2,242,534
Charlotte Bengtsson	600,000	600,000	-	-	-	-	-	250,000	-	-	600,000	850,000
Lennart Evrell	600,000	600,000	-	-	105,000	105,000	-	250,000	-	-	705,000	955,000
Annemarie Gardshol	600,000	600,000	-	-	-	-	-	-	-	19,178	600,000	619,178
Martin Lindqvist	600,000	600,000	250,000	250,000	-	-	-	250,000	-	-	850,000	1 100,000
Lotta Lyrå	600,000	600,000	-	-	-	-	-	-	-	-	600,000	600,000
Bert Nordberg	600,000	600,000	-	47,945	105,000	105,000	-	-	-	19,178	705,000	772,123
Anders Sundström	600,000	-	-	-	-	-	-	-	-	-	600,000	-
Barbara Milian Thoralfsson	600,000	600,000	330,000	330,000	-	-	-	-	-	19,178	930,000	949,178
Louise Svanberg	-	-	-	-	-	26,250	-	-	-	175,000	-	201,250
Majja-Liisa Friman	-	-	-	-	-	-	-	-	-	175,000	-	175,000
Lars Rebien Sørensen	-	-	-	-	-	-	-	-	-	175,000	-	175,000
Johan Malmquist	-	-	-	-	-	-	-	-	-	175,000	-	175,000
Ewa Björling	-	-	-	-	-	-	-	-	-	175,000	-	175,000
Total	6,600,000	6,000,000	830,000	877,945	345,000	371,250	-	750,000	-	990,068	7,775,000	8,989,263

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

SCA's Board consists of 4 women and 6 men. The senior executives category above includes 12 persons, of which 10 are men and 2 are women.

C5. REMUNERATION AFTER EMPLOYMENT

AP ACCOUNTING PRINCIPLES

Defined benefit pension plans

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

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the obligation on the balance sheet date minus the fair value of the plan assets. Funded plans with net assets, meaning plans with assets exceeding obligations, are recognized as a financial non-current asset provided they are not limited by the asset ceiling in the IAS 19. Other pension plans, which are not fully funded or unfunded, are recognized as Provisions for pensions.

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

under other comprehensive income, as are the actuarial gains or losses.

Defined contribution pension plans

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

Other post-retirement benefits

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

Severance pay

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

CAA KEY ASSESSMENTS AND ASSUMPTIONS

The calculation of recognized expenses and provisions for defined benefit pension plans, where the size of the future compensation is unknown and payment will occur far in the future, is dependent on assumptions and assessments. The key assumptions and assessments include the discount rate, future salary increases, inflation and life expectancy. SCA determines the discount rate based primarily on AA-rated corporate bonds issued in the currency in which the payments will be made that match the duration of the obligations. If no such corporate bonds are available, government bonds or mortgage bonds are used. Inflation assumptions are based on a combination of central bank targets, implicit market expectations and long-term analyst forecasts. Assumptions regarding salary increases are based on market expectations and market research forecasts. Key actuarial assumptions are presented in **TC5:5**. The sensitivity of the recognized provision with respect to key actuarial assumptions is described in **TC5:6**.

Provisions for pensions and similar obligations

Assets (-), obligations (+)

SEKm	2018	2017
TC5:2 Defined benefit obligations	2,010	1,700
TC5:3 Fair value of plan assets	-2,797	-3,118
TC5:4 Effect of asset ceiling	685	782
TC5:1 Provision for pensions, net	-102	-636

Surpluses in funded plans recognized as financial non-current assets amounted to **BS** SEK 630m (1,002) on the balance sheet date and provisions for pensions totaled **BS** SEK 528m (366). Defined benefit obligations include obligations in an amount of SEK 172m (245) pertaining to unfunded plans.

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

TC5:1 Provisions for pensions and similar obligations per plan

SEKm	Active	Paid-up pension policies	Pensioners	Total obligation	Plan assets, fair value	Effect of asset ceiling	Net	Duration of obligation, years
Country								
Netherlands	69	10	11	90	-72	-	18	33
Sweden	775	338	504	1,617	-1,923	-	-306	19
Other	93	97	113	303	-802	685	186	-
Total	937	445	628	2,010	-2,797	685	-102	

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. SCA has applied to withdraw from the pension plan.

Sweden

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

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

Other

In addition to those described above, there are a number of minor pension obligations, including France, the Netherlands, Sweden and Germany. Some of these plans are funded. One plan has been insured through endowment insurance since 2018.

Costs for the period for defined benefit plans

SEKm	2018	2017
Current service cost, after deduction for premiums paid by the employees	-71	-62
Past service cost	-	-1
Pension tax expense	-11	-7
Remeasurement, net	-	-1
Net interest	10	12
Pension costs before effects of settlements	-72	-59
Settlements	-	-43
Pension costs after effects of settlements	-72	-102

TC5:2 Defined benefit obligations

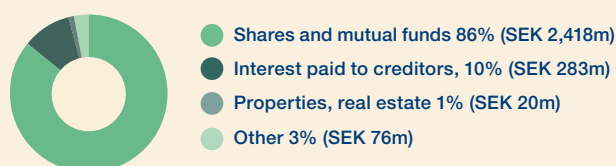
SEKm	2018	2017
Value, January 1	1,700	32,352
Current service cost	72	63
Interest expense	43	46
Past service cost	-	1
Pension tax expense	11	7
Settlements and transfers	-	-225
Discontinued operations	-	-30,638
Benefits paid	-78	-69
Pension taxes paid	-2	-1
Remeasurement: financial assumptions	129	163
Remeasurement: demographic assumptions	-3	-
Remeasurement: experience-based assumptions	30	22
Pension taxes pertaining to remeasurement	98	-24
Translation differences	10	3
Value, December 31	2,010	1,700

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

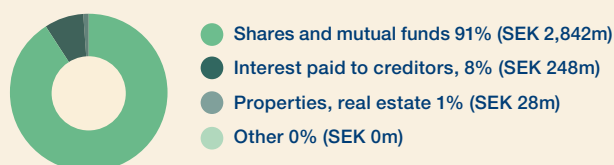
TC5:3 Fair value of plan assets

SEKm	2018	2017
Fair value, January 1	-3,118	-29,234
Interest income	-73	-94
Discontinued operations	-	26,364
Contributions by plan participants	-2	-1
Contributions by the employer	-18	-59
Benefits paid, excluding settlements	56	56
Benefits paid for settlements	-	268
Return in excess of recognized interest income	365	-416
Translation differences	-7	-2
Fair value, December 31	-2,797	-3,118

The plan assets are distributed according to the following classes of assets 2018:



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



96% (99) of the plan assets on the balance sheet date were traded on active markets in which market quotations are used for the valuation of assets. As in the preceding year, no financial instruments issued by SCA are included in the fair value of plan assets at December 31, 2018.

TC5:4 Effect of asset ceiling

SEKm	2018	2017
Value, January 1	782	1,298
Interest expense	19	36
Other changes to asset ceiling	-116	111
Discontinued operations	-	-663
Value, December 31	685	782

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	Eurozone
2018		
Discount rate	2.23	1.60
Expected salary increase rate	3.32	3.00
Expected inflation	2.07	1.75
Life expectancy, men ¹⁾	22	21
Life expectancy, women ¹⁾	25	24
2017		
Discount rate	2.60	1.30
Expected salary increase rate	3.25	2.85
Expected inflation	2.00	1.60
Life expectancy, men ¹⁾	22	22
Life expectancy, women ¹⁾	25	24

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

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

SEKm	
Discount rate +0.25%	91
Price inflation, incl. salary inflation +0.25%	-90
Longevity +1 year	-67

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

Other disclosures**Multiemployer plans**

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

Budgeted contributions

The budgeted contributions for the company's defined benefit pension plans for 2019 were calculated at SEK 59m. Contributions for multiemployer plans for 2019 were calculated at SEK 7m.

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

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

Other intangible fixed assets

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 3 and 20 years.

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

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

Impairment testing

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

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

The value of depreciated assets is tested for impairment whenever there are indications that the carrying amount might not be recoverable. In cases in which the carrying amount of an asset exceeds its estimated recoverable amount, an impairment loss is recognized 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 prior to impairment loss. Impairment losses on goodwill are never reversed.

Emission allowances and costs for carbon dioxide emissions

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

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

Intangible assets SEKm	Goodwill		Other intangible assets	
	2018	2017	2018	2017
Accumulated costs	46	46	362	340
Accumulated amortization	-	-	-228	-225
Accumulated impairment	-43	-43	-33	-33
Total	3	3	101	82
Value, January 1	3	19,257	82	7,665
Investments	-	-	36	19
Company acquisitions	-	-2	-	2
Reclassifications	-	-	-	1
Amortization	-	-	-17	-16
Discontinued operations	-	-19,252	-	-7,589
Value, December 31	3	3	101	82
TD1:1 Emission allowances, net value	-	-	24	9
BS Value, December 31 including emission allowances	3	3	125	91

Impairment testing

Annual testing for impairment of goodwill is carried out in the fourth quarter. Impairment testing for 2018 did not indicate any impairment requirement. 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, individual assets are tested to determine whether any impairment is needed. The discount rate before tax used in the impairment testing of goodwill is 5.73% (5.30). No impairment was carried out during the year.

TD1:1 Emission allowances

SEKm	2018	2017
Accumulated costs	24	10
Accumulated revaluation of surplus	-	-1
Total	24	9
Value, January 1	9	85
Emission allowances received	41	33
Sales	-19	-27
Settlement with the government	-7	-7
Revaluation of surplus	-	-1
Discontinued operations	-	-74
Value, December 31	24	9

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. The sale of products of sufficient quality from the running-in period is recognized as net sales. Borrowing costs are included in the cost of investments exceeding SEK 250m that take more than 12 months to complete. Expenditure for repairs and maintenance is expensed directly in the income statement.

Forest land

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

Depreciation and impairment

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

Assessed useful lives

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

Carrying amounts

SEKm	Buildings		Land and land improvements ^{1) 2)}		Machinery and equipment ³⁾		Construction in progress ^{3) 4)}		Total property, plant and equipment	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Accumulated costs	6,010	4,918	4,284	4,028	30,539	25,749	572	5,506	41,405	40,201
Accumulated depreciation	-2,778	-2,730	-1,715	-1,625	-16,932	-17,370	-	-	-21,425	-21,725
Accumulated impairment	-147	-148	-4	-4	-1,109	-1,210	-7	-10	-1,267	-1,372
Total	3,085	2,040	2,565	2,399	12,498	7,169	565	5,496	18,713	17,104
Value, January 1	2,040	13,770	2,399	5,627	7,169	35,724	5,496	7,063	17,104	62,184
Investments	46	27	232	108	317	254	2,289	3,155	2,884	3,544
Sales and disposals	-4	1	-2	-1	-15	-6	-	-	-21	-6
Company divestments	-	-	-	-	-	-	-5	-	-5	-
Reclassifications	1,132	175	53	107	6,000	576	-7,185	-859	-	-1
Depreciation	-137	-117	-118	-117	-978	-879	-	-	-1,233	-1,113
Impairments ⁵⁾	-	4	-	-	-	-	-	-7	-	-3
Translation differences	8	5	1	-	5	2	-30	-15	-16	-8
Discontinued operations	-	-11,825	-	-3,325	-	-28,502	-	-3,841	-	-47,493
BS Value, December 31	3,085	2,040	2,565	2,399	12,498	7,169	565	5,496	18,713	17,104

1) Land and land improvements includes forest land and forest roads valued at SEK 1,692m (1,664).

2) For land improvements linked to forest land, investments amounted to SEK 103m (98) and depreciation to SEK 77m (73).

3) During the period, interest was capitalized in machinery and equipment in an amount of SEK 28m (0) and in construction in progress in an amount of SEK 0m (22). The average interest rate used was 1% (1).

4) Of the outgoing value of construction in progress, SEK 0m (5,079) pertains to the pulp mill in Östrand.

5) Reversal of impairment of buildings from previous years amounting to SEK 0m (4) is recognized in the income statement as an item affecting comparability, refer to Note B5.

D3. BIOLOGICAL ASSETS

AP ACCOUNTING PRINCIPLES

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

KAA KEY ASSESSMENTS AND ASSUMPTIONS

Since a market price or other comparable value does not exist for assets of the scope owned by SCA, biological assets are measured at the present value of anticipated future cash flows. Key assessments and assumptions pertain to discount rates, future timber prices, felling costs and felling volumes. As of 2014, expected future felling volume and growth are based on the forest survey conducted between 2012 and 2013. A new forest survey is performed every eight years. The calculation of future income and expenses is based on the trends of these items over the most recent five-year period. The discount rate used was 5.90% (5.25).

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

Biological assets

SEKm	2018	2017
Value, January 1	31,386	30,770
Purchases and forest swaps	45	70
Sales	-46	-71
Other changes in fair value	1,708	1,479
Change due to felling	-1,028	-862
BS Value, December 31	32,065	31,386
Deferred tax related to standing forest	6,605	6,905

The change in fair value and change due to felling are recognized as a net value in the income statement under the heading Change in value in biological assets. The change totaled SEK 679m (617). The unrealized change in value recognized during the year for assets held on the reporting date is estimated at SEK 1,708m (1,479).

For the year's valuation of standing timber, the same valuation model was used as in the past. For the 2018 valuation, a change was made to the discount rate, which amounted to 5.90%.

Assessed income and expenses are adjusted upward by an annual inflation rate of 2%. Assumptions regarding future price and cost levels have, as in the valuation in 2017, been based on the outcome for the five preceding years. The 2018 valuation used an average wood price of SEK 449 (432) per solid cubic meter under bark (m³sub). Annual harvesting is expected to rise over the calculated future production cycle and amount to 4.3 million m³sub for 2018, ending at 5.9 million m³sub by 2114.

On average, 85% of felling comprises final harvesting and 15% thinning. 56% is expected to comprise sawlogs and 44% pulpwood.

SCA's forest holdings comprise approximately 2.6 million hectares of forest land primarily in northern Sweden, of which approximately 2.0 million is productive forest land. The forest portfolio's timber volume amounts to 235 million m³fo. Growth amounts to approximately 9.5 million m³fo per year, gross, on

productive forest land. Net growth, meaning growth after felling and natural losses, is estimated at 3 million m³fo per year. Felling in 2018 amounted to approximately 4.3 million m³sub (4.4).

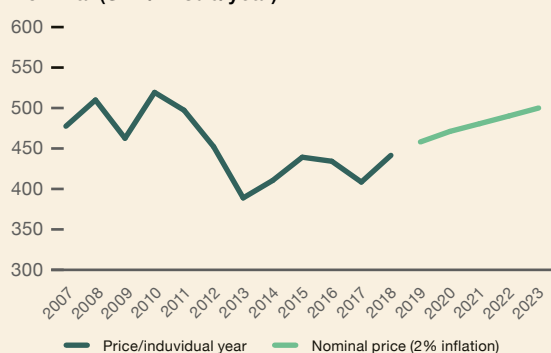
	2018	2017
Value SEK/hectare productive forest land	16,033	15,693
Value timber supplies SEK/m ³ fo	136	135

TD3:1 Sensitivity analysis

SEKm	Change in assumption		Change in value, before tax	
			2018	2017
Discount rate	0.25%	±	2,041	2,280
Wood price	0.50% the first 10 years	±	2,496	2,900
Felling cost	0.50% the first 10 years	±	630	745
Volume (final felling)	150,000 m ³ sub the first 10 years	±	424	417

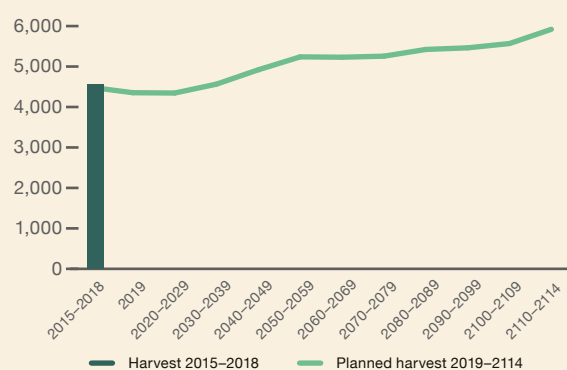
Wood price

Nominal (SEK/m³sub/year)



Harvest

Harvest 2015-2018 and planned harvest 2019-2114 (1,000 m³sub/year)



D4. INVENTORIES

AP ACCOUNTING PRINCIPLES

Inventories are measured at the lower of cost and net realizable value. Cost is calculated by applying the first-in, first-out (FIFO) principle or weighted average cost formula. The cost of inventories includes raw material costs, direct labor, other direct expenses and production-related overheads, based on a normal capacity utilization.

The net sales price is the calculated sales price received for normal business transactions less calculated marketing and sales costs.

Felling rights for standing timber are measured at contract prices, which on average have not exceeded the lower of net realizable value and cost.

Inventories

SEKm	2018	2017
Raw materials and consumables	1,646	1,031
Spare parts and supplies	596	473
Products in progress	81	92
Finished products	1,289	1,246
Felling rights	887	618
BS Total	4,499	3,460

Impairment of inventory amounted to SEK 0m (0) during the period.

D5. OTHER CURRENT RECEIVABLES

AP ACCOUNTING PRINCIPLES

Derivatives

Derivatives are classified as a financial instrument, refer to Note E1. However, SCA has chosen to define derivatives used to hedge operating items as operating derivatives, which is why they are recognized on operating lines in the balance sheet.

Other current receivables

SEKm	2018	2017
VAT receivables	196	182
Accrued income	37	37
Prepaid expenses	171	162
Receivables from authorities	71	31
Derivatives	292	112
Receivables from associated companies	26	32
Other receivables ¹⁾	267	138
BS Total	1,060	694

1) Other receivables comprises SEK 123m (0) in insurance compensation concerning the fire at a processing plant in France.

D6. OTHER LIABILITIES

AP ACCOUNTING PRINCIPLES

Derivatives

Derivatives are classified as a financial instrument, refer to Note E1. However, SCA has chosen to define derivatives used to hedge operating items as operating derivatives, which is why they are recognized on operating lines in the balance sheet.

Other liabilities

SEKm	2018	2017
Other non-current liabilities		
Derivatives	2	-
Other non-current liabilities	91	103
BS Total	93	103
Of which items that fall due for payment later than within five years	-	-
Other current liabilities		
Derivatives	129	8
TD6:1 Accrued expenses and prepaid income	816	749
Other operating liabilities	195	220
BS Total	1,140	977

TD6:1 Accrued expenses and prepaid income

SEKm	2018	2017
Accrued social security costs	130	125
Accrued vacation pay liability	99	95
Other liabilities to personnel	190	173
Bonus and discounts to customers ¹⁾	104	80
Other items	293	276
Total	816	749

1) The principles for recognition of revenue from contracts with customers are described in Note B1.

D7. OTHER PROVISIONS**AP ACCOUNTING PRINCIPLES**

Provisions are recognized in the consolidated balance sheet when there is a legal or informal obligation arising from events that have occurred and it is probable that payments will be required to settle the obligation. It must also be possible to reliably estimate the amount to be paid. The provision is valued at the present value of the anticipated future expenditure to settle the obligation.

A provision for restructuring measures is recognized when the Group has established a detailed plan and either implementation has begun or the main features of the measures have been communicated to the parties involved. Restructuring costs include, for example, costs for plant closures, impairment of production machinery or costs for personnel reductions.

Other provisions

SEKm	Efficiency programs	Environment	Legal disputes	Other	Total
Value, January 1	14	7	1	10	32
Provisions	-	18	-	109	127
Utilization	-7	-7	-1	-	-15
Value, December 31	7	18	-	119	144

Provisions comprise:

BS Long-term component	22
BS Short-term component	122

Of the provisions for the period for Environment, SEK 18m pertains to a liability for carbon dioxide emissions, which will be paid out in 2019. Of the Efficiency programs provisions, SEK 7m was paid out in 2018. Other provisions consist mainly of provisions for clean-up costs linked to a fire and closure of a processing plant in France as well as provision for payroll tax linked to capital insurance.

D8. TRADE PAYABLES

SCA's trade payables amounted to **BS** SEK 3,368m (2,900) on December 31, 2018. SEK 1,527m (1,193) of the trade payable consisted of standing forest, referred to as standing forest timber for sale. The seller of standing timber has the right to almost immediate payment once the timber is harvested, though a payment plan can be used to spread payments over a longer period.

E. CAPITAL STRUCTURE AND FINANCING**E1. FINANCIAL INSTRUMENTS BY CATEGORY AND MEASUREMENT LEVEL****AP ACCOUNTING PRINCIPLES**

Financial instruments recognized in the balance sheet include cash and cash equivalents, securities, other financial receivables, trade receivables, trade payables, loans and derivatives.

Current investments and derivatives are recognized on the trade date. Available-for-sale financial assets and loans are recognized on the settlement date. Trade receivables and trade payables are recognized in the balance sheet once the invoice has been sent or paid, respectively.

Financial assets are initially recognized at cost including transaction costs relating to the acquisition. Financial assets measured at fair value do not include transaction costs. Financial assets are recognized in the balance sheet until the rights in the agreement have been realized or the company no longer has the rights to the asset. Impairment of financial assets takes place based on the assumption of risk of default provisions and anticipated loss levels, before 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. Financial liabilities are derecognized from the balance sheet when SCA has met its commitments.

For disclosures in note relating to interest-bearing loans and investments, current market interest rates are taken into account in fair value calculations.

SCA recognizes financial instruments with a remaining maturity of less than 12 months as current assets and liabilities. Financial instruments that exceed 12 months, and where the company has the unconditional right to postpone settlement of the asset and liability for at least 12 months, are recognized as non-current assets and liabilities.

Classification and subsequent recognition

On the acquisition date, SCA classifies financial instruments into the following categories.

Financial assets measured at fair value in the income statement

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 in the income statement. This category also includes derivatives with positive market values provided that they are not recognized using hedge accounting. Only financial derivatives were classified in this category during the year.

Financial liabilities measured at fair value in the income statement

This category includes derivatives with negative fair values that are not used for hedge accounting and financial liabilities held for trading. Liabilities in this category are continuously measured at fair value and changes in value are recognized in the income statement.

Financial assets measured at fair value through other comprehensive income

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 less impairment.

Financial assets measured at amortized cost

This category comprises loan receivables that have determinable payments and are not quoted in an active market, as well as trade receivables. Receivables arise when SCA provides money, goods or services directly to another party without any intention of conducting trading with the receivables. Assets in this category are measured at amortized cost less a potential provision for impairment.

Financial liabilities measured at amortized cost

This category includes financial liabilities that are not held for trading. These are recognized initially at fair value, net after transaction costs, and subsequently at amortized cost according to the effective interest method, meaning the estimated change in value (effective interest) is recognized as interest income or interest expense in the income statement.

Derivatives used for hedge accounting

All derivatives are initially and continuously recognized at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized in accordance with the accounting principles stated in Note E6.

Measurement levels

Level 1: Quoted prices on an active market for identical assets or liabilities, such as shares or bonds quoted on the stock exchange.

Level 2: Other observable inputs for the asset or liability than quoted prices included in Level 1, either directly (price quotations) or indirectly (obtained from price quotations), such as currency forward contracts or interest rate swaps.

Level 3: Inputs for the asset or liability not fully based on observable market data.

Financial instruments by category and measurement level

SEKm	Note	Measurement level	2018	2017
Financial assets measured at fair value in the income statement				
Non-current financial assets	E2	2	27	4
Derivatives – Current financial assets	E2	2	9	9
Derivatives – Other non-current assets	-	2	-	3
Derivatives – Other current receivables	D5	2	33	11
Total			69	27
Financial liabilities measured at fair value in the income statement				
Derivatives – Current financial liabilities	E4	2	-	1
Derivatives – Other current liabilities	D6	2	37	4
Total			37	5
Financial assets measured at fair value through other comprehensive income				
Equity instruments	E2	3	19	20
Total			19	20
Financial assets measured at amortized cost				
Trade receivables	E3	-	2,629	2,299
Cash and cash equivalents	E2	-	648	538
Total			3,277	2,837
Financial liabilities measured at amortized cost				
Non-current financial liabilities	E4	-	5,263	3,675
Current financial liabilities	E4	-	2,562	3,501
Trade payables	D8	-	3,368	2,900
Total			11,193	10,076
Derivatives used for hedge accounting				
Non-current financial assets	E2	2	0	4
Other non-current assets	-	1.2	74	39
Other current receivables	D5	1.2	259	101
Total			333	144
Derivatives used for hedge accounting				
Other non-current liabilities	D6	2	2	-
Other current liabilities	D6	2	92	4
Total			94	4

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

Financial instruments in other notes to the balance sheet

SEKm	Note	2018		2017	
		Financial instruments	Of which derivatives	Financial instruments	Of which derivatives
Assets					
Financial assets, cash and cash equivalents	E2	703	9	575	13
Other non-current assets		74	73	42	42
Trade receivables	E3	2,629	-	2,299	-
Other current receivables	D5	292	292	112	112
Total		3,698	374	3,028	167
Liabilities					
Financial liabilities	E4	7,825	-	7,177	1
Other non-current liabilities	D6	2	2	-	-
Trade payables	D8	3,368	-	2,900	-
Other current liabilities	D6	129	129	8	8
Total		11,324	131	10,085	9

E2. FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

AP ACCOUNTING PRINCIPLES

Note E2 summarizes the assets that SCA has chosen to define as financial assets in the balance sheet. Cash and cash equivalents are defined as cash and bank balances as well as short-term investments with a maturity of less than three months from the acquisition date. Loan receivables are recognized at amortized cost. Equity instruments (termed "available-for-sale financial assets" in 2017) comprise shares measured at fair value. These shares are not held for trading, which is why changes in value in accordance with IFRS 9 are recognized in equity through other comprehensive income. The changes in value related to exchange gains/losses are recognized in the income statement.

Financial assets, cash and cash equivalents

SEKm	Carrying amount	
	2018	2017
Non-current financial assets		
TE2:1 Equity instruments	19	20
Derivatives	0	4
Capital investments, other	27	4
BS Total	46	28
Current financial assets		
Derivatives	9	9
BS Total	9	9
Cash and cash equivalents		
Cash and bank balances	648	460
Short-term investments <3 months	-	78
BS Total	648	538
Total financial assets, cash and cash equivalents	703	575

Of the Group's cash and cash equivalents, SEK 11m (0) is not fully available for use by the Group, primarily cash and cash equivalents in countries that are subject to exchange restrictions and other legal restrictions.

TE2:1 Equity instruments

SEKm	2018	2017
Value, January 1	20	90
Investments	-	3
Remeasurement taken to equity, net	-1	-5
Other reclassifications	-	13
Discontinued operations	-	-82
Translation differences	-	1
Value, December 31	19	20

Distribution of available-for-sale financial assets

SEKm	2018	2017
Shares – Investa Företagskapital AB	5	5
Shares – Shore Link AB	3	3
Shares – Sundsvalls Hamn AB	4	4
Shares – Bioenergi i Luleå AB	3	3
Other	4	5
Total	19	20

During 2017, SEK 13m was reclassified from shares and participations, refer to Note F3.

E3. TRADE RECEIVABLES

AP ACCOUNTING PRINCIPLES

SCA has applied IFRS 9 Financial Instruments, which has replaced IAS 39 Financial Instruments in its entirety, since January 1, 2018. Trade receivables belong to the category of financial assets measured at amortized cost, since the purpose of the holding is to obtain contractual cash flows. The standard has introduced a new model for impairment of financial assets based on expected losses. A simplified model has been developed for trade receivables, whereby anticipated losses are recognized for the estimated remaining lifetime of the receivable. SCA has chosen to apply the simplified impairment model. In the past, SCA has not incurred significant customer losses and these losses have not exhibited significantly different loss patterns for various customers segments or economic cycles, which is why a matrix is used to measure expected customer losses. The provision for doubtful trade receivables is based on an individual assessment of overdue trade receivables for each customer. The basis for the assessment of credit risk in the part of the customer portfolio that is not assessed individually is past customer losses, based on average loss frequency. The average loss frequency is adjusted as necessary to take into account changes in credit risk. A reduction in equity of SEK 3m was recognized at the start of the year due to the standard coming into effect. SCA signed credit insurance in 2018 in order to reduce its credit risk. The trade receivables encompassed by the credit insurance comprise 20% of total trade receivables on December 31, 2018. Any impairment of trade receivables affects SCA's other operating expenses. Translation differences on trade receivables are recognized on the line Other operating income and amounted to SEK 12m (-9). Translation differences include hedges in currency derivatives.

SCA's trade receivables are generally current and are not discounted.

Trade receivables

SEKm	2018	2017
Trade receivables, gross	2,677	2,355
Provision to reserves for doubtful trade receivables	-48	-56
BS TE3:1 Total	2,629	2,299

TE3:1 Analysis of credit risk exposure in trade receivables

SEKm	2018	2017
Trade receivables neither overdue nor impaired	2,219	1,883
Trade receivables overdue but not impaired		
<30 days	391	393
30-90 days	10	17
>90 days	9	6
Total trade receivables overdue but not impaired	410	416
Total	2,629	2,299

SCA's customer structure is dispersed, with customers in many different areas of business. In 2018, SCA's ten largest customers accounted for 29% of the Group's sales. More information is available in the section on credit risks on page 54.

Provision to reserves for doubtful trade receivables

SEKm	2018	2017
Value, January 1	-56	-384
Individual provision for possible credit losses	-9	-13
Provision for anticipated losses, not overdue trade receivables	-2	-
Provision for anticipated losses, overdue trade receivables	-1	-
Confirmed losses	12	56
Decrease due to reversal of provisions for possible credit losses	8	12
Discontinued operations	0	273
Value, December 31	-48	-56

The expense for the period for doubtful trade receivables amounted to SEK -4m (-1).

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

The main principle for recognition of SCA's financial liabilities is that they are initially measured at fair value, net after transaction costs, and subsequently at amortized cost according to the effective interest method. Transaction costs are accrued over the term of the loan.

Liabilities that fall due after one year or later are classified as non-current liabilities and others are classified as current liabilities.

Financial liabilities

SEKm	2018	2017
Current financial liabilities		
Derivatives	-	1
Loans with maturities of less than 1 year	2,544	3,493
Accrued financial expenses	18	8
BS Total	2,562	3,502
Non-current financial liabilities		
Bond issues	2,200	-
Other non-current loans with maturities > 1 year < 5 years	1,083	2,675
Other non-current loans with maturities > 5 years	1,980	1,000
BS Total	5,263	3,675
Total financial liabilities	7,825	7,177
Fair value of financial liabilities	7,813	7,187

Borrowing

Bond issues

SCA has a Medium Term Note (MTN) program with an amount of SEK 8,000m (0) for issuing bonds in the capital market. As of December 31, 2018, a nominal SEK 2,200m (0) was outstanding with an average duration of 2.2 years (0).

Issued	Maturity	Carrying amount SEKm	Fair value SEKm
Notes SEK 1,000m	2020	1,006	1,001
Notes SEK 550m	2021	556	550
Notes SEK 650m	2021	647	658
Total		2,208	2,209

Commercial paper program¹⁾

SCA has a Swedish commercial paper program to the amount of SEK 5,000m, which can be utilized for current borrowing.

Program size	Issued SEKm
Commercial paper SEK 5,000m	2,550
Total	

1) Included in Loans with maturities of less than one year in the Financial liabilities table on page 98.

Credit facilities

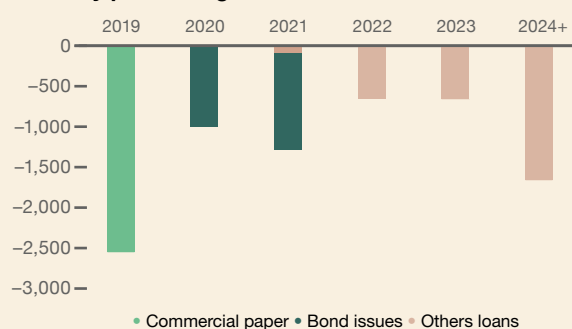
SCA has syndicated bank facilities to limit the refinancing risk and maintain a liquidity reserve. The larger of the credit facilities constitutes a bridge to be replaced with other long-term financing, for example bilateral loans or additional capital market financing.

	Nominal SEKm	Maturity	Total SEKm	Utilized SEKm	Unutilized, SEKm
Syndicated credit facilities B	4,500	2020	4,500	-	4,500
Syndicated credit facilities A	3,500	2022	3,500	-	3,500
Total			8,000	-	8,000

Bilateral loans

	Nominal SEKm	Maturity	Total SEKm
Swedish Export Credit Corporation	500	2022	500
Swedish Export Credit Corporation	500	2023	500
Swedish Export Credit Corporation	500	2024	500
European Investment Bank	480	2025	480
European Investment Bank	1 000	2028	1,000
Total			2,980

Maturity profile of gross debt



After additions for net pension provisions and deductions for cash and cash equivalents, interest-bearing receivables and capital investment shares, net debt amounted to SEK 7,020m (5,966). For a description of the methods used by SCA to manage its refinancing risk, refer to page 54.

Changes in liabilities from financial activities

SEKm	OB 2018	Cash flow	Reclassification from current to non-current liabilities	Market value changes	Other	CB 2018
Current financial liabilities	3,501	-970	-	-	31	2,562
Non-current financial liabilities	3,675	1,588	-	-	-	5,263
Derivatives	1	-	-	-1	-	0
Total liabilities from financing activities	7,177	618	0	-1	31	7,825

SEKm	OB 2017	Discontinued operations	Cash flow	Reclassification from current to non-current liabilities	Market value changes	Other	CB 2017
Current financial liabilities	4,753	-4,486	6,755	-3,530	-	9	3,501
Non-current financial liabilities	31,337	-29,559	-1,633	3,530	-	-	3,675
Derivatives	627	-626	-2	-	2	-	1
Total liabilities from financing activities	36,717	-34,671	5,120	0	2	9	7,177

As a consequence of the distribution of shares in Essity, SCA's total debt was reduced from SEK 36,717m to SEK 7,177m during the year. During the second half of the year, SEK 3,530m of current liabilities was reclassified as non-current liabilities.

E5. LIQUIDITY RISK

The table below shows the Group's liquidity risk regarding financial liabilities (including interest payments), and negative cash flows from gross settled derivatives. For a description of how SCA manages its liquidity risk, refer to page 54.

Liquidity risk

SEKm	Less than 1 year	Between 1 and 5 years	More than 5 years
2018			
Loans including interest	2,594	3,394	1,992
Net settled derivatives	0	0	-
Energy derivatives	0	-	-
Trade payables	1,900	1,468	-
Total	4,494	4,862	1,992
Gross settled derivatives ¹⁾	7,102	204	-
2017			
Loans including interest	3,575	2,803	1,006
Net settled derivatives	5	-	-
Energy derivatives	4	-	-
Trade payables	1,753	1,147	-
Total	5,337	3,950	1,006
Gross settled derivatives ¹⁾	5,265	1,047	-

1) The gross settled derivatives have, largely, corresponding positive cash flows and therefore in SCA'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 the income statement.

Cash flow hedges

Gains and losses on remeasurement of derivatives intended for cash flow hedging are recognized in equity under other comprehensive income and reversed to the income statement at the rate at which the hedged cash flow affects the income statement. If a hedge relationship is interrupted and cash flow is still expected, the result is recognized in equity under other comprehensive income until the cash flow affects the result. If the hedge pertains to a balance sheet item, the result is transferred from equity to the asset or liability to which the hedge relates when the value of the asset or liability is determined for the first time. For hedges of non-financial assets and liabilities, the result of the hedge is recognized at historical cost without a reclassification adjustment and therefore does not affect other comprehensive income. In cases in which the forecast cash flow that forms the basis of the hedging transaction is no longer assessed as probable, the cumulative gain or loss that is recognized in equity under other comprehensive income is transferred directly to the income statement. Cash flow hedges relating to energy affect the energy costs, that is, cost of goods sold. Transaction exposure's cash flow hedges affect consolidated net sales and expenses. Cash flow hedges relating to interest expenses affect net financial items.

Hedges of net investments in foreign operations

Gains and losses on remeasurement of derivatives intended to hedge SCA's net investments in foreign operations are recog-

nized in equity under other comprehensive income. The cumulative gain or loss in equity is recognized in the income statement in the event of divestment of the foreign operation.

Fair value hedges

The gain or loss from remeasurement of a derivative relating to fair value hedges is recognized in the income statement with changes in fair value of the asset or liability exposed to the hedged risk.

Financial hedges

When SCA conducts financial hedges and the transactions do not meet requirements for hedge accounting according to IFRS 9, changes in fair value of the hedging instrument are recognized directly in the income statement.

Outstanding derivatives

SEKm	Currency	Interest	Energy	Total
2018				
Nominal	7,411	1,750	547	9,708
Asset	52	-	322	374
Liability	131	-	-	131
2017				
Nominal	6,356	700	422	7,478
Asset	88	4	74	166
Liability	5	-	4	9

Offsetting of outstanding derivatives

SEKm	Assets	Liabilities
December 31, 2018¹⁾		
Gross amount	374	131
Offsettable amount	-	-
Net amount recognized in the balance sheet	374	131
ISDA agreements whose transactions are not offset in the balance sheet ²⁾	-79	-79
Net after offsetting in accordance with ISDA agreements	295	52
December 31, 2017¹⁾		
Gross amount	166	9
Offsettable amount	-	-
Net amount recognized in the balance sheet	166	9
ISDA agreements whose transactions are not offset in the balance sheet ²⁾	-9	-9
Net after offsetting in accordance with ISDA agreements	157	-

1) Outstanding derivatives gross without consideration of the right of set-off in accordance with ISDA agreements.

2) ISDA entails framework agreements for financial transactions.

Balance sheet

SCA uses financial derivatives to manage currency, interest rate and energy price risks. For a description of how SCA manages these risks, refer to the Board of Directors' Report. The table above shows the derivatives that impacted the Group's balance sheet on December 31, 2018. For more information relating to derivatives in the balance sheet, refer to Note E1.

Income statement

Hedges pertaining to transaction exposure had an impact of SEK -256m (-9) on operating profit for the period. The net market value amounted to SEK -72m (37) on the balance sheet date. Currency hedges reduced the cost of non-current assets by SEK 34m (18). The net market value amounted to SEK 13m (29) on the balance sheet date. The net market value for interest rate risk hedges amounted to SEK 0m (4).

Energy derivatives had an impact of SEK 228m (49) on operating profit for the period. Energy derivatives had an outstanding market value of SEK 322m (70) at year-end. Interest rate derivatives impacted net interest items in an amount of SEK -1m (-2). For further information relating to net financial items, refer to Note E7.

Sensitivity analysis

SCA has performed sensitivity analysis calculations on the financial instruments' risk at December 31, 2018 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 278m (137). Financial hedges with maturities of more than one year would have increased/decreased equity by SEK 10m (46).

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 10m (33).

If energy prices had increased/decreased by 20%, outstanding financial hedges relating to electricity, all other things being equal, would have decreased/increased energy costs for the period by SEK 108m (56). In addition to the earnings impact, equity would have increased/decreased by SEK 56m (36). However, the total energy cost for the Group would have been affected differently if the price risk related to supply contracts was taken into account.

Outstanding derivatives with hedge accounting¹⁾

SEKm	Assets	Liabilities	Net	Hedge reserve Tax	Hedge reserve after tax
2018					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges:					
Energy risk	298	-	298	-61	237
Currency risk	35	-94	-59	12	-47
Interest rate risk	0	-	-	-	-
Total	333	-94	239	-49	190
2017					
Derivatives with hedge accounting in hedge reserve					
Cash flow hedges:					
Energy risk	68	-4	64	-14	50
Currency risk	66	-	66	-15	51
Interest rate risk	4	-	4	-1	3
Total	138	-4	134	-30	104

1) Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives on page 100.

The results from fair value hedges are recognized directly in the income statement.

Hedge reserve in equity

Currency derivatives relating to hedging of transaction exposure mature mainly in 2019 and during the first quarter of 2020. With unchanged exchange rates, profit after tax will be affected in an amount of SEK -57m (32). Currency derivatives relating to hedg-

ing of the cost of non-current assets have a maturity spread until June 2019. With unchanged exchange rates, the cost of non-current assets will decrease by SEK 10m (19) after tax.

The derivatives intended to hedge energy costs in the Group mature during 2019 and 2020. With unchanged prices, the Group's profit after tax will be affected positively in an amount of SEK 179m in 2019 and SEK 58m in 2020.

E7. FINANCIAL INCOME AND EXPENSES

Financial income and expenses¹⁾

SEKm	2018	2017
Results from shares and participations in other companies		
Dividend	1	1
Interest income and similar profit items		
Interest income, investments	9	10
Other financial income	26	18
IS Total financial income	36	29
Interest expenses and similar loss items		
Interest expenses, borrowing ²⁾	4	-72
Interest expenses, derivatives	-28	-2
Other financial expenses	-41	-48
IS Total financial expenses	-65	-122
Total	-29	-93

1) Other financial income and expenses include an exchange difference of SEK 1m (3).

2) Interest expenses, borrowing includes capitalized borrowing costs of SEK 28m (22).

Sensitivity analysis

If interest rate levels had been 1 percentage point higher, with unchanged fixed-interest terms and volumes in the net debt, interest expenses for the period would have been SEK 47m (47) higher. A sensitivity analysis has been performed on the risk to which SCA was exposed at December 31, 2018 using assumptions on market movements that are regarded as reasonably in one year's time. For a description of how SCA manages its interest rate risk, refer to page 54.

E8. EQUITY

AP ACCOUNTING PRINCIPLES

Transaction costs directly relating to the issue of new shares or options are recognized, net after tax, in equity as a reduction in the issue proceeds. Expenditure for the purchase of SCA's treasury shares reduces retained earnings in equity in the

Parent Company and the portion of consolidated equity that pertains to owners of the Parent. When treasury shares are sold, the sales proceeds are included in retained earnings in the equity pertaining to owners of the Parent.

Equity totaled SEK 39,062m (36,753) at December 31, 2018. The following tables show the distribution and profit for the period.

SEKm	Share capital	Other capital provided	Reserves ¹⁾	Retained earnings	Equity attributable to SCA's share-holders	Non-controlling interests	Total equity
Value, January 1, 2018	2,350	6,830	-219	27,790	36,751	2	36,753
IS Profit for the period recognized in the income statement	-	-	-	3,659	3,659	-	3,659
Other comprehensive income for the period							
<i>Items that cannot be transferred to profit for the period</i>							
Transitional effect from implementation of new accounting standard	-	-	-	-3	-3	-	-3
Result from equity instruments measured at fair value	-	-	-	-1	-1	-	-1
Remeasurement of defined benefit pension plans ²⁾	-	-	-	-504	-504	-	-504
Income tax attributable to components in other comprehensive income	-	-	-	111	111	-	111
<i>Items that have been or can be transferred to profit for the period</i>							
Cash flow hedges:							
Result from remeasurement of derivatives recognized in equity	-	-	156	-	156	-	156
Transferred to the income statement for the period	-	-	-16	-	-16	-	-16
Translation differences in foreign operations	-	-	19	-	19	-	19
Minority holding that after acquisition is subsidiary	-	-	-	2	2	-2	0
Tax on items recognized directly in/transferred from equity ³⁾	-	-	-26	-	-26	-	-26
Other comprehensive income for the period, net after tax	-	-	133	-395	-262	-2	-264
ISC Comprehensive income for the period	-	-	133	3,264	3,397	-2	3,395
Cash flow hedge, transferred to cost of hedged investments	-	-	-34	-	-34	-	-34
Tax on cash flow hedge, transferred to cost	-	-	7	-	7	-	7
Remeasurement effect upon acquisition of non-controlling interests	-	-	-	-5	-5	-	-5
Dividend, SEK 1.50 per share ⁴⁾	-	-	-	-1,054	-1,054	-	-1,054
BS Value, December 31, 2018	2,350	6,830	-113	29,995	39,062	-	39,062

1) Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Provisions line in the balance sheet, see specification on page 104.

2) Including payroll tax.

3) For a specification of income tax attributable to components in other comprehensive income, see page 104.

4) Dividend SEK 1.50 (6.00) per share pertains to owners of the Parent. For the 2018 fiscal year, the Board has decided to propose a dividend of SEK 1.75 per share to the Annual General Meeting.

For further information regarding equity, see Parent Company Note PC11.

SEKm	Share capital	Other capital provided	Reserves ¹⁾	Retained earnings	Equity attributable to SCA's shareholders	Non-controlling interests	Total equity
Value, January 1, 2017	2,350	6,830	400	63,562	73,142	6,377	79,519
IS Profit for the period recognized in the income statement	-	-	-	141,828	141,828	327	142,155
Other comprehensive income for the period							
<i>Items that cannot be transferred to profit for the period</i>							
Remeasurement of defined benefit pension plans ²⁾	-	-	-	1,025	1,025	-	1,025
Income tax attributable to components in other comprehensive income	-	-	-	-283	-283	-	-283
<i>Items that have been or can be transferred to profit for the period</i>							
Available-for-sale financial assets:							
Result from measurement at fair value recognized in equity	-	-	1	-	1	-	1
Cash flow hedges:							
Result from remeasurement of derivatives recognized in equity	-	-	-100	-	-100	-	-100
Transferred to the income statement for the period	-	-	-48	-	-48	-	-48
Transferred to cost of hedged investments	-	-	-27	-	-27	-	-27
Translation differences in foreign operations	-	-	772	-	772	-159	613
Result from hedges of net investments in foreign operations	-	-	-958	-	-958	-	-958
Other comprehensive income from associated companies	-	-	-	-1	-1	-	-1
Tax on items recognized directly in/transferred from equity ³⁾	-	-	260	-	260	-	260
Discontinued operations	-	-	-420	-	-420	-	-420
Other comprehensive income for the period, net after tax	-	-	-520	741	221	-159	62
ISC Comprehensive income for the period	-	-	-520	142,569	142,049	168	142,217
Private placement to non-controlling interests	-	-	-	499	499	462	961
Private placement to non-controlling interests, dilution	-	-	-	-287	-287	287	-
Acquisition of non-controlling interests	-	-	-	15	15	80	95
Remeasurement effect upon acquisition of non-controlling interests	-	-	-	-5	-5	-	-5
Dividend, SEK 6.00 per share	-	-	-	-4,214	-4,214	-130	-4,344
Discontinued operations	-	-	-99	99	-	-	-
Distribution of shares in Essity	-	-	-	-174,448	-174,448	-7,242	-181,690
BS Value, December 31, 2017	2,350	6,830	-219	27,790	36,751	2	36,753

1) Revaluation reserve, Hedge reserve, Available-for-sale assets and Translation reserve are included in the Provisions line in the balance sheet, see specification on page 104.

2) Including payroll tax.

3) For a specification of income tax attributable to components in other comprehensive income, see page 104.

For further information regarding equity, see Parent Company Note PC11.

Equity, specification of reserves

SEKm	Revaluation reserve ¹⁾		Hedge reserve ²⁾		Translation reserve	
	2018	2017	2018	2017	2018	2017
Value, January 1	-	107	103	255	-322	32
Cash flow hedges:						
Result from remeasurement of derivatives recognized in equity	-	-	156	-100	-	-
Transferred to the income statement for the period	-	-	-16	-48	-	-
Transferred to cost of hedged investments	-	-	-	-27	-	-
Translation differences in foreign operations ³⁾	-	-	-	-	19	772
Result from hedges of net investments in foreign operations	-	-	-	-	-	-958
Tax on items recognized directly in/transferred from equity	-	-	-27	49	1	211
Discontinued operations	-	-107	-	-26	-	-379
Other comprehensive income for the period, net after tax	-	-107	113	-152	20	-354
Cash flow hedge, transferred to cost of hedged investments	-	-	-34	-	-	-
Tax on cash flow hedge, transferred to cost	-	-	7	-	-	-
Value, December 31	-	0	189	103	-302	-322

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 of realized exchange gains to divested companies to the income statement is included in the amount of SEK 0m (0).

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

SEKm	2018			2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurement of defined benefit pension plans	-504	111	-393	1,025	-283	742
Available-for-sale financial assets	-	-	-	1	-	1
Cash flow hedges	140	-26	114	-175	49	-126
Translation differences in foreign operations	19	-	19	613	-	613
Other comprehensive income from associated companies	-	-	-	-1	-	-1
Transitional effect from implementation of new accounting standard	-3	-	-3	-	-	-
Result from equity instruments measured at fair value	-1	-	-1	-	-	-
Result from hedges of net investments in foreign operations	-	-	-	-958	211	-747
Discontinued operations	-	-	-	-407	-13	-420
Other comprehensive income for the period	-349	85	-264	98	-36	62

At December 31, 2018, the debt/equity ratio amounted to 18%. Change in liabilities and equity is described on page 49 under Financial position. SCA aims to establish an effective capital structure, while at the same time ensuring long-term access to loan financing. Cash flow in relation to net debt shall take into account the target to maintain a credit rating corresponding to investment grade rating. SCA has a credit rating for long-term debt of BBB from Standard & Poor's. SCA's financial risk management is described in the Risk and risk management section on page 54.

F. GROUP STRUCTURE

F1. SUBSIDIARIES

AP ACCOUNTING PRINCIPLES

Subsidiaries

The companies over which the SCA Group has a controlling influence are consolidated as subsidiaries. Controlling influence means that SCA has sufficient influence to control the activities of the subsidiary, has the right to its returns and has control over its exposure, and is able to impact the return of the company through its influence. Most of the Group's subsidiaries are wholly owned.

Gällö Timber AB and its wholly owned subsidiary Gällö Skog AB is 50% owned by SCA and 50% owned by AB Persson Invest. SCA is considered to have a controlling influence over the Gällö companies, despite the fact that SCA does not hold a majority of shares in the companies. SCA is deemed to have a controlling influence since it has control over the activities with significant impact on the Gällö companies' return. Gällö Timber AB sells solid-wood products and sales totaled SEK 630m (582). SEK 30m (20) was paid in dividends by the company. Gällö Skog AB buys and sells solid-wood products and sales total SEK 203m (255). The company has not paid a dividend. The SCA Group has consolidated 100% of Gällö Timber AB and Gällö Skog AB.

Non-controlling interests

Non-controlling interests are recognized as a separate item in the Group's equity. Profit or loss and every component of other comprehensive income are attributable to the owners of the Parent and to non-controlling interests. Losses attributable to non-controlling interests are recognized even if this results in a negative balance for the interest. In connection with acquisitions of less than 100%, 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.

Impairment testing

Testing means the carrying amount of shares in subsidiaries is compared with consolidated equity. The annual impairment testing of the carrying amount of shares in subsidiaries resulted in an impairment loss of SEK -7m (-12).

List of major subsidiaries

The following selection of wholly owned subsidiaries and subsidiaries with significant non-controlling interests includes com-

panies with external sales in excess of SEK 100m in 2018.

Company name	Corp. Reg. No.	Domicile	Share of equity at December 31, 2018	Share of equity at December 31, 2017
SCA Graphic Sundsvall AB	556093-6733	Sundsvall, Sweden	100	100
SCA Munksund AB	556237-4859	Piteå, Sweden	100	100
SCA Obbola AB	556147-1003	Umeå, Sweden	100	100
SCA Wood AB	556047-8512	Sundsvall, Sweden	100	100
SCA Wood France S.A.S.	440341527	La Rochelle, France	100	100
SCA Wood Hong Kong Ltd	1134245	Hong Kong, China	100	100
SCA Wood UK Ltd	2541468	Stoke-on-Trent, UK	100	100
SCA Wood Scandinavia AB	556302-0667	Sundsvall, Sweden	100	100
SCA Japan K.K.	0104-01-109101	Tokyo, Japan	100	90
Gällö Timber AB	556801-1786	Bräcke, Sweden	50	50

F2. ASSOCIATED COMPANIES

AP ACCOUNTING PRINCIPLES

Associated companies

Associated companies are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary. Normally, this means that the Group owns between 20% and 50% of the votes. Accounting for associated companies 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 associated companies includes any goodwill and other Group adjustments.

The Group's share of profit after tax arising in the associated companies after the acquisition is recognized on the line Result from participations in associated companies in the consolidated income statement. Share in profits is calculated on the basis of SCA's share of equity in the respective associated company.

Holding in associated companies amounted to **BS** SEK 29m (28).

F3. SHARES AND PARTICIPATIONS

SEKm	2018	2017
Value, January 1	-	46
Other reclassifications	-	-13
Translation differences	-	-1
Discontinued operations	-	-32
BS Value, December 31	-	-

Shares and participations pertain to holdings in other companies that are not classified as subsidiaries or associated companies. The holdings that have been reclassified as available-for-sale financial assets in 2017, refer to Note E2. The reclassification had no material impact on the financial statements.

F4. ACQUISITIONS AND DIVESTMENTS

AP ACCOUNTING PRINCIPLES

Acquisition of subsidiaries

SCA applies IFRS 3 Business Combinations in connection with acquisitions. In business combinations, acquired assets and assumed liabilities are identified and classified at fair value on the date of acquisition (also known as an acquisition analysis). The acquisition analysis also includes an assessment of whether there are any assets that are intangible in nature, such as trademarks, patents, customer contracts or similar assets that were not recognized in the acquired unit. If the cost is higher than the net value of the acquired assets, assumed liabilities and identified intangible assets, the difference is recognized as goodwill. Any surplus value on property, plant and equipment is depreciated over the estimated useful life of the asset. Goodwill and strong trademarks with indefinite useful lives are not amortized; instead, they are subjected to annual impairment testing. Some trademarks and customer contracts are amortized over their estimated useful lives.

If the transferred consideration is contingent on future events, it is measured at fair value. Any change in value is recognized in profit for the period.

Transaction costs in conjunction with acquisitions are not included in cost, but rather expensed directly.

Companies acquired during the period are included in the consolidated financial statements as of the acquisition date. Divested companies are included in the consolidated financial statements until the divestment date.

Non-controlling interests

Acquisitions of non-controlling interests are measured on an acquisition-by-acquisition basis, either as a proportional share of the fair value of identifiable net assets excluding goodwill (partial goodwill) or at fair value. This means that goodwill is also recognized on non-controlling interests (full goodwill).

In step acquisitions in which a controlling influence is achieved, any net assets acquired earlier in the acquired units are remeasured at fair value and the result of the remeasurement is recognized in the income statement. If the controlling influence is lost upon the divestment of an operation, the result is recognized in the income statement. The portion of the divested operation that remains in the Group is measured at fair value on the divestment date, with the remeasurement effect recognized in the income statement.

Acquisitions in which a controlling influence is achieved are recognized as an equity transaction, meaning a transfer between equity to owners of the Parent and non-controlling interests. The same applies for divestments that take place without the loss of a controlling influence.

Acquisitions and divestments

No significant acquisitions have taken place in the continuing operations in 2017 or 2018. In the discontinued operation, BSN Medical was acquired in 2017.

G. OTHER

G1. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

AP ACCOUNTING PRINCIPLES

Non-current assets held for sale and discontinued operations

Assets are classified as held for sale if their value, within one year, will be recovered through a sale and not through continued use in the operations. On the reclassification date, the assets and liabilities are measured at the lower of fair value minus selling costs and the carrying amount. The assets are no longer depreciated after reclassification. The gain is limited to the amount equivalent to previously made impairment charges. Gains and losses recognized on remeasurement and divestment are recognized in the income statement for the period. No non-current assets held for sale were recognized in 2018.

When an independent business segment or a significant operation within a geographic area is divested, it is classified as a discontinued operation. The divestment date, or the point in time when the operation fulfills the criteria for classification as held for sale, determines when the operation should be classified as a discontinued operation.

Profit or loss after tax for the period from discontinued operations is recognized on a separate line in the income statement. The income statement is adjusted for the comparative period as though the discontinued operation had already been disposed of at the start of the comparative period. The structure of the balance sheet for the current and previous year is not adjusted in the same manner.

Shares in the discontinued operation Essity (the hygiene business) were distributed to SCA's shareholders in the second quarter of 2017. Discontinued operations are recognized as discontinued operations in accordance with IFRS 5 and IFRIC 17. Essity's profit until the date of distribution and the capital gain generated by the distribution of Essity was recognized on a separate line – Profit for the period, discontinued operations. Essity has been excluded in comparative years to notes relating to the income statement.

Discontinued operations

Essity

Shares in Essity were distributed to SCA's shareholders in a fixed ratio of 1:1, whereby shareholders received one Class A share in Essity for every Class A share in SCA, and one Class B share in Essity for every Class B share in SCA. Essity's first day of trading on Nasdaq Stockholm was June 15, 2017 and the closing price was SEK 247.20 for the Class A share and SEK 248.50 for the Class B share. This represents a market capitalization of about SEK 174,448m for Essity.

Earnings from discontinued operations consist of Essity's profit for the period between January 1, and June 13, 2017 and the difference between the market value of liabilities at the date of distribution and the net assets distributed through Essity and resulted in an earnings effect of SEK 136,914m in the second quarter of 2017. No impairment was carried out in conjunction with the distribution of the hygiene business.

Income statement

	2018	2017 Jan– June 13
SEKm		
Net sales	-	47,854
Operating profit	-	4,965
Financial items	-	-487
Profit before tax	-	4,478
Taxes	-	-1,111
Profit for the period, discontinued operations	-	3,367
Impact on earnings from the distribution of Essity	-	136,914
ISC Profit for the period, discontinued operations	-	140,281
Earnings per share, (SEK)	-	199.27

Cash flow

	2018	2017 Jan– June 13
SEKm		
Cash flow for the period, discontinued operations		
CF Cash flow from operating activities	-	4,517
CF Investing activities	-	-15,591
CF Financing activities	-	11,022
Cash flow for the period, discontinued operations	-	-52

Cash flow from financing activities cannot be recognized separately from discontinued operations since the financing was not recognized separately on that date.

G2. LEASING**AP ACCOUNTING PRINCIPLES**

Lease agreements are classified and recognized as either operating or finance leases.

In cases where a lease agreement essentially entails that the risks and rewards normally associated with ownership have been transferred to SCA, the lease agreement is classified as a finance lease. The leased asset is recognized as a non-current asset with a corresponding interest-bearing liability. The initial value of both these items comprises the lower of the fair value of the assets or the present value of the minimum lease payments. Future lease fees are divided between amortization and interest, so that each reporting period is charged with an interest amount that corresponds to a fixed interest rate on the recognized liability for the respective period. The leased asset is depreciated according to the same principles that apply to other assets of the same nature. If it is uncertain whether the asset will be taken over at the end of the leasing period, the asset is depreciated over the lease term if this is shorter than the useful life that applies to other assets of the same nature. Lease agreements in which the risks and rewards normally associated with 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	2018	2017
Operating leases	-289	-279
Finance leases, depreciation/amortization	-	-1
Finance leases, interest expense	-	-
Total	-289	-280

Operating leases, future minimum lease payments

SEKm	2018	2017
Within 1 year	212	346
Between 2 and 5 years	566	856
Later than 5 years	851	895
Total	1,629	2,097

Operating lease objects comprise a large number of items, including warehouses, terminals, offices, other buildings, machinery and equipment, IT equipment, office equipment and various transport vehicles. The assessment for a number of the objects is that, in reality, it is possible to terminate contracts in advance.

Other disclosures

SCA did not recognize any finance leases in 2018.

G3. PLEDGED ASSETS AND CONTINGENT LIABILITIES**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	2018	2017
Guarantees for:		
associated companies	5	5
customers and others	39	27
Other contingent liabilities	23	283
Total	67	315

In 2007, SCA entered into a sale and leaseback transaction with a European bank relating to the soda recovery boiler at the kraftliner plant in Obbola, Sweden. The term of the contract is 25 years and SCA has a right to terminate the transaction in 2023 without any financial consequences. The present value of SCA's future rental amounts was SEK 671m. A corresponding amount was invested in a security with an A rating issued by the counterparty and deposited in a Swedish bank assigned to handle rental payments during the term of the contract. Should the counterparty's rating fall below BBB-, SCA is entitled, without incurring any financial consequences, to terminate the transaction in advance. Should SCA, as a result of extraordinary events (of a force majeure nature), elect not to fulfill, or cannot fulfill the contract, SCA is liable to compensate the counterparty for any economic loss that may be incurred as a result. Compensation varies during the term and can amount to a maximum of 11% of the transaction amount. SCA has the use of the facility without operational restrictions. The lease and depositary arrangement have been recognized net in SCA's balance sheet since 2007.

SCA signed a ten-year fixed-price agreement with a Norwegian electricity supplier comprising electricity deliveries corresponding to approximately 25% of SCA Graphic Sundsvall AB's estimated consumption. The agreement became effective in 2009.

Pledged assets

SEKm	2018	2017
Chattel mortgages	20	20
Total	20	20

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

G4. TRANSACTIONS WITH RELATED PARTIES

To the extent that transactions with related parties took place, these were based on generally accepted commercial terms and conditions and pricing in the industry and were entered into on standard commercial conditions.

For information regarding salaries and other remuneration, costs and obligations for pensions and similar benefits for the Board, President and CEO and other senior executives, refer to Notes C3 and C4.

Otherwise, no transactions took place between SCA and related parties.

Parent Company income statement **PIS**

SEKm	Note	2018	2017
Operating income			
Other operating income		224	225
Total income		224	225
Operating expenses			
Other operating expenses		-148	-655
Personnel costs	PC2	-114	-83
Depreciation	PC5	-79	-75
Total operating expenses		-341	-813
Operating profit	PC1	-117	-588
Financial items			
	PC9		
Result from participations in Group companies		850	-
Interest income and similar profit items		196	100
Interest expenses and similar loss items		-72	-87
Total financial items		974	13
Profit after financial items		857	-575
Appropriations	PC3	1,663	463
Profit/loss before tax		2,520	-112
Tax on profit/loss for the period	PC4	-266	-169
Profit/loss for the period		2,254	-281

Parent Company statement of comprehensive income **PISC**

SEKm	2018	2017
Profit/loss for the period	2,254	-281
Other comprehensive income	-	-
Total comprehensive income	2,254	-281

Parent Company balance sheet PBS

SEKm	Note	2018	2017
ASSETS			
Non-current assets			
Land and buildings	PC5	8,489	8,365
Tangible fixed assets		8,489	8,365
Participations in Group companies	PC6	4,758	4,758
Other long-term receivables		80	183
Financial fixed assets		4,838	4,941
Total fixed assets		13,327	13,306
Current assets			
Receivables from subsidiaries	PC7	17,145	15,420
Current tax assets	PC4	-	37
Other current receivables	PC8	328	134
Cash and bank balances	PC9	226	83
Total current assets		17,699	15,674
Total assets		31,026	28,980
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	PC11	2,350	2,350
Revaluation reserve		1,740	1,740
Statutory reserve		7,283	7,283
Total restricted equity		11,373	11,373
Retained earnings		6,127	7,462
Profit for the period		2,254	-281
Total non-restricted equity		8,381	7,181
Total equity		19,754	18,554
Untaxed reserves	PC3	-	-
Provisions			
Provisions for pensions	PC2	29	28
Provisions for taxes	PC4	1,546	1,579
Total provisions		1,575	1,607
Non-current liabilities			
Non-current interest-bearing liabilities	PC9	5,180	3,600
Other non-current liabilities		75	42
Total non-current liabilities		5,255	3,642
Current liabilities			
Current interest-bearing liabilities	PC9	2,551	3,472
Liabilities to subsidiaries	PC7	1,627	1,378
Trade payables		1	5
Current tax liabilities	PC4	56	-
Other current liabilities	PC10	207	322
Total current liabilities		4,442	5,177
Total equity, provisions and liabilities		31,026	28,980

Parent Company statement of change in equity PEQ

SEKm	Share capital ¹⁾	Revaluation reserve	Statutory reserve	Retained earnings and profit for the period	Total equity
Value, January 1, 2018	2,350	1,740	7,283	7,174	18,547
Dividend, SEK 1.50 per share	-	-	-	-1,054	-1,054
Effect due to change in accounting principle	-	-	-	7	7
Profit for the period	-	-	-	2,254	2,254
Value, December 31, 2018	2,350	1,740	7,283	8,381	19,754
Value, January 1, 2017	2,350	1,363	7,283	87,390	98,386
Revaluation forest land	-	377	-	-	377
Distribution of shares in Essity	-	-	-	-75,598	-75,598
Listing costs	-	-	-	-123	-123
Dividend, SEK 6.00 per share	-	-	-	-4,214	-4,214
Profit for the period	-	-	-	-281	-281
Value, December 31, 2017	2,350	1,740	7,283	7,174	18,547

1) Refer also to Note PC11.

Parent Company cash flow statement PCF

SEKm	2018	2017
Operating activities		
Profit after financial items	857	-575
TPC:1 Adjustment for non-cash items	52	708
	909	133
Paid tax	-206	-11
Cash flow from operating activities before changes in working capital	703	122
Change in operating receivables	-3,523	45,695
Change in operating liabilities	1,805	-45,273
Cash flow from operating activities	-1,015	544
Investing activities		
Capitalization of subsidiaries	-	-598
Divestment of subsidiaries	-	14
Acquisition of fixed assets	-207	-173
Acquisition of financial assets	-	-4
Divestment of financial assets	57	-
Sale of tangible fixed assets	40	44
Cash flow from investing activities	-110	-717
Financing activities		
Loans raised	3,680	7,100
Amortization of debt	-3,021	-2,526
Dividend	-1,054	-4,214
Group contributions	1,663	-
Listing costs	-	-104
Cash flow from financing activities	1,268	256
Cash flow for the period	143	83
Cash and cash equivalents, January 1	83	-
Cash and cash equivalents, December 31	226	83

TPC:1 Adjustment for non-cash items

SEKm	2018	2017
Depreciation/amortization of fixed assets	79	75
Non cash flow-impacting dividends/Group contributions	-	221
Capital gain on sale of fixed assets	-36	443
Unrealized exchange rate effects/changes in value of receivables and financial assets	1	-16
Listing costs	-	-19
Change in provisions	1	4
Other items	7	-
Total	52	708

Supplementary disclosures to cash flow

SEKm	2018	2017
Interest and dividends paid and received		
Dividends received	850	-
Group contribution received	2,801	1,120
Group contribution paid	-1,138	-64
Interest paid	-29	-105
Interest received	197	122
Total	2,681	1,073

PC. PARENT COMPANY NOTES

PC1. OPERATING PROFIT OR LOSS

Operating profit/loss by type of cost

SEKm	Note	2018	2017
Other operating income		224	225
Other external costs		-41	-526
Personnel and Board costs		-114	-83
Depreciation of tangible fixed assets	PC5	-79	-75
Other operating expenses excluding depreciation		-107	-129
PIS Total		-117	-588

The item Other external costs for 2018 includes a capital loss of SEK 0m (-483). The capital loss from 2017 was attributable to intra-Group transfers of forest land. The item Other external costs also includes consultancy fees, travel expenses, leasing expenses, management costs, and so forth.

Auditing expenses

SEKm	2018	2017 ¹⁾
EY		
Audit assignments	-4	-4
Auditing activities other than the audit assignment	-	-1
Other assignments	-	-
Total	-4	-5
Other		
Other assignments	-	-1
Total	-	-1

1) Additional costs in 2017 include advisory services related to auditing in conjunction with the distribution of Essity of SEK 9m from EY and SEK 28m from other auditors. These costs are not included in operating expenses but are recognized against equity.

PC2. PERSONNEL AND BOARD COSTS

Remuneration to the Board, the President and other senior executives is included for 2018. Remuneration to the Board and the President is included for 2017. Remuneration to other senior executives is included as of June 15, 2017. Essity AB (publ) paid remuneration to senior executives for the period until June 14, 2017.

Salaries and remuneration

SEKm	2018	2017
Board of Directors ¹⁾ , President and CEO and other senior executives 12 (12)	-69	-56
of which variable remuneration	-27	-16
Total	-69	-56

1) Salaries and remuneration include Board fees of SEK -8m (-9). For further information, refer to Note C4.

Social security costs

SEKm	2018	2017
Total social security costs	-42	-26
of which pension costs ¹⁾	-21	-10

1) Of the Parent Company's pension costs, SEK -21m (-10) pertain to the Board, President and CEO, and senior executives.

The company's outstanding pension obligations as per the balance sheet on December 31, 2018 relate to the President.

Pension costs

SEKm	2018	2017
Self-administered pension plans		
Costs excluding interest expense	-	-3
Retirement through insurance		
Insurance premiums	-12	-5
	-12	-8
Special payroll tax on pension costs	-9 ⁽¹⁾	-2
Pension costs for the period	-21	-10

1) Of which SEK -6m relates to a provision due to reassessment.

Average number of employees

	2018	2017
Average number of employees	13	8
of whom men	11	7
of whom women	2	1

Provisions for pensions

AP ACCOUNTING PRINCIPLES

The Parent Company applies the regulations in the Pension Obligations Vesting Act (Tryggandelagen). The main difference compared with IAS 19 is that Swedish practice disregards future increases in salaries and pensions when calculating the present value of the pension obligation. Both defined contribution and defined benefit plans exist in the Parent Company.

Other pension obligations

The Group's Note C3 describes the other pension plans of the Parent Company. The table below shows the change between the years.

Capital value of pension obligations relating to self-administered pension plans

SEKm	2018	2017
Value, January 1	28	24
Costs excluding interest expense	1	4
PBS Value, December 31	29	28

External actuaries have carried out capital value calculations pursuant to the provisions of the Pension Obligations Vesting Act (Tryggandelagen). The discount rate is 0.6% (0.7). The defined benefit obligations are based on salary levels on the respective balance sheet dates. Part of the pension obligations are covered by capital insurance policies. The capital insurance policies are reported as Other long-term receivables in the balance sheet.

PC3. APPROPRIATIONS**AP ACCOUNTING PRINCIPLES**

For Group contributions, the Parent Company applies the alternative rule of RFR 2 and recognizes Group contributions paid and received, net, as appropriations.

Appropriations

SEKm	2018	2017
Group contributions received from subsidiaries	2,801	-167
Group contributions paid to subsidiaries	-1,138	388
Dissolutions of accumulated excess depreciation/amortization ¹⁾	-	242
PIS Total	1,663	463

1) In 2017, all untaxed reserves pertaining to land and buildings were reversed in the accounts.

PC4. TAXES**AP ACCOUNTING PRINCIPLES**

Due to the links between accounting and taxation, the deferred tax liability on untaxed reserves in the Parent Company is recognized as a component of untaxed reserves.

Tax expense (+), tax income (-)

SEKm	2018	2017
TPC4:1 Deferred tax	-33	168
Current tax	299	1
PIS Total	266	169

Explanation of tax expense

	2018		2017	
	SEKm	%	SEKm	%
Reconciliation				
Profit before tax	2,520		-112	
PIS Tax expense/income	266	10.6	169	-150.8
Expected tax	554	22.0	-25	22.0
Difference	-288	-11.4	194	-172.8
The difference is due to:				
Taxes related to prior periods	-	-	1	0.0
Tax arising from changed tax rate	-105	-4.2	-	-
Non-taxable dividends from subsidiaries	-187	-7.4	-	0.0
Non-taxable Group contributions from subsidiaries ¹⁾	-	-	-130	116.0
Non-deductible Group contributions to subsidiaries ¹⁾	-	-	303	-271.0
Other items	4	0.2	20	-17.8
Total	-288	-11.4	194	-172.8

1) The Parent Company applies the alternative rule of RFR 2 for Group contributions paid and received. Non-taxable and non-deductible Group contributions respectively, in 2017 consist of the repayment from/to the respective subsidiary, which amounts to 78% of the Group contribution.

The expected tax expense is calculated based on profit before tax multiplied by the current tax rate.

Tax pooling in the Group is carried out via Group contributions paid and received. The Parent Company recognizes the majority of the Group's Swedish taxes. The net of Group contributions paid and received is recognized as appropriations.

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

SEKm	2018	2017
Value, January 1	-37	-26
Current tax expense	299	1
Paid tax	-206	-12
PBS Value, December 31	56	-37

TPC4:1 Deferred tax expense (+), tax income (-)

SEKm	2018	2017
Changes in temporary differences	-33	168
Adjustments for prior periods	-	-
Total	-33	168

Provisions for taxes

SEKm	Value, January 1	Deferred tax expense	Value, December 31
Land and buildings	1,607	-60	1,547
Provisions for pensions	-6	-	-6
Tax loss carryforwards	-25	25	0
Other	3	2	5
PBS Total	1,579	-33	1,546

PC5. TANGIBLE FIXED ASSETS

AP ACCOUNTING PRINCIPLES

The Parent Company's tangible fixed assets are recognized in accordance with the Group's accounting principles. The Parent Company recognizes standing timber as a tangible fixed asset at historical cost. No systematic depreciation or changes in value in conjunction with felling are carried out in the Parent Company. Collective revaluation of forest assets has occurred. The revaluation amount was placed in a revaluation reserve in equity.

Tangible fixed assets

SEKm	Buildings		Land and land improvements		Machinery and equipment		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Accumulated costs	157	165	4,067	3,873	5	5	4,229	4,043
Accumulated depreciation	-113	-115	-1,111	-1,047	-5	-5	-1,229	-1,167
Accumulated write-ups	-	-	5,489	5,489	-	-	5,489	5,489
Residual value according to plan	44	50	8,445	8,315	-	-	8,489	8,365
Value, January 1	50	56	8,315	8,215	-	-	8,365	8,271
Investments	-	-	207	173	-	-	207	173
Sales and disposals	-1	-	-3	-487	-	-	-4	-487
Write-ups for the period	-	-	-	483	-	-	-	483
Depreciation for the period	-5	-6	-74	-69	-	-	-79	-75
PBS Value, December 31	44	50	8,445	8,315	-	-	8,489	8,365

In 2017, an intra-Group transfer of forest land took place, which resulted in a capital loss of SEK -483m in the Parent Company. A revaluation by a corresponding amount was recognized, which meant the total carrying amount for forest assets remained unchanged.

The balance sheet item Land includes forest land in the amount of SEK 7,505m (7,460).

PC6. PARTICIPATIONS IN GROUP COMPANIES

AP ACCOUNTING PRINCIPLES

The Parent Company recognizes all holdings in Group companies at cost after deduction for any accumulated impairment losses.

An assessment is carried out on an annual basis to determine if any impairment is needed in the item Participations in Group companies. The need for impairment is determined individually for participations in Group companies. Impairment is effected if the value decrease is considered permanent. Impairment is recognized in the item Result from participations in Group companies.

Participations in Group companies

SEKm	2018	2017
Accumulated costs	4,758	4,758
Carrying amount	4,758	4,758
Value, January 1	4,758	79,772
Investments	-	598
Divestments and discontinuations	-	-75,612
Impairment for the period	-	-
PBS TPC6:1 Value, December 31	4,758	4,758

During 2017, the Parent Company provided a capital contribution to the then subsidiary Essity AB of SEK 598m. On June 15, 2017, shares in Essity AB were distributed to SCA's shareholders and Essity was listed on Nasdaq Stockholm. Shares were divested at the carrying amount of SEK 75,598m. The shares in SCA Försäkringsaktiebolag were included in the transfer, however, pending the approval of the Swedish Financial Supervisory Authority, the holding was recognized among participations in subsidiaries in 2016. In 2017, the Swedish Financial Supervisory Authority approved the transfer and the shares were divested at the carrying amount of SEK 14m.

TPC6:1 Parent Company's holdings of shares in subsidiaries, December 31, 2018

Company name	Corp. Reg. No.	Domicile	No. of shares	Share of equity, %	Carrying amount, SEKm
Swedish subsidiaries:					
SCA Graphic Holding AB	556479-2058	Sundsvall, Sweden	1,000	100	4,758
SCA Skogsfastigheter AB	556207-6256	Sundsvall, Sweden	1,000	100	0
SCA Kraftfastigheter AB	556449-7237	Sundsvall, Sweden	1,000	100	0
Total carrying amount of subsidiaries					4,758

PC7. RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES**Receivables from and liabilities to subsidiaries**

SEKm	2018	2017
Current assets		
Interest-bearing receivables	14,184	15,028
Other receivables	2,961	392
PBS Total	17,145	15,420
Current liabilities		
Interest-bearing liabilities	97	1,116
Other liabilities	1,530	262
PBS Total	1,627	1,378

PC8. OTHER CURRENT RECEIVABLES**Other current receivables**

SEKm	2018	2017
TPC8:1 Prepaid expenses and accrued income	20	3
Other receivables	308	131
PBS Total	328	134

TPC8:1 Prepaid expenses and accrued income

SEKm	2018	2017
Other items	20	3
Total	20	3

PC9. FINANCIAL INSTRUMENTS**Financial items**

SEKm	2018	2017
Result from participations in Group companies		
Dividends from subsidiaries	850	-
Interest income and similar profit items		
Interest income, subsidiaries	196	100
Interest expenses and similar loss items		
Interest expenses, external	-24	-53
Interest expenses, subsidiaries	-2	-1
Other financial expenses ¹⁾	-46	-33
PIS Total	974	13

1) The item includes exchange rate differences amounting net to SEK -4m (-4).

Interest-bearing liabilities**Non-current interest-bearing liabilities**

SEKm	Carrying amount		Fair value	
	2018	2017	2018	2017
Maturity > 1 year < 5 years	3,200	2,600	3,203	2,604
Maturity > 5 years	1,980	1,000	1,983	1,003
PBS Total	5,180	3,600	5,186	3,607

Current interest-bearing liabilities

SEKm	Carrying amount		Fair value	
	2018	2017	2018	2017
Maturity < 1 year	2,551	3,472	2,549	3,475
PBS Total	2,551	3,472	2,549	3,475

For further information about borrowing activities during the year, refer to Note E4.

Financial instruments by category**AP ACCOUNTING PRINCIPLES**

Financial assets and liabilities are recognized at amortized cost, except for derivatives, which are measured at fair value. As an adaptation to IFRS 9, the Parent Company has changed its method of measurement of financial derivatives from amortized cost to fair value, as of January 1, 2018. The impact of this change on profit or loss at December 31, 2018, is an increase in financial items of SEK 9m. Effects on the balance sheet at December 31, 2018 were an increase in financial fixed assets of SEK 75m, in current assets of SEK 430m, in non-current liabilities of SEK 75m, in other current liabilities of SEK 421m and in equity of SEK 7m. The total increase is net of the change in profit or loss at December 31, 2018 and an adjustment of the opening balance from the previous fiscal year.

The change in method of measurement of financial derivatives from amortized cost to fair value has entailed an adjustment of the comparative year.

The change had no material impact on profit or loss at December 31, 2017. In the balance sheet at December 31, 2017, financial fixed assets increased by SEK 46m, current assets by SEK 129m, non-current liabilities by SEK 42m, current liabilities by SEK 124m, provisions by SEK 1m and equity by SEK 7m, corresponding to the change in profit or loss at December 31, 2017.

For information about classification and measurement level, refer to Note E1.

Financial assets measured at amortized cost

SEKm	2018	2017
Assets		
Financial fixed assets		
Interest-bearing receivables	4	137
Current assets		
Receivables from subsidiaries	14,184	15,031
Other current receivables	1	2
PBS Cash and bank balances	226	83
Total	14,415	15,253

Financial liabilities measured at amortized cost

SEKm	2018	2017
Liabilities		
Non-current liabilities		
Interest-bearing liabilities	5,180	3,600
Current liabilities		
Interest-bearing liabilities	2,551	3,472
Liabilities to subsidiaries	99	1,211
Trade payables	1	5
Other current liabilities	2	3
Total	7,833	8,291

Financial assets measured at fair value in the income statement

SEKm	2018	2017
Non-current financial assets	-	4
Derivatives – Current financial assets	9	8
Derivatives – Other long-term receivables	75	42
Derivatives – Other current receivables	421	120
Total	505	174

Financial liabilities measured at fair value in the income statement

SEKm	2018	2017
Derivatives – Current financial liabilities	-	4
Derivatives – Other non-current liabilities	75	42
Derivatives – Other current liabilities	421	120
Total	496	166

PC10. OTHER CURRENT LIABILITIES

Other current liabilities

SEKm	2018	2017
TPC10:1 Accrued expenses and prepaid income	71	65
Other operating liabilities	136	257
PBS Total	207	322

TPC10:1 Accrued expenses and prepaid income

SEKm	2018	2017
Accrued interest expenses	3	3
Accrued social security costs	11	9
Accrued vacation pay liability	1	1
Other liabilities to personnel	27	24
Other items	29	28
Total	71	65

PC11. SHARE CAPITAL

The change in equity is shown in the financial report relating to Equity presented under Financial statements, Parent Company. The share capital and number of shares have changed since 1993 on account of new issues, conversions, splits, and the cancellation of treasury shares as set out below:

Year	Event	No. of shares	Increase in share capital	Cash payment, SEKm
1993	Number of shares, January 1, 1993	172,303,839		
1993	Conversion of debentures and new subscription through Series 1 warrants	4,030,286	40.3	119.1
	New issue 1:10, issue price SEK 80	17,633,412	176.3	1,410.7
1994	Conversion of debentures	16,285	0.2	-
1995	Conversion of debentures	3,416,113	34.2	-
1999	New issue 1:6, issue price SEK 140	32,899,989	329.0	4,579.0
2000	Conversion of debentures	101,631	1.0	15.0
2001	New issue, private placement	1,800,000	18.0	18.0
2002	New subscription through IIB warrants	513	-	0.1
2003	Conversion of debentures	1,127,792	11.3	288.4
	New subscription through IIB warrants	1,697,683	17.0	434.5
2004	Conversion of debentures	9,155	0.1	1.1
2007	Split 3:1	470,073,396	-	-
2017	Cancellation of treasury shares	-2,767,605	-	-
2018	Number of shares, December 31, 2018	702,342,489		

SCA's share capital, December 31, 2018

	No. of votes	No. of shares	Share capital, SEKm
Class A shares	10	64,587,672	216
Class B shares	1	637,754,817	2,134
Total		702,342,489	2,350

The quotient value of the Parent Company's shares amounts to SEK 3.35.

PC12. PLEDGED ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities

SEKm	2018	2017
Guarantees for subsidiaries	704	564
Other contingent liabilities	231	238
Total	935	802

Pledged assets

SEKm	2018	2017
Chattel mortgages	20	20
Total	20	20

PC13. PROPOSED DISPOSITION OF EARNINGS

Annual accounts 2018

Disposition of earnings, Parent Company (SEK)

Non-restricted equity in the Parent Company:	
Retained earnings	6,127,207,571
Net profit for the year	2,254,349,305
Total	8,381,556,876

The Board of Directors and the President propose:

- to be distributed to shareholders, a dividend of SEK 1.75 per share	1,229,099,356
- to be carried forward	7,152,457,520
Total	8,381,556,876

The annual accounts are subject to adoption by SCA's Annual General Meeting and will be presented for approval at the Annual General Meeting on March 20, 2019.

Sustainability facts

SCA's sustainability work is integrated into the Group's operations and business decisions. SCA's 2018 Sustainability Report is an integrated part of the combined Annual Report. The following pages present supplementary sustainability information, such as the Group's work in various areas of sustainability, information about the report, stakeholder dialogues, materiality analysis, material topics, sustainability targets, calculation methods and multi-year summary of the Group's sustainability data.

Value creation

Through its operations, SCA helps to create value for a large number of stakeholders. These values include:

- Climate benefits from growing forests that capture and bind CO₂ and products that replace fossil-based alternatives
- Shareholder value for the company's shareholders
- The value of forest land through a stable supply to SCA's industries
- Enabler of a circular society by providing access to renewable products and renewable energy
- Job opportunities in the company's operations and at contractors
- Business opportunities for suppliers of goods and services
- Recreation and outdoor activities in the company's forests
- Sustainable local communities and regional development through the company's presence and operations

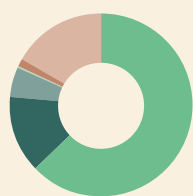
SCA sustainability profile

SCA's sustainability ambition encompasses social, economic and environmental goals, which are integrated into the company's work and business development. SCA's sustainability profile represents the company's operations as a whole and is an important component of the SCA brand. Profitable growth is the foundation of the company's strategy and part of sustainable growth. Long-term economic returns are an integrated part of SCA's sustainability profile together with the other components: Fossil-free world, Valuable forests, Efficient use of resources, Responsibility for people and the community, and its set of Values.

Sustainability targets

The Group's sustainability targets are presented in the table "Strategic priorities and sustainability targets". The targets encompass three dimensions: social, economic and environmental sustainability. The Group-wide targets are supplemented with targets at unit level based on local needs. These are based on the unit's analysis that may include an evaluation of environmental aspects, recruitment needs and other improvement or development needs.

Economic value creation



The area of the circle represents SCA's revenue, including changes in value to biological assets, totaling SEK 21,362m (2017: SEK 18,885m)

- 61.1% Payments to suppliers including other forest owners: SEK 13,059m (2017: SEK 12,474m)
- 14.2% Salaries, social security costs and pension provisions to SCA's employees: SEK 3,041m (SEK 2,763m)
- 5.8% Dividend to shareholders, in accordance with Board's proposal: SEK 1,229m (SEK 1,054m)
- 0.1% Interest paid to creditors: SEK 29m (SEK 93m)
- 1.5% Income tax to society: SEK 314m (SEK 544m)
- 17.3% Remaining in SCA: SEK 3,691m (SEK 1,957m)

A large portion of payments to suppliers were made to suppliers in SCA's local area in Northern Sweden. This is particularly the case for purchasing wood raw material and contractors' services. For payments to employees, SEK 2,712m (89%) pertain to employees in Sweden, mainly in Northern Sweden. A significant share of this figure was received by municipalities and the state in Sweden, through the payment of social security costs, payment by employees of municipal and state income taxes, and through the consumption of products and services. 95% of the reported income tax amount pertains to Sweden. The major part, SEK 319m, consists of current tax expense and the remaining SEK 5m of deferred tax income. The amount "Remaining in SCA" comprises profit for the period excluding depreciation/amortization and deductions for the dividend for 2018 in accordance with the Board's proposal. Further information about the cost structure is available in the Board of Directors' Report and regarding income taxes in Note B6.





Governance and materiality

Sustainability governance

SCA's President has the overall responsibility for the governance of SCA's business in the field of sustainability. The main purpose of all governance at SCA is to guarantee the Group's commitments to its stakeholders. A description of governance within the SCA Group, including sustainability, can be found in the Corporate Governance Report. The sustainability agenda is based on SCA's set of values and regulated through the Group's policies, where the Code of Conduct and Sustainability Policy form the basis of sustainability work.

The sustainability agenda is headed by the Group's Sustainability Director via SCA's Sustainability Council and a number of cross-functional networks, such as the Environmental Network and the Occupational Health and Safety Network. The Group's sustainability targets are formulated based on the materiality analysis and on strategic priorities. These are supplemented at local level with unit-specific targets. Risks linked to the field of sustainability are included in the Group's total risk management. A description of the most significant risks and an account of how these risks are managed can be found in the Board of Directors' Report. In product and process development, the precautionary approach is used.

Follow-up of sustainability work

Follow-up and evaluation of sustainability work complies with SCA's procedures for self-assessment, internal control and audits, as described under internal audits in the Corporate Governance Report. Follow-up is conducted at unit level together with other monitoring of targets and aggregated at Group level. The outcome of the Group-wide targets is monitored by the Group's cross-functional network and by SCA's Sustainability Council. Any discrepancies are reported using the Group-wide discrepancy procedures and corrective measures are identified and implemented.

External initiatives and membership in organizations and certifications

SCA monitors and wants to contribute in various ways toward global initiatives aimed at achieving a better world. SCA is a member of the UN Global Compact, an initiative aimed at convincing companies to take responsibility for the UN's ten principles in the areas of human rights, working conditions, the environment and anti-corruption. SCA is also active in a number of international, national and regional trade organizations.

SCA is committed to active and responsible forest management, and supports the two international certification systems for forests and forest raw materials, the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). SCA is represented at both international and national levels. Furthermore, SCA works to raise awareness of how active forest management and increasing the use of forest products can help to combat climate change. SCA's operations are certified in accordance with ISO 14001, 50001, 9001 and OHSAS 18001, as detailed on sca.com.

SCA wants to contribute to the transformation to a fossil-free society and is a member of the Fossil Free Sweden initiative. SCA participates in the WWF Environmental Paper Company Index, and is a member of the WWF Global Forest & Trade Network (GFTN).

Stakeholder dialogues

SCA engages in continuous dialogue with various stakeholders in order to identify areas that should be prioritized and to continuously improve the company's value creation. SCA identifies its primary stakeholders based on their interests and potential influence on the Group, and their material impact on the Group's business.

The business areas maintain a close dialogue with their customers and follow up customer satisfaction through surveys, face-to-face meetings and third-party assessments. SCA regularly meets investors and analysts. The Group performs All Employee Surveys and annual target and performance management reviews for its employees. Moreover, SCA communicates with other groups and individuals in matters that have a major impact on society in general and local communities in particular,

Stakeholder dialogues

Stakeholder groups	How we conduct dialogues	Main topics	How we address the issues
Customers and consumers	Customer visits, interviews, participation in customer events and seminars, trade fairs, mailings, website, social media	Environmental impact, ecobelling, fiber sourcing, forestry, human rights, health and safety, customer focus, resource efficiency, innovation, product safety	<ul style="list-style-type: none"> • Customer surveys • Visits by customers to show our company's value chain • Dialogue and onsite visits to demonstrate responsible forest management • Education/training in the Code of Conduct and anti-corruption, SCA's Supplier Standard, climate footprint, FSC and PEFC certification, product safety • Life cycle management of products • Development of new products together with customers • Visit to customers by technical experts • Customers who perform audits of our operations • Participation at trade fairs at national and international levels
Employees	Performance reviews, workplace meetings, work councils, online surveys, intranet, internal courses, management meetings	Workplace culture, health and safety, skills development, recruitment and succession planning, compensation and benefits, gender equality, business ethics, working conditions, resource efficiency, environmental impact, product development	<ul style="list-style-type: none"> • Training in the Code of Conduct, introductory course for new employees, skill-enhancement activities, gender equality training. Early career program • Program ZERO for developing a health and safety culture, OHSAS 18001 certification • All Employee Survey, equal opportunity plans, change management training • Trade union interaction, such as business council meetings, collaboration meetings and safety committee meetings
Investors and owners	Investor meetings in conjunction with, for example, interim reports, capital market days, the AGM, interviews, website	Dividends targets, financial targets, areas of growth, forest valuation, risk management, health and safety, ethics, human rights, climate impact, resource efficiency	<ul style="list-style-type: none"> • AGM March 23, 2018 • Investor and analyst meetings, Capital Market Day, May 22, 2018 • Roadshows in conjunction with quarterly accounts • Risk management as part of the Board of Directors' Report in the Annual report
Suppliers	Follow-up meetings, request for tenders and procurements, interviews, website	Supplier audits, business ethics, human rights, health and safety, energy consumption, resource efficiency, climate impact	<ul style="list-style-type: none"> • Reviewing SCA's Supplier Standard • Supplier assessments and follow-up meetings • Processes for risk assessment
Private forest owners	Forest owner meetings, face-to-face meetings, customer magazine, website, social media	Management methods, forestry plans, ownership rights, forest certification, nature conservation	<ul style="list-style-type: none"> • Business contacts on an ongoing basis during the year • Customer satisfaction interviews with private forest owners • A number of forest owner meetings held • Further development of Skogsvinge™ for better land-owner functionality • Collaboration with Skogscertifiering Prosilva AB concerning a group certificate for forest owners
NGOs	Meetings concerning specific issues, interviews, websites	Forest management, biodiversity, climate and environmental issues, resource efficiency, green energy, human rights, hunting, reindeer herding	<ul style="list-style-type: none"> • Stakeholder dialogue, memberships and involvement in organizations such as the Swedish Forest Industries Federation, the Confederation of European Paper Industries (CEPI), FSC and PEFC • Involvement in the revision of the Swedish FSC standard • Onsite visits to the company's forests
Society	Dialogue meetings, local events, public consultation, interviews, websites	Occupational health and safety, environmental issues, local issues, renewable energy, reindeer herding, labor market, education, community engagement, diversity issues, human rights	<ul style="list-style-type: none"> • Public affairs, dialogues with regulators, government authorities, lobbyists, and local communities, consultation concerning investments, permits, and other local issues • Participation in the Chamber of Commerce and "Skogen i skolan". • Board representation in Mid Sweden University and Sundsvall Timrå Airport • Consultation meetings with local Sami communities • Roundtable discussions on various topics

and regularly holds meetings with NGOs and individuals living near SCA's operations. Stakeholder dialogues provide insights into the expectations of various interest groups, help to cultivate long-standing relationships and continuously improve the Group's operations. In addition, the dialogues provide valuable information when the Group assesses its sustainability program and prioritizes sustainability initiatives. The Stakeholder Dialogues table offers an overview of the main stakeholder groups and a summary of the year's dialogues.

Materiality analysis

The materiality analysis is based on stakeholder dialogues, market trends and the company's strategic priorities. The materiality analysis forms the basis for SCA's strategic direction and priorities in its sustainability work.

SCA conducts a materiality analysis every two years. The most recent was conducted in 2017 and the conclusions of this analysis have not changed in 2018. In-depth interviews of investors and owners, analysts, customers/consumers, suppliers, NGOs and the community were carried out. SCA's employees were given the opportunity to participate through an online survey. More than 370 stakeholders took part. Each stakeholder prioritized a number of material sustainability topics identified by SCA based on the Global Reporting Initiative (GRI), the UN's 17 Sustainable Development Goals, the UN Global Compact, SCA's Code of Conduct and global trends. Health and safety, responsible forestry, low climate-impact products as well as ethics and the set of values were topics that the stakeholder groups prioritized highest.

SCA's management also completed a survey in which they prioritized the identified sustainability topics. The combined results

of the stakeholders' and management's priorities are the basis for the materiality analysis. The materiality analysis illustration shows the results of the topics that are of greatest significance for SCA's business and set of values program based on the analysis conducted.

Information about the Sustainability Report

About the Sustainability Report

SCA publishes a sustainability report each year. The latest report was published in March 2018. In June 2017, the hygiene business was distributed in the form of the listed company Essity. Comparable data from 2016 and previous years in this report is from the business unit SCA Forest Products in the former SCA, which largely corresponds to today's SCA Group.

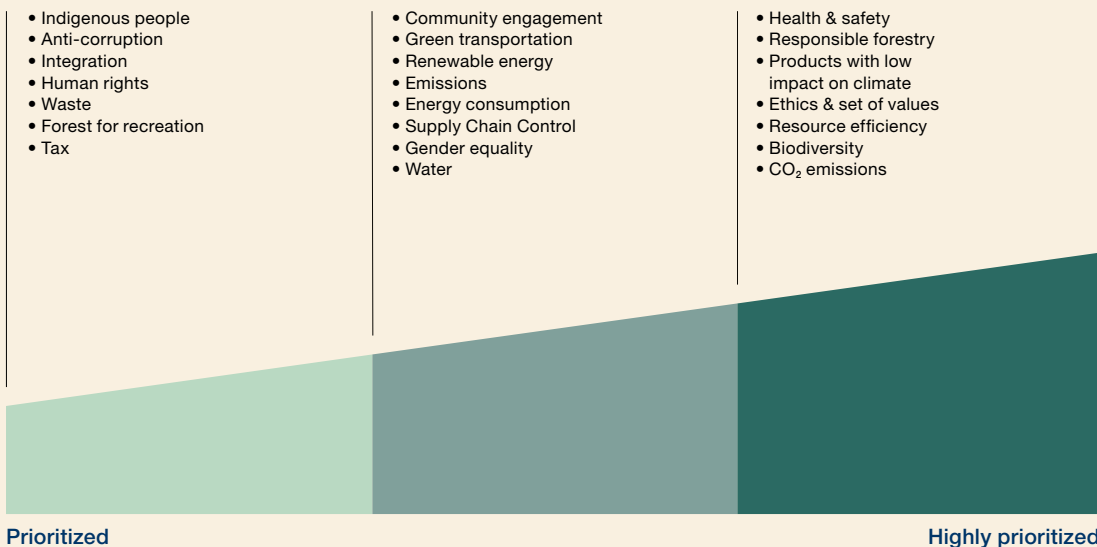
Sustainability work is integrated into the Group's operations and the Sustainability Report in accordance with the Annual Accounts Act constitutes part of SCA's Annual Report for 2018. Areas covered by the legislative requirements are clarified in the Board of Directors' Report. The Sustainability Report was submitted to the external auditor together with the Annual Report, refer to the auditor's report.

SCA's 2018 Sustainability Report is prepared in accordance with the Global Reporting Initiative (GRI) Standards, Core option. The sustainability information in the Annual Report was reviewed by external auditors, see the Auditor's Report.

The sustainability report also contains information about how SCA works with the UN Global Compact's Ten Principles in the areas of human rights, working conditions, the environment and anti-corruption.

Materiality analysis

The aspects of sustainability that are of greatest significance for SCA as a company, based on stakeholder dialogues and materiality analysis conducted in 2017.





Boundary of the report

The Sustainability Report covers the SCA Group, including wholly owned subsidiaries and subsidiaries in which SCA owns at least 50% of the company, see Note F1 under Financial notes. If SCA owns 50% or more of a company, the entire company is included in the report.

Environmental data and resource use is stipulated for the manufacturing units, meaning for pulp and paper mills and for sawmills, building materials and pellets manufacturing. Social data is stipulated for the entire Group and pertains to own employees unless otherwise stated.

As the report is prepared in accordance with the GRI Standards, the materiality principle has had great significance. This means that the report's content is determined by the issues that are most relevant to SCA and its stakeholders, and that the content provides a complete view of the operations. The material areas have been matched with the relevant GRI disclosure numbers, see the Materiality analysis section.

Data collection

Data provided in the Report is compiled through various systems, primarily the Group's accounting system, Resource Management System (RMS), forest planning systems, SCA's HR system and Afa's Occupational health and safety information systems (the IA systems). Since assumptions and conversion factors may be required for certain calculations, this entails a source of uncertainty. SCA strives to obtain data that is as reliable as possible.

The RMS system describes how the company uses energy, water, transport and raw materials and generates waste and emissions. RMS data is used for internal control, monitoring and analysis, life cycle assessments and external benchmarking. RMS data is reported at unit level using direct measurements and inventories.

Energy consumption is calculated in various ways, such as through direct measurements of consumption or by calculating based on fuel consumption. The conversion factors used are obtained from suppliers or from literature.

For most CO₂ emission calculations, SCA applies the global standard Greenhouse Gas Protocol to measure, manage and report CO₂ emissions. For other environment data, SCA applies recognized measurement and calculation standards, including the Swedish Standards Institute, the Swedish Environmental Protection Agency and the International Energy Agency's factors. The climate impact is stated in the Annual Report as CO₂e and refers to CO₂e unless otherwise specified.

Emissions from transportation are calculated based on total transport performed per mode of transport for finished products, raw materials and input goods. Emissions are calculated by multiplying transportation per transport mode (expressed as tonne kilometers) by typical emission factors for the different modes of transportation. The emission factors used are based on data from the Network for Transportation Measures (NTM) (www.transportmeasures.org). For transportation with SCA's RoRo vessels and container-feeders, the actual fuel consumption and load utilization is used.

Personnel-related data is mainly provided by SCA's HR system. Supporting qualitative data is gathered in SCA's database for sustainability data. The IA system is used for reporting and following-up work-related injuries and incidents at every unit within the Group. Reporting also encompasses contractors who conduct work on SCA's sites. The system is also used for preventive reporting of risk observations. The statistics are aggregated to Group level.

When adjustments have been made compared with earlier years, a note is made directly beside the chart or table.

Strategic priorities and sustainability targets

Strategic priorities	Why material	Impact on value chain	Governance	Material risks ¹⁾	SCA's materiality analysis
Profitable growth	Long-term profitability requires sustained and profitable growth that creates value for customers, owners, employees and the communities in which the company operates.	Shareholders, society, employees, suppliers	<ul style="list-style-type: none"> • Financial control • Financial Policy • Business development plans 	<ul style="list-style-type: none"> • Financial risks • Demand and market price 	<ul style="list-style-type: none"> • In accordance with the company's strategy
Fossil-free world	SCA produces and sells renewable products that can replace fossil-based alternatives and thereby contribute to reducing global warming. SCA also contributes to climate benefits through the net growth of the company's forests, which absorb CO ₂ from the atmosphere, and by continuously striving to reduce greenhouse gas emissions from its own value chain.	Growth in the forest, SCA's operations, suppliers, transports, customers	<ul style="list-style-type: none"> • Sustainability Policy • SCA's Environmental Network • Business development plans 	<ul style="list-style-type: none"> • Political decisions 	<ul style="list-style-type: none"> • Products that have low climate impact • CO₂ emissions • Renewable energy
Valuable forests	Forest is an important part of the earth's ecosystem. SCA conducts responsible forest management to benefit biodiversity while the use of forest raw material creates value for our customers and the Group, and ensures future access to forest raw material.	SCA forests, private forest owners, community, customers	<ul style="list-style-type: none"> • Forest management manual • Quality manuals for forest operations, road construction and transport activities 	<ul style="list-style-type: none"> • Risks in the forest land holding 	<ul style="list-style-type: none"> • Responsible forestry • Biodiversity • Supplier audits
Efficient use of resources	SCA continuously strives to improve its resource efficiency, which contributes to better profitability while also being economical with the planet's resources and reducing the impact on the environment.	Own operations, optimizing the value chain, customers	<ul style="list-style-type: none"> • Sustainability Policy • SCA's Environmental Network • ESAVE program • SCA's Innovation Network 	<ul style="list-style-type: none"> • Environmental impact 	<ul style="list-style-type: none"> • Products that have low climate impact • Resource efficiency • Emissions
Responsibility for people and the community	The employees is the company's most important resource. SCA secures the future need of expertise by being an inclusive and attractive employer that puts health and safety first. Through the business, jobs are generated, both directly and indirectly, and SCA develops together with the communities in which the company operates.	Employees (existing and potential), local communities	<ul style="list-style-type: none"> • Sustainability Policy • Health and Safety Policy • HR Policy • Steering committee ZERO • SCA's Occupational Health and Safety Network 	<ul style="list-style-type: none"> • Employee-related risks • Risks at production plants 	<ul style="list-style-type: none"> • Health and safety • Diversity • Community engagement
Our set of values	To be a credible and transparent company, SCA's business is based on a shared set of values that are described in the Code of Conduct, which all employees are to comply with and to be guided by in the company's business relationships and interaction with stakeholders. SCA aims to establish a sustainable supply chain with suppliers that share the company's values.	Employees, suppliers, customers, society	<ul style="list-style-type: none"> • Code of Conduct • SCA's Supplier Standard • SCA's Compliance Council 	<ul style="list-style-type: none"> • Business ethics • Suppliers 	<ul style="list-style-type: none"> • Ethics and set of values • Human rights • Supplier audits

1) See section Risks and risk management.
 2) According to the Swedish Annual Accounts Act (ÅRL) and UN Global Compact
 3) Total voluntary set-asides and conservation measures during final felling

GRI disclosure number	Sustainability area ²⁾	Sustainability targets	KPI 2018	Outcome 2018
201-1		<ul style="list-style-type: none"> Sustainable development through responsible, long-term and successful business practices 	<ul style="list-style-type: none"> EBITDA margin EBITDA development Industrial return on capital employed 	<ul style="list-style-type: none"> 28.0% 44% relative to 2017 16.4%
305-5	Environment	<ul style="list-style-type: none"> Fossil-free value chain SCA's forests are to counteract climate change as growing trees bind CO₂, and its products by replacing fossil-based alternatives Increase wind power production on SCA's land to 5 TWh by 2020 	<ul style="list-style-type: none"> Total climate benefit Net forest growth Substitution effect (contribution from products) Emissions of CO₂e in line with scope 1, 2 and 3. Production of wind power on SCA land 	<ul style="list-style-type: none"> 8 million tonnes CO₂ 3 million m³fo 5 million tonnes CO₂ 0.9 million tonnes CO₂ 2.6 TWh
304-3	Environment	<ul style="list-style-type: none"> SCA's forests are to be at least as rich in biodiversity, nature experiences and raw material in the future as they are today All wood raw material in our products is to be certified according to FSC or PEFC or fulfill the FSC's standard for controlled wood, FSC CW 	<ul style="list-style-type: none"> Standing volume in own forest Area excluded from timber production for nature conservation³⁾ Wood raw material in SCA's products that complies with FSC, PEFC or FSC CW 	<ul style="list-style-type: none"> 235 million m³fo 20% of productive forest land (see page 134) 100%
302-1	Environment	<ul style="list-style-type: none"> Maximize the use of raw materials and value creation from the wood raw material Decrease the specific energy consumption by 20% between 2010 and 2020 Decrease the specific emissions of suspended solids and phosphorus to water by 10% between 2014 and 2020 	<ul style="list-style-type: none"> Added value (sales relative to utilized volume of raw material) Energy saving Emissions to water of suspended solids and phosphorous 	<ul style="list-style-type: none"> SEK 2,000/m³ wood raw material 10% lower specific energy consumption compared with 2010. Changes to product portfolio and investment projects impact the outcome Emissions of suspended solids have decreased 12% and phosphorous has decreased by 21% compared with the base year
403-9 405-1	Social conditions and employees Labor	<ul style="list-style-type: none"> Zero workplace accidents Attractive and inclusive employer where diversity is a part of the culture 	<ul style="list-style-type: none"> Workplace accidents, LTA frequency rate Engagement index from the All Employee Survey Share of women in the Group Number of employees 	<ul style="list-style-type: none"> 9.1 accidents resulting in absence, per million hours worked Index = 78 19% 4,216 (average number during the year)
206-1	Human rights Anti-corruption	<ul style="list-style-type: none"> Compliance with SCA's Code of Conduct and all employees to receive regular training in the Code Purchases from suppliers that fulfill SCA's Supplier Standard 	<ul style="list-style-type: none"> Percentage of employees who have received training in the Code of Conduct Percentage of contract suppliers that have approved SCA's Supplier Standard 	<ul style="list-style-type: none"> 90% 94%

Ethics and set of values

Set of values

SCA has a values-based culture that is an integrated part of the way the company interacts with people, conducts business and operates throughout the entire value chain. SCA is a trustworthy company with a high level of integrity both among employees and with suppliers. The set of values comprises the company's purpose and core values and is described in SCA's Code of Conduct.

Code of Conduct

SCA's Code of Conduct is a framework for putting the Group's core values – responsibility, excellence and respect – into practice and is to ensure that SCA's employees comply with the Group's core values and do not take part in unethical practices. SCA has zero tolerance for victimization, such as discrimination and sexual harassment.

The Code is the Group's foremost steering document in terms of sustainability and constitutes, together with SCA's Sustainability Policy, the basis of the Group's sustainability agenda. The Code, which is adopted by the Board of Directors, details the guidelines for business ethics (including anti-corruption), health and safety, employee relations, respecting human rights, the environment and society that every employee is to follow. The Code was adopted in 2004 and is based on the UN Declaration of Human Rights, the International Labour Organisation's (ILO) Core Conventions, the Organisation for Economic Cooperation and Development's (OECD) Guidelines for Multinational Enterprises, and the Ten Principles of the UN Global Compact. More about SCA's Code of Conduct can be found at sca.com.

SCA's Code of Conduct applies to all employees within the Group and all employees receive regular training in the Code. It applies to all markets in which SCA conducts operations. All new employees are educated in the Code as part of their introduction. Every third year, all employees take part in a refresher course. The percentage of employees educated in the Code of Conduct amounted to about 90% at the end of 2018.

Human rights and the equal value of everyone

Human rights is one important aspect of SCA's Code of Conduct, which forms the basis of the Group's company culture and business relationships. SCA does not tolerate child labor or any other form of forced labor in its own facilities or the operations of any business partner. SCA complies with applicable national laws and international standards on minimum age wherever the company operates. SCA promotes fair working conditions, health and safety, the trade union rights of employees and the right to collective bargaining. All forms of violations of human rights are taken very seriously and dealt with in the same manner as other suspected violations of SCA's Code of Conduct. SCA has been a member of the UN Global Compact since 2008. Risks linked to human rights have primarily been identified in business relationships, health and safety and the use of land, refer to the section on risks in the Board of Directors' Report.

Business ethics

SCA bases its business activities on honesty, integrity and responsible business practices. The company must comply with applicable laws, regulations and SCA policies and instructions. Bribery and any other form of corrupt business practice are strictly prohibited. Neither SCA nor anyone acting on SCA's behalf may authorize, offer or make available any payments, gifts or other benefits that could affect or appear to affect objectivity in business decisions or the actions of a government official. All financial information must be accurately reported in a non-misleading manner in accordance with SCA's accounting practices.

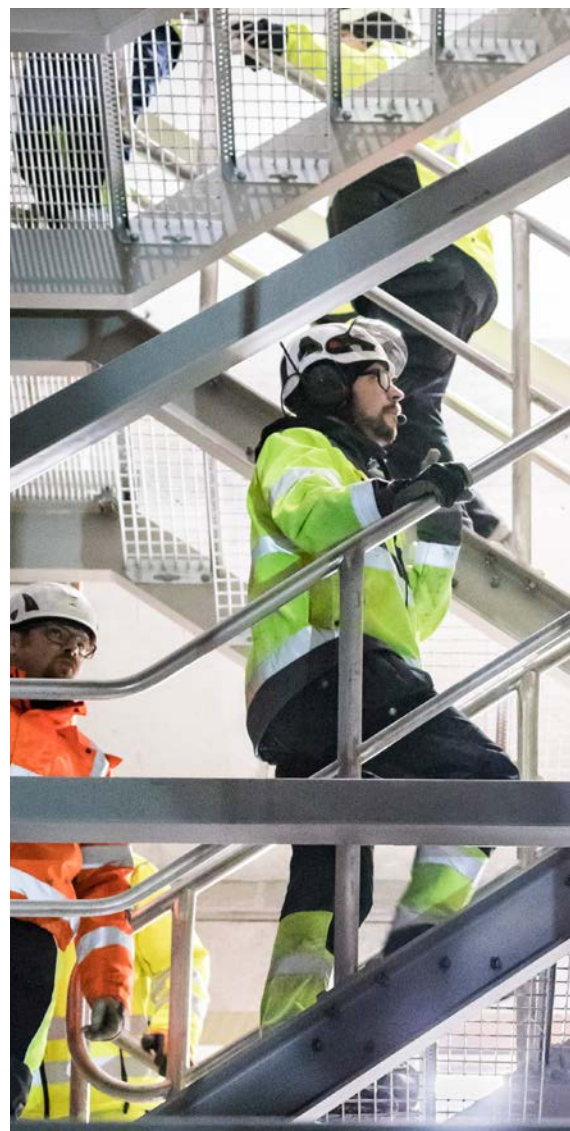
Anti-corruption

Anti-corruption is included in SCA's Code of Conduct. SCA must conduct all activities in accordance with applicable laws and regulations, and all corrupt activity is strictly prohibited. SCA's instructions for anti-corruption establish rules to prevent anti-corruption in all Group operations regardless of country. The Group does not tolerate any form of corruption or bribery.

All of SCA's employees are trained in the Group's Code of Conduct, which includes a section dealing with business ethics. Employees in a senior position and/or with external contacts are given additional training in anti-corruption. The target group comprises about 1,000 employees. Management teams and other relevant individuals also receive training on these issues in conjunction with mini-seminars.

Anti-trust

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



SCA has established programs to increase knowledge among employees of competition law. The target group for the program is employees with market-related contact with competitors and includes about 270 employees. Moreover, seminars are held on a continuous basis with this target group that includes anti-corruption updates. In 2018, about 120 people took part in training seminars.

Whistleblower system

Every employee can report suspected violations of the Code of Conduct. The violation can be reported to a line manager, human resources manager, legal counsel or union representative. There is also a whistleblower function available at sca.com which is also open to individuals who do not work at SCA. The complaints, which may be submitted anonymously, are investigated confidentially, promptly and professionally by specially appointed investigators taking into account current personal data legislation. Complaints covered by the whistleblower system and other cases of suspected violation of the Code of Conduct are managed in accordance with SCA's procedures.

Even if an allegation cannot be substantiated, preventive actions may be implemented. The scope, outcome and actions taken concerning reported cases are followed up by SCA's Compliance Council, which is headed by the Group's Sustainability Director.

Compliance with the Code of Conduct and legislation (reported cases within SCA in 2018)

SCA uses a number of methods to safeguard compliance with prevailing law and the company's Code of Conduct. These include due diligence in connection with acquisitions, risk evaluation, on-site audits of SCA's units and activities within the company's internal control.

Code of Conduct

In 2018, 8 (9) cases of potential breaches of the Code of Conduct were reported and investigated, and concerned suspicions of theft/fraud, shortcomings in health and safety, and incidents connected with behavior and attitudes. No inquiries were ongoing at the end of the year.

During the year, 0 (0) breaches of anti-corruption or competition law were reported. There are no ongoing cases from previous years.

Health and safety

Serious workplace accidents and health and safety incidents are reported to the relevant authority in accordance with current regulatory requirements. In those cases when the authority considers that an error was made, a case may be submitted to the public prosecutor for review. In 2018, 0 (0) incidents resulted in the public prosecutor initiating legal proceedings or issuing a punishment order. From previous years, one incident resulted in the issue of a punishment order and corporate fine in 2018.

All employees are encouraged and have the opportunity to report incidents and risk observations that could result in work environment risks. The reports are incorporated in efforts to achieve continuous improvements.

Environmental views from local residents and authorities

It is important to engage in active dialogue with communities that can be affected by SCA's operations. This is part of the Group's stakeholder dialogues and encompasses the entire Group's operations, refer to the Stakeholder dialogues section. Dialogue may, for example, be conducted as public meetings or be based on opinions received. All environmental remarks are investigated in accordance to SCA's procedures and measures are taken where possible. In 2018, 124 (150) remarks were registered. These remarks most often concern noise, odors, emissions to surrounding areas or our forest operations. Employees also have the opportunity to report incidents that could impact the environment. The reports are incorporated in efforts to achieve continuous improvements.

SCA's operations have been granted permits by the authorities. These permits are associated with a number of environmental conditions that must be complied with. The authorities are informed in the event of exceedances. Corrective action is taken both urgently and in the longer term to reduce environmental impact. During 2018, 27 (13) environmental matters were dealt with by the authorities, of which most are related to the expansion of the Östrand pulp mill. None of these matters resulted in penalties in 2018.



Sustainable supply chain

SCA wants to ensure safe and high-quality goods and services for its customers and consumers, produced and delivered with respect for people and nature. Potential business 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.

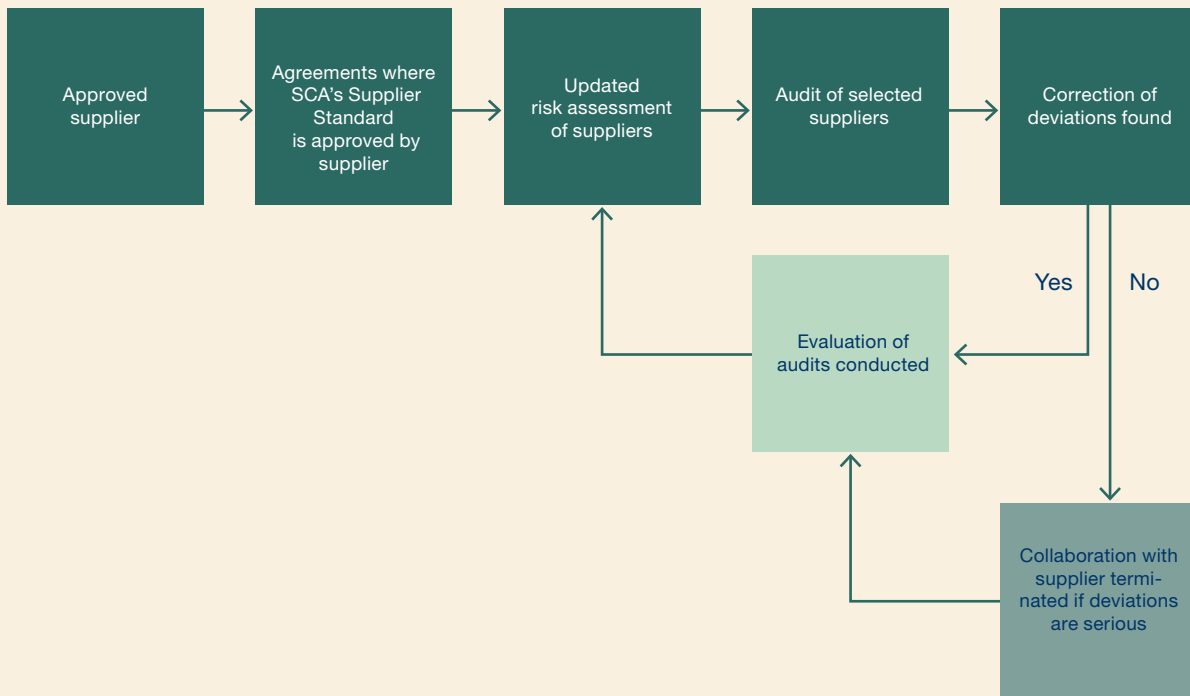
To ensure that SCA's suppliers share the company's set of values, SCA has formulated a Global Supplier Standard to which suppliers must comply. SCA's Supplier Standard is based on the Group's Code of Conduct, (see sca.com), human rights and international standards. In 2018, a review was conducted of SCA's Supplier Standard and procurement process. Both the risk assessment and audit process of how suppliers meet the standard are being reviewed. There are well-established procedures for supplier control and visits on site in regard to harvesting and silvicultural services contractors.

SCA has agreements with a large number of suppliers. For timber supply from private forest owners, SCA has created a purchasing organization with about 80 wood purchasers, distributed between local offices across the region. Through this organization, SCA has business relationships with approximately 17,000 private forest owners. Timber sourced from other forest companies and large forest owner associations is managed by a central purchasing function that is also responsible for any timber imports. About 100 contractors are responsible for most of the harvesting, about 100 for timber transportation to SCA's industries and about 110 for forest management measures.

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

SCA's process for a sustainable supply chain

It is important that the company's suppliers share our values. Regular reviews of risk and improvement potential enable us to develop together.



Employees and the community

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

Healthy and safe work environment

SCA's most important goal is that all employees, and everyone who enters the company's sites, should return home healthy and unharmed after work. The Group's aim is zero workplace accidents. SCA's Health and Safety Policy describes the Group's health and safety culture. Health and safety work at SCA's larger units is certified in accordance with OHSAS 18001.

SCA is proactive in identifying and addressing shortcomings and risks, reporting and analyzing events that have occurred to

identify the underlying causes and implement measures to prevent similar incidents in the future. Lessons learned from events that have occurred will be shared with the other units within the Group. Every employee has the right to stop work if the situation is perceived as unsafe. Each unit has a clear safety organization, local targets and action plans.

SCA is running the ZERO program to develop its shared health and safety culture through developed leadership, changed behavior and by encouraging all employees to become involved in health and safety work. The program also includes shared procedures and a uniform structure for systematic follow-up, evaluation and reporting.

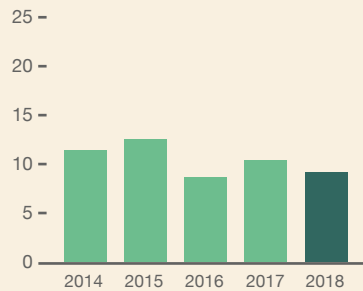
SCA conducts training initiatives with regard to health and safety. In 2018, some 50 Group managers were trained in change management to coach and encourage safe behavior. About 200 managers, safety officers and others who are active in improving

Value creation for people

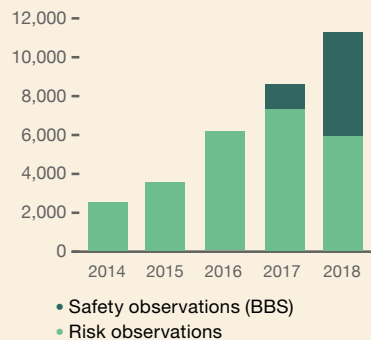
Health and safety are a top priority and SCA has a vision of zero workplace accidents. The frequency rate of workplace accidents (FR), measured as the number of workplace accidents resulting in absence per million hours worked, has improved by 8% compared with 2017.

One important aspect of preventive efforts is observations of potential risks and safe/unsafe behavior. The number of observations has increased significantly, by almost 3,000 observations, to 11,290, equivalent to approximately 3 observations per employee.

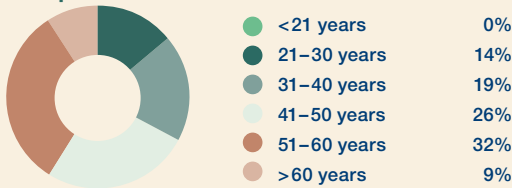
Workplace Accident Frequency Rate (FR)



Preventive reporting (observations)



Employee age distribution for the Group

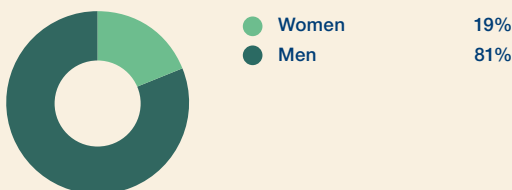


The age structure has not changed to any great extent compared with 2017. During the year, just over 270 people were newly employed.

SCA is endeavoring to increase diversity and inclusion. Examples of activities:

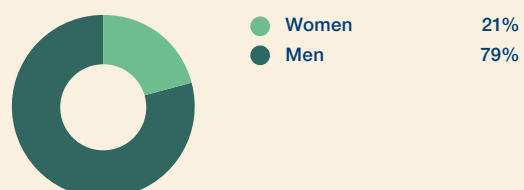
- Goal in recruitment of summer workers (50% women)
- Recruitment ad design
- Participation in research project together with Mid Sweden University and Vinnova
- Support to the FLIT (Flickor i teknik) project
- Equal opportunity plans, with practical activities at unit level

Distribution women and men in total for the Group



The share of women in total in the Group amounts to 19%, which is an increase of one percentage point compared with 2017.

Distribution women and men in management positions for the Group



The share of women in management positions amounts to 21% and has increased by one percentage point compared with 2017. Management positions refers to members of management teams.

the work environment received training to create a better work environment (BAM) and almost 400 employees received training in behavior-based safety, a methodical and simple approach to alert each other to work safely. There are also local initiatives that promote healthy living and a safe work environment.

All SCA employees have access to occupational health services that provide work-related health services and proactive work in health and well-being. The occupational health service provider works on a strictly confidential basis and also conducts random drug tests. SCA's occupational health services have held a number of preventive stress management courses with the aim of providing participants greater knowledge of stress management, sleep, self-esteem, diet and exercise as well as work-life balance.

In 2018, 60 (65) workplace accidents took place resulting in absence, which is a reduction of 8% compared with last year. The most common causes of accidents, which also resulted in the longest absence, were crushing, tripping and falling accidents.

The number of days of absence due to workplace accidents has risen from 10 to 17 days per accident in 2018. A small number of accidents resulted in longer absence but most accidents resulted in less than one week of absence. The number of risk observations has more than doubled since the ZERO program began. In 2018, 11,290 risk and behavior-based safety observations were reported.

Employee relations

Employees have representatives on the Board and in various networking groups to work together with the company to improve and develop operations. In the event of major changes, an impact assessment is performed.

All Employee Surveys, where employees can take part, are held regularly. Action plans are drawn up based on the results of these surveys to develop SCA. More than 90% of employees responded in this year's survey. The results indicated good team work and commitment as well as positive progress for leadership and work environment.

All employees in Sweden, with the exception of the Executive Management Team, are covered by collective agreements. The percentage for the Group as a whole is 89%.

Employee ship and leadership

SCA strives to offer every employee an opportunity to develop to their full potential and to work in an atmosphere of respect and trust. All employees are given annual target and performance management reviews to follow up performance and job satisfaction, define areas for improvement and personal targets. All new employees are given introductory training and have a personalized introductory plan.

All managers take part in a one-day introduction to SCA's leadership platform that also encompasses SCA's strategy and the company's expectations for its leaders. 37 new managers completed the course in 2018. In addition, a number of management training courses are held, including basic leadership and change management.

Diversity and inclusive culture

SCA stands up for the equal value of every person and respect for each other. It fosters cooperation and allows us to develop, as people and as a company. The principles for the company's work in the field are detailed in SCA's HR Policy and procedures for victimization.

The equal opportunity plans, which include practical activities at unit level, are prepared and followed up on an annual basis. To

increase diversity, the company works, for example, to broaden its recruitment base by changing the style of its recruitment ads, a Group-wide recruitment function and through interaction with the educational system. In 2018, the Forest business area conducted a major gender equality initiative that encompassed management and employee training and meetings with students in higher education specializing in forestry. Sawmills targeted to recruit an equal number of women as men as summer temps, which some units achieved.

Competence supply and education

The need for training is identified based on the needs of the unit and the individual to meet future challenges in the best way possible. SCA offers continuing training according to the 70-20-10 model, meaning respectively practical training in the work situation, coaching and formal education. The training courses are conducted, for example, in leadership, work environment, business ethics and in specific competencies. SCA also takes part in the development of training courses in professions with a shortage of labor, such as machine operators. Furthermore, SCA offers practical workplace experience and summer jobs in offices, industrial plants, nurseries and in forest operations. This provides a good and important base for SCA's supply of skilled employees, at the same time as young people are offered important work experience. In 2018, 406 young people had summer jobs at SCA.

SCA collaborates with schools in order to secure the industry's attractiveness and the long-term supply of competent employees. SCA participates in the Skogen i Skolan program, which aims to increase knowledge and awareness of the forest and forest industry among students and teachers, "Tekniksprånget," a nationwide placement program for senior high school students who studied natural sciences and technology programs to increase interest in pursuing the engineering profession and "Jobbsprånget" to help newly arrived academics to enter the labor market.

Community engagement

Examples of SCA's community engagement

- Coaching of forest contractors to establish and run their own companies, often in rural areas
- Supporting innovative capacity and entrepreneurship through involvement in initiatives including BizMaker in Sundsvall, Junior Achievement Sweden and other regional development centers
- Tekniksprånget and Teknikcollege, to strengthen interest in science and engineering educations among young people. The projects; FLIT (Flickor i Teknik) and Geek Girls to stimulate an interest in technology among girls
- Supporting associations and local community engagement in sport, culture and other areas
- Participation at national, regional and local levels in Skogen i skolan (The forest in school) to spread awareness of, and interest in, career prospects offered by the forest industry.
- SCA's conservation parks. Large sections of the landscape managed in a way that promotes nature conservation and cultural values

Community engagement

In accordance with SCA's guidelines for community engagement, the company prioritizes initiatives with a clear link to SCA's values, strategic priorities, expertise, operations and geographic presence. SCA's community engagement shall be politically and religiously neutral. To remain relevant, today and in the future, SCA must evolve in harmony with the communities of which the company is a part. Social challenges can serve as a source of innovation and development for SCA's business models and product offerings.

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

SCA contributes to the local economy in the municipalities in Northern Sweden where the company conducts operations. Of SCA's more than 4,100 employees, 87% are employees in Sweden and the remaining 13% mainly in Europe. In addition to direct payments, in the form of various taxes, SCA generates the preconditions so that trade, services and public services can continue to exist in smaller rural communities. SCA's industry, where one very important element of the supply of raw material is the purchase of timber from private forest owners, creates jobs in rural areas, both directly and indirectly. SCA's forests, not least the forest roads SCA builds, contribute toward ecotourism, hunting and fishing. In combination, these operations create an opportunity for people to live and work in areas such as the inland region of Norrland.

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



Product development and innovation

Innovation

The company conducts structured innovation work in compliance with the strategic priorities. One important priority is to constantly increase value creation of the forest raw material, partly through greater utilization of raw materials and production efficiency and partly by moving the product portfolio to increase added value. Innovation work leads to greater customer value through the development of new products and application areas that utilize the climate benefits and resource efficiency of forest-based products.

Examples include a wet-strength liner with lower grammages suitable for food packaging in a damp climate and products in the SmartTimber range, such as heart pine decking, semi-finished cladding with concealed fitting and products with lengths adapted to end uses. New paper grades are regularly launched in response to the structural decrease in demand for publication paper. The latest is SCA Frontier, which can replace uncoated fine paper and increase resource efficiency.

Reducing climate impact through life cycle thinking

One important tool in SCA's corporate responsibility work is the Resource Management System (RMS). This system monitors resource consumption and environmental impact for production facilities and for transportation of raw materials and finished products. Using life cycle assessments, the carbon footprint from the Group's products can be calculated. SCA's products already today have a small carbon footprint.

The greatest climate effect can be achieved by using the Group's products to replace other products with a larger carbon footprint.

Product safety

SCA wants to ensure safe and high-quality products and services for its customers and consumers, produced and delivered with respect for people and nature. Products must be safe for the user and for the environment and meet the customers' and authorities' product safety requirements. In product and process development, the precautionary approach is used.

Raw materials and chemicals used in the products or in the company's operations are continuously assessed. Based on available knowledge, we work actively to identify and replace any products that must be substituted. The work is coordinated through the Group's Chemicals Management Network.

Responsible forest management

The forest forms the foundation for all of SCA's operations. The Group conducts responsible, long-term and profitable forest operations that generate a valuable raw material and contribute toward many other values. At the same time, the forest's conservation and recreational values must be maintained. SCA forest land shall, in the future, be at least as rich in biodiversity, nature experiences and raw material as it is today.

Some 50 Sami communities have the right to herd reindeer on SCA's land. A number of consultations are held to facilitate

Nature conservation area, status Dec 31, 2018

Nature conservation areas in the form of	Number of hectares	% of productive forest land
Voluntary set-asides for promoting biodiversity	166,000	8.2 (8.1)
Nature conservation during harvesting operations	-	11.7 (13)
Total (over the rotation period of the forest)		20 (21)
In addition: Alternative forms of forest management	59,000	2.9 (2.9)

The table shows the percentage of SCA's productive forest land that was included in ecological landscape plans at the end of 2018 for the purpose of promoting biodiversity. The plans are subject to change and inventories and analyses are conducted continuously to identify areas with the highest conservation values. The Swedish Forest Agency's methods form the basis for the identification of forest with high conservation values set aside in SCA's voluntary set-asides. The voluntary set-asides are presented at <https://www.skogsindustrierna.se/skogsindustrin/hallbarhet/hallbart-skogsbruk/frivilligt-avsatt-skog/karta/>.

The proportion of nature conservation during harvesting pertains to an area of > 0.1 hectares of land within planned final felling operations on productive forest land. In 2018, 13.3% of the area in the felling plan was set aside for nature conservation. Surveys have shown that part of the planned conservation measures can be considered as already completed conservation measures. The reported outcome has therefore been reduced by 0.6 percentage points compared with the outcome from previous years. Seen over a rotation period and the entire productive forest area that is not a reserved area (91.8%), this level means 11.7% is left untouched for nature conservation purposes.

Alternative forms of harvesting are primarily various continuous cover forestry methods, such as selection cutting, economic selective logging and shelterwood.

Measures to promote biodiversity

Measures taken in 2018	Number of hectares	% of final felling area 2018
Nature conservancy management (NCM) in voluntary set-asides	245	1.2 (1.3)
Alternative (continuous cover methods) forms of harvesting outside voluntary set-asides	208	1.0 (1.4)
Controlled burning and slash-and-burn clearances	251	1.2 (0.5)

The table shows forest management measures conducted in 2018 that have benefited biodiversity in relation to the harvested area within SCA's forest holding the same year. Various measures are implemented to recreate habitats and valuable substrates, with controlled burning as one example. Burning takes place at both clearcut areas that are then regenerated and in forest set aside for nature conservation. A long, dry period with an extreme risk of fire meant it was not possible to perform controlled burning to the extent planned in the summer of 2018. Additional burned areas will be registered, as it was not possible to conduct an inventory of burnt forests during the summer for safety reasons. A conservation value assessment on site is carried out before all final felling and a complementary inventory is performed by personnel with specialist expertise in forests that may be high in conservation values.

cooperation and understanding of each other's needs, and cover issues such as the time for harvesting, site preparation, fertilization and choice of tree species when planting new forest. In 2018, 69 consultation meetings took place with 30 Sami communities and approximately 6,100 forest compartments were discussed.

Forest processes are long. It takes almost a century for a planted tree to become mature enough for harvesting and many natural processes take even longer. SCA's forest management planning therefore extends across more than 100 years and for each tree harvested, at least two new trees are planted. During the year, SCA's nurseries delivered about 82 million seedlings, of which 36 million were planted in SCA's own forests. The forest contributes to biodiversity while also providing a source for nature experiences and recreation. Hunting is also an important measure, for example in reducing grazing damage to trees caused by moose. Read more about how SCA conducts responsible forestry at sca.com.

Biodiversity

The preservation of biodiversity in the Group's forests is the most important environmental target in the management of SCA's forests. Areas that provide vital habitats for sensitive flora and fauna are excluded from forest management through voluntary set-asides or using alternative forms of forest management that promote biodiversity. SCA also takes extensive conservation measures in managing forest areas that do not contain any particular conservation value. Productive forest land is therefore set aside from harvesting in our ecological landscape plans, which SCA has developed for its entire forest holding. In 2018, this voluntary allocation amounted to 8% of productive forest land. In 2018, an additional 12% of productive forest land planned for harvesting was set aside.

SCA also carries out targeted preservation measures for threatened species. For example, SCA has planted pasque-flowers, restored wetlands and creted butterfly parks to protect the two endangered species *Baptria tibiale* and *Lycaena helle*.



The company has also established five conservation parks that encompass more than 10,000 hectares of forest land, where at least half of the land is earmarked or managed in a manner that promotes nature and cultural heritage. SCA uses the knowledge it gains in these parks in its other forest operations.

<p>60%</p> <p>of growth is harvested. Harvesting is lower than forest growth</p>	<p>17,000</p> <p>private forest owners have business relationships with SCA</p>
<p>4 Mt</p> <p>CO₂ is captured net every year in SCA's forest, equivalent to about 8% of Sweden's fossil emissions</p>	<p>36×10⁶</p> <p>seedlings planted in our own forest. For every tree that is harvested, more than two new trees are planted</p>

Responsible fiber acquisition



SCA's timber unit is responsible for sourcing all wood raw material to our wood, pulp and paper products. This raw material sourcing is third-party certified according to PEFC and FSC CoC. The largest amount of raw material is derived from certified forest operations. All raw material from the company's own forests is included in this share. The remaining volumes are from raw material that fulfills FSC CW, of which one quarter is from felling where the proportion of forest set aside for nature conservation is higher than that required by Swedish law. SCA encourages its external suppliers to certify their forest operations to increase access to certified raw materials.

SCA's production facilities used 9.6 million cubic meters of wood raw material in 2018. Almost all of the raw material flow (more than 93%) was from Sweden. The remaining raw material was from Finland, Norway and the Baltic States (6%), and from Poland, Scotland and Spain (1%).

Certified forest management

All wood raw material used in SCA's products must originate from responsibly managed forests – forests with a high level of biodiversity that are managed under good working practices. SCA's environmental management system is certified in accordance with ISO 14001 and SCA's forests are certified in accordance with the international forest management certificate, Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC), which aim to ensure responsible forest management. SCA contributes together with other social, environmental and economic stakeholders, in developing FSC's and PEFC's standards and operations.

Certified raw material sourcing

All wood raw material bought by SCA that is not certified according to FSC or PEFC must fulfill the requirements of FSC's standard for controlled wood. The timber must not be from controversial sources such as forests with high conservation values or forests where the rights of indigenous people or human rights are being violated. SCA's organization for wood procurement is third-party certified according to PEFC and FSC CoC. SCA is active in encouraging its external suppliers to certify their forest operations.

Climate impact and climate benefits

SCA works proactively to help reduce climate impact through reducing the emissions from its own operations and increasing forest uptake and also through the company's products, which are renewable and replace fossil alternatives.

Net growth of SCA's forests binds four million tonnes of carbon dioxide annually. Growth can be enhanced through responsible and active forest management, the development of seedling material, the use of contorta pine and through fertilization. The rate of harvesting is lower than growth, which leads to a net

growth and thereby a net uptake of CO₂ from the atmosphere. Increased growth will contribute in the longer term to a higher level of harvesting from the forest and thereby access to more renewable raw material.

The company's products provide climate benefits as they replace fossil alternatives or materials with a greater climate impact or carbon footprint. The substitution effect amounts to about 5 million tonnes of CO₂ per year.

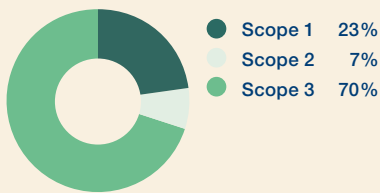
The company's value chain is to be fossil-free. Through systematic work with efficiency enhancements and a transition to biofuels, emissions from its own industries have halved since 2010. In 2018, emissions of greenhouse gases increased due to the expansion project at Östrand, since oil-firing instead of biofuels was required initially in the start up phase. This is a temporary measure and a return to biofuel is occurring in pace with the trimming of the plant.

An estimate of greenhouse gas emissions from the entire value chain shows that 30% is from own operations and from purchased electricity while about 70% is from sources outside the company's facilities. The single largest source is transportation. The company is striving in various ways to reduce climate impact, for example through the optimization of the logistics system and choice of fuel.

Surplus heat from the company's plants is delivered as district heating to local municipalities. In 2018, heat deliveries amounted to 0.5 TWh, corresponding to heating 40,000 homes.

SCA also offers partners an opportunity to build wind power on the Group's forest land. At the end of 2018, wind turbines with a capacity of 2.6 TWh per year were installed on SCA's forest land, corresponding to 13% of Sweden's wind power production.

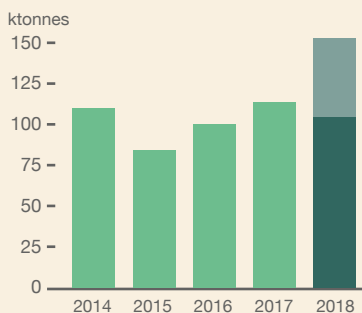
Greenhouse gas emissions in the entire value chain



Emissions in the entire value chain from forest operations to transportation of finished products to customers amounts to about 0.9 million tonnes of fossil CO₂ per year. This compares with the 4 million tonnes of CO₂ that the company's forests bind and with approximately 5 million tonnes of CO₂ per year in the substitution effect from the company's products. Total climate benefits therefore amount to about 8 million tonnes of CO₂ per year. Distribution based on the climate summary for 2017.

- Scope 1 – Direct emissions
- Scope 2 – Emissions from purchased electricity and energy
- Scope 3 – Emissions from purchased goods and services

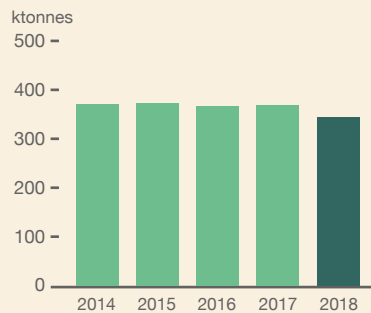
CO₂ emissions from industry, fossil CO₂



- Refers to effects related to the expansion project at the Östrand pulp mill in 2018

SCA is working actively to reduce fossil CO₂ emissions. Between 2010 and 2017, emissions have decreased by about 50% or approximately 100,000 tonnes per year. However, in 2018 emissions rose due to the expansion project at Östrand pulp mill and the resulting increase in oil consumption. CO₂ emissions are reported for Scope 1.

CO₂ emissions from transportation, fossil CO₂



By optimizing the logistics system, CO₂ emissions from transportation have been kept at a relatively constant level at the same time as the volume of transported goods has increased. In 2018, emissions decreased due to a lower share of shipping to other continents and increased use of renewable fuel.

Resource use and environmental impact

This section describes SCA's use of raw materials, water, energy, emissions, transportation and waste management. Data is presented in the environmental data table at the end of Sustainability facts.

Raw materials

The foundation for SCA's products is fresh wood fiber. In addition, smaller quantities of recovered fiber and inorganic material are used in the form of kaolin clay and calcium carbonate in the manufacture of various paper products. Moreover, a small amount of fossil organic material is used in chemical additives. 56% (55) of wood raw material used is sourced from SCA's own forest and own sawmills.

Water

SCA endeavors to reduce the occurrence of substances in process water that impact the environment and to improve the purification of water that is released back to nature, using mechanical and biological treatment systems. SCA's plants are mainly supplied with water in the form of surface water. The remaining water is from municipal water systems. SCA monitors water consumption and origin as well as the quality of its effluent water. Most of the water is used to transport fibers during the production process and the remainder is mainly used as cooling water. SCA's plants are located in areas with plentiful supply of water. Effluent water from pulp and paper mills is, after treatment, discharged into the Baltic Sea.

Energy

Calculations for energy use at a production facility include purchased energy (heating, electricity and fuel), energy generated from wood, liquor, bark, sludge and waste paper, and self-produced electricity. A large portion of the energy used by SCA

comes from the incineration of wood residuals and from electricity produced through co-generation. Fuel consumption at SCA is 93% (95) fossil-free. In 2018, the percentage of fossil-free fuel decreased temporarily following the start-up of the expanded pulp mill in Östrand. Any self-produced electricity that is not used internally is supplied to the national grid. SCA delivers energy to the district heating system by utilizing secondary heat from the process and in this way replaces fossil fuels at municipal energy plants. Since 2003, SCA's ESAVE energy-efficiency program has contributed to energy savings and improved efficiency. ESAVE comprises investing in energy-efficient technical solutions, focusing on continuous improvements and increasing awareness among employees. All new equipment should be energy efficient by design. SCA has seven units subject to the EU Emissions Trading System (EU ETS).

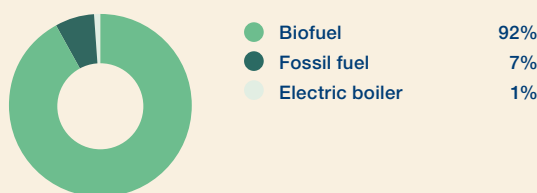
Sold and purchased heat

Heat (Refers to production facilities in Sweden)	Sold external (TJ)	Purchased (TJ)
Heating	1,800 (1,600)	469 (459)
Steam	0	0
Cooling	0	0
Total	1,800 (1,600)	469 (459)

Transportation

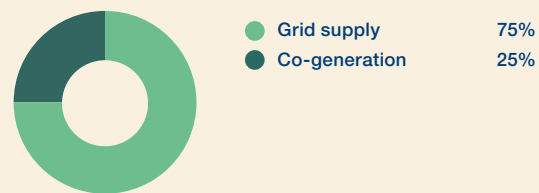
Raw materials are transported to SCA's production plants and finished products are delivered to SCA's customers. SCA uses ships, rail and road transportation depending on distance and the transport systems accessibility, in order to minimize the climate impact. The choice of fuel is reviewed as renewable fuels become more available.

Distribution of fuel supply



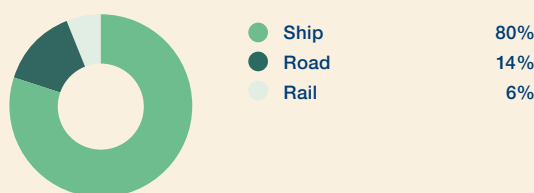
In 2018, SCA's fuel consumption, including purchased electricity for steam production, was 93% fossil-free. Electricity purchased from the Swedish national grid is considered 97% fossil-free (according to IEA). Refers to Swedish production facilities.

Distribution of electricity supply



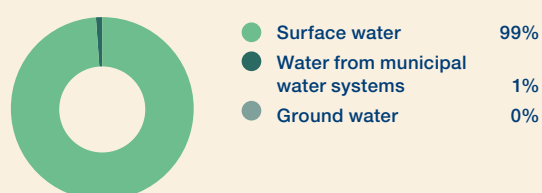
SCA's plants in Sweden generate electricity using co-generation which is equivalent to 25% of the Group's electricity consumption. The remainder is from the national grid. SCA is currently a net purchaser of electricity.

Distribution of transport usage



80% of transportation of raw materials and finished products is conducted by ship. For land transportation, approximately one third is conducted by rail.

Distribution of water supply



Almost all of SCA's water is from surface water sources, such as large rivers. Operations outside Sweden have a marginal water consumption. Total water consumption increased 4% due to expansion of the Östrand pulp mill.

The largest share of transportation is conducted by ship with SCA-owned RoRo vessels, chartered container ships or other cargo ships. SCA uses external suppliers for most of its road transports. Great emphasis is placed on maximizing load utilization in trucks and ships, to minimize energy use and transport emissions. Heavy vehicles, known as 74-tonne vehicles, contribute to more efficient transportation with lower emissions. Transportation by rail is a carbon-efficient mode of transportation, which is prioritized where this is possible. However, access to a reliable railway network limits options.

Emissions to air and water

The company's total emissions are influenced by the level of production, product mix and uniform production. Air emissions comprise all combustion units at SCA's production sites, regardless of fuel, as well as emissions from purchased electricity and thermal energy. When energy is supplied to an external facility, air emissions are reduced in relation to the energy amount delivered. Emissions to air are reported as dust, NO_x, SO₂ and fossil CO₂.

A large portion of air emissions are generated by transportation. SCA works to reduce emissions by increasing the fill ratio,

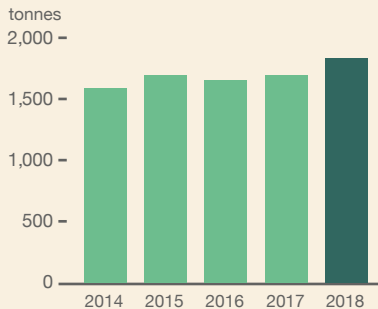
training in ecodriving, applying various techniques to reduce fuel consumption, and prioritizing transport means with less environmental impact.

SCA's effluent water is divided into cooling water and process water. Cooling water, which constitutes 53% of water usage, has only been heated and has not been in contact with the process flow. Effluent water is mechanically treated to remove suspended solids, sand and particles, while biological treatment extracts dissolved solids and pollutants that affect chemical oxygen demand (COD). Emissions to water are reported as COD, suspended solids, AOX, nitrogen and phosphorous.

Waste

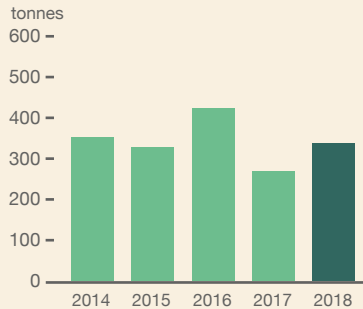
SCA takes a life cycle approach and works proactively with resource efficiency. SCA's industrial ecosystem utilizes by-products and waste streams insofar as this is possible. Most solid waste is recycled. A small quantity is sent to landfill or is hazardous waste. Recycled waste refers to material that can be used as raw materials, construction materials or for energy recovery and is primarily bio ash, sludge, organic waste and plastic. Hazardous waste is primarily waste oil as well as organic solvents, batteries and strip lights.

Emissions to air from industry, NO_x



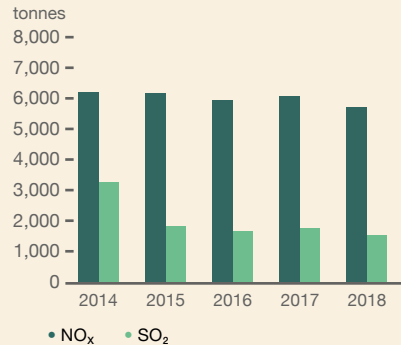
Emissions of nitrogen oxides from SCA's industries rose in 2018 due to an increase in oil consumption resulting from the expansion project at the Östrand pulp mill.

Emissions to air from industry, SO₂



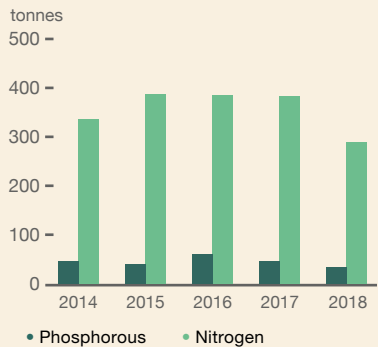
Emissions of SO₂ have fallen due to improvements in the availability of a recycling process. The slight increase in 2018 is related to a rise in oil consumption, see NO_x.

Emissions from transport activities, NO_x and SO₂



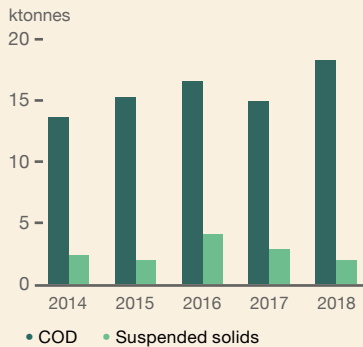
A decrease in shipping to other continents resulted in lower emissions in 2018.

Water effluents from industry, phosphorous and nitrogen



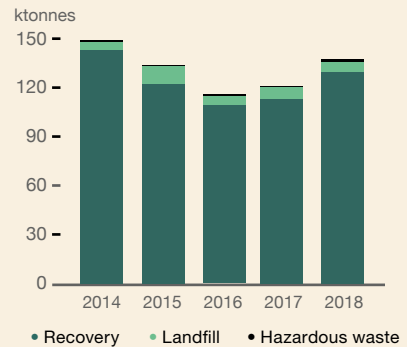
Nitrogen and phosphorous are dispensed to SCA's treatment systems to achieve a stable reduction in COD. Improvements in 2018 are due to the rebuilding and fine-tuning of effluent treatment plants.

Water effluents from industry, COD and suspended solids



The emission of suspended solids decreased in 2018 due to the fine tuning of the plants. The increase in COD was due to a breakdown at the biological wastewater treatment facility at the Munksund paper mill.

Distribution of waste by category



Almost all waste is recycled (94%). A small quantity (5%), is sent to landfill or treated as hazardous waste (1%).

Social data

The table shows social data for the SCA Group. Due to the distribution of the hygiene business in 2017, comparison data for all areas cannot be reported. Data for 2017 and 2018 refers to the entire Group. Data for 2016 refers to the SCA Forest Products business unit in the former SCA Group.

	2018	2017	2016
Average number of employees	4,216	4,127	4,022
Number of employees¹⁾	4,121	4,031	3,912
of whom men	3,358	3,318	3,231
of whom women	763	713	681
Number of temporary employees¹⁾	410	330	329
of whom men	306	262	251
of whom women	104	68	78
Number of part-time employees¹⁾	93	87	85
of whom men	57	56	52
of whom women	36	31	33
Age distribution			
<21 years old	0%	0%	0%
21–30	14%	13%	10%
31–40	19%	19%	18%
41–50	26%	28%	29%
51–60	32%	32%	33%
61+	9%	8%	11%
Employee turnover²⁾	8%	8%	10%
of which retirement and restructuring	2%	2%	4%
of which other	6%	6%	6%
Gender equality			
Share of women on the Board of Directors ³⁾	40%	44%	N/A
Share of women on the Board of Directors ⁴⁾	38%	42%	N/A
Share of women in the Executive Management Team	17%	15%	N/A
Share of women, in management positions ⁵⁾	21%	20%	18%
Share of women, all employees	19%	18%	17%
Share of women, white collar	32%	32%	31%
Share of women, blue collar	10%	9%	9%
Health and Safety			
Absence due to illness total	3.5%	3.8%	4.0%
Number of workplace accidents resulting in absence, LTA (of which non-Swedish units)	60 (10)	65 (11)	58 (9)
Number of workplace accidents among contractors, CLTA ⁶⁾ (of which fatal accidents)	33 (2)	37 (1)	38 (0)
Number of working days lost due to workplace accidents, DLA ⁷⁾	1,044	647	903
Workplace Accident Severity Rate, ASR, measured as days of absence/LTA	17.4	9.9	15.6
Workplace accident Frequency Rate, FR, (LTA/1,000,000 WH)	9.1	10.4	8.7
Fatal accidents	0	0	0
Total Recordable Incidents, TRI ⁸⁾	171	161	150
Number of hours worked, million hours	6.60	6.28	6.69

1) Refers to employees on December 31, 2018

2) Refers to permanent staff

3) Excluding members appointed by employees

4) Including members appointed by employees

5) Members of management teams

6) Refers to contractors who perform work at SCA's facilities, in forestry operations or conduct transport activities

7) Absence from day 1 after the accident

8) Total of LTA, medical treatment, alternative work duties and fatal accidents.

Environmental data

The table shows environmental data for SCA's production facilities. The report is more extensive than what is covered in text and charts. Raw material consumption is only reported at Group level. The outcome for 2017 has been supplemented with the outcome for non-Swedish.

		Total SCA			Total pulp and paper mills		Total Wood and Energy		Ortviken paper mill		Östrand pulp mill		Munksund paper mill	
		2018	2017	2016	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
PRODUCTION														
Paper, pulp and pellets	ktonnes	2,221	2,230	2,206	1,982	2,047	240	183	706	724	460	486	380	383
Timber and solid-wood products	1,000 m ³	2,397	2,453	2,139			2,397	2,453						
RAW MATERIALS														
Wood and sawmill chips	ktonnes	4,800	4,600	4,200										
Purchased pulp	ktonnes	0	0	0										
Recovered paper	ktonnes	290	300	280										
Inorganic material	ktonnes	200	200	200										
Organic fossil material	ktonnes	10	11	12										
Water	Mm ³	93	101	105										
ENERGY														
Electricity														
Co-generation	GWh	731	806	709	731	806	0	0	68	65	368	409	176	180
Grid supply	GWh	2,228	2,237	2,306	2,036	2,053	191	184	1,554	1,616	109	88	164	165
TOTAL	GWh	2,959	3,043	3,015	2,768	2,859	191	184	1,622	1,682	477	498	341	346
Fuels														
Biofuel	TJ	27,059	28,143	27,636	24,510	25,436	2,550	2,706	2,878	2,786	11,334	12,347	6,091	5,951
Fossil fuel	TJ	2,005	1,492	1,315	1,843	1,411	161	81	315	246	967	551	164	219
Electric boiler/hood	TJ	177	221	244	177	221	0	0	89	95	0	0	88	126
TOTAL	TJ	29,241	29,855	29,195	26,530	27,068	2,711	2,788	3,282	3,127	12,301	12,897	6,343	6,296
of which co-generation	TJ	3,024	3,330	3,011	3,024	3,330	0	0	303	291	1,550	1,723	674	679
EMISSIONS														
To air														
NO _x as NO ₂	tonnes	1,832	1,696	1,696	1,733	1,580	99	116	205	170	879	771	367	374
SO ₂	tonnes	336	268	423	328	257	9	11	26	31	145	57	119	119
Dust	tonnes	221	243	175	141	168	80	76	21	20	76	108	16	14
CO ₂ fossil	ktonnes	153	114	100	141	108	12	6	22	17	75	43	12	17
CO ₂ fossil, grid electricity	ktonnes	27	28	26	23	23	4	7	17	18	1	1	2	2
CO ₂ biogenic	ktonnes	2,846	2,790	2,773	2,590	2,521	256	270	293	284	1,216	1,139	630	629
To water														
COD	tonnes	18,266	14,907	16,587	18,266	14,907	0	0	3,377	3,093	7,681	6,763	6,018	3,302
BOD	tonnes	3,939	1,719	2,942	3,869	1,649	69	70	125	72	1,385	867	2,219	513
Suspended solids	tonnes	1,892	2,786	4,038	1,891	2,784	1	2	54	120	625	687	909	1,180
AOX	tonnes	15	10	14	15	10	0	0	2	2	9	5	2	2
Phosphorous (P)	tonnes	34	45	60	33	45	1	0	2	3	13	13	8	13
Nitrogen (N)	tonnes	290	384	385	287	384	3	0	67	67	109	144	59	88
Effluent water (process water)	Mm ³	51	41	41	51	41	0	0	12	12	25	15	8	8
Solid waste														
Landfill	tonnes	6,093	7,411	5,793	3,873	3,612	2,220	3,800	6	0	44	27	3,386	3,200
Recovery	tonnes	122,217	113,154	108,733	107,136	101,137	15,081	12,017	25,693	28,671	36,232	42,632	14,391	9,132
Hazardous waste	tonnes	1,383	1,416	1,121	822	1,185	561	231	203	415	440	644	128	78

Definitions

AOX Absorbable organic halogens
CO₂ Carbon dioxide
COD Chemical oxygen demand

BOD Biochemical oxygen demand
NO₂ Nitrogen dioxide

NO_x Nitrogen oxides
SO₂ Sulphur dioxide

	Obbola paper mill		BioNorr Härnösand		Building materials Stugun		Building materials Tunadal		Building materials UK and France		Bollsta sawmill		Gällö sawmill		Munksund sawmill		Rundvik sawmill		Tunadal sawmill	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	436	454	176	166	43	17														
					76	91	64	76	206	199	543	541	328	335	386	397	296	307	518	507
	118	151	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	210	183	32	32	8	2	3	3	8	9	41	41	17	15	26	26	20	21	36	35
	328	334	32	32	8	2	3	3	8	9	41	41	17	15	26	26	20	21	36	35
									0	0										
	4,207	4,352	571	568	27	73	2	3	0	0	634	655	251	226	460	495	204	228	401	458
	398	395	2	2	1	1	0	0	10	10	60	48	0	0	15	16	8	4	65	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	4,604	4,747	573	570	27	74	2	3	10	10	694	703	251	226	475	511	212	232	466	459
	497	636	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	282	265	0	0	3	6	0	0	1	0	49	58	19	24	7	8	12	13	7	7
	37	50	0	0	0	0	0	0	0	0	1	1	0	0	1	9	0	0	6	0
	29	25	49	52	4	7	0	0	0	0	9	1	2	5	0	0	16	10	0	0
	31	31	0	0	0	0	0	0	1	1	4	4	0	0	1	1	1	0	5	0
	2	2	0	0	0	0	0	0	2	3	0	0	0	0	0	0	0	0	0	0
	452	469	55	54	2	7	0	0	0	0	61	63	24	22	44	48	31	32	38	44
	1,190	1,749	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	140	197	0	0	0	0	0	0	0	0	69	70	0	0	0	0	0	0	0	0
	303	798	1	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	1	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	9	16	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0
	53	85	0	0	0	0	0	0	0	0	3	0	0	0	0	0	0	0	0	0
	6	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	437	384	1,912	3,422	2	0	0	0	180	236	0	0	34	60	90	82	0	0	2	0
	30,820	20,702	31	20	94	133	158	71	34	55	3,473	3,197	514	362	9	9	10,495	8,057	272	113
	50	48	352	1	0	10	38	3	26	32	53	66	7	3	10	29	42	57	33	30

Adoption of the annual accounts

The Board's assessment is that the dividend to shareholders in the proposed amount, in accordance with Note PC13, see page 118, is justifiable taking into account the requirements, on both the company and the Group, the nature of the business, its scope and risks place on the size of equity and also considering consolidation requirements, liquidity and other status. The financial position remains strong after the proposed dividend and is considered sufficient to ensure that the company can fulfill its short- or long-term obligations, and has the opportunity to make any necessary investments.

The Annual and Sustainability Report and the consolidated financial statements have been approved for publication by the Board of Directors on February 19, 2019. The Group's income statement and balance sheet and the Parent Company's income statement and balance sheet will be presented for approval at the Annual General Meeting on March 20, 2019.

The Board of Directors and President declare that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the EU and that disclosures herein give a true and fair view of the Group's financial position and results of operations. The Parent Company's financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Board of Directors' Report provides a fair review of the Parent Company's and Group's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

The Annual Report also contains the Group's and Parent Company's sustainability reporting in accordance with the Swedish Annual Accounts Act, Chapter 6, Section 11, see page 50, and the Sustainability Report in accordance with the Global Reporting Initiative, GRI, see the GRI index on pages 147–148.

Sundsvall, February 19, 2019

Pär Boman
Chairman of the
Board

Charlotte Bengtsson
Board member

Roger Boström
Board member,
Employee representative

Lennart Evrell
Board member

Annemarie Gardshol
Board member

Martin Lindqvist
Board member

Lotta Lyrå
Board member

Bert Nordberg
Board member

Anders Sundström
Board member

Barbara Milian Thoralfsson
Board member

Hans Wentjärv
Board member,
Employee representative

Johanna Viklund Lindén
Board member,
Employee representative

Ulf Larsson
President and CEO,
Board member

Auditor's report

To the general meeting of the shareholders of Svenska Cellulosa Aktiebolaget SCA (publ),
corporate identity number 556012-6293.

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Svenska Cellulosa Aktiebolaget SCA (publ) for the year 2018 except for the corporate governance statement on pages 55-65 and the sustainability report defined on page 50. The annual accounts and consolidated accounts of the company are included on pages 46–118 and page 142 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 2018 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 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 55–65. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but

we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit

included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statement.

Forest Valuation

Description	How our audit addressed this key audit matter
<p>The group's forest assets are accounted for as biological assets valued at fair value in accordance with IAS 41 Agriculture and by application of IFRS 13 Fair Value Measurement. As of 31 December 2018 the forest is accounted for at 32.1 billion SEK. The fair value of the group's forest assets is calculated as the present value of future cash flows before tax and is classified as Level 3 valuation as defined in IFRS 13. The valuation process is complex since a quoted price in an active market does not exist for these assets. As a result biological assets are valued based on the present value of future cash flows. Key assumptions are future forest prices, felling costs, volume assumptions and discount rate which all include a high degree of assumptions from the company. We therefore consider the valuation of the group's forest assets to be a Key Audit Matter.</p>	<p>In our audit we have evaluated and reviewed key assumptions, application of common valuation practice, discount rate ("WACC") and other source data that the company has used by i.e. comparing to external data sources, such as forecasted inflation, forest prices and felling costs or assumptions of future felling volumes and by evaluating the sensitivity in the company's valuation model. We have as appropriate included valuation specialists in the team performing our review. We have specifically focused on the sensitivity in the calculations. Furthermore we have evaluated the company's historical capability to forecast. Finally we have evaluated if disclosures provided in note D3 ("Biological Assets") in the company's notes are appropriate, specifically with regards to disclosure of which of the stated assumptions that are most sensitive in calculating the fair value.</p>

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-45, 119-141 and 146-154. 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 ISA's 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 ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts.

We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we have identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Svenska Cellulosa Aktiebolaget SCA (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 55-65 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on page 50 with references, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

Ernst & Young AB with Hamish Mabon as auditor in charge, Box 7850, 103 99 Stockholm, was appointed auditor of Svenska Cellulosa Aktiebolaget SCA (publ) by the general meeting of the shareholders on the 23 March 2018 and has been the company's auditor since the 14 April 2016.

Stockholm 19 February 2019

Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Auditor's Limited Assurance Report on SCA's Sustainability Report

To Svenska Cellulosa Aktiebolaget SCA, corporate identity number 556012-6293

Introduction

We have been engaged by the Board of Directors of Svenska Cellulosa Aktiebolaget SCA to undertake a limited assurance engagement of Svenska Cellulosa Aktiebolaget SCA's Sustainability Report for the year 2018. The company has defined the scope of the Sustainability Report to the areas referred to in the GRI Index on pages 147-148.

Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on the pages 124-125, and are the parts of the Sustainability Reporting Guidelines published by GRI (Global Reporting Initiative) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information. A limited assurance

engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of Svenska Cellulosa Aktiebolaget SCA in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The procedures performed, consequently, do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm, 19 February 2019

Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Charlotte Söderlund
Authorized Public Accountant

GRI index 2018

SCA prepares its report in accordance with GRI Standards, Core option. All indicators are from 2016 except GRI 403-9 which refers to 2018.

GRI 102: General disclosures			
Disclosure number	Description	Page	Comment/Omission
Organizational profile			
102-1	Name of the organization	151	
102-2	Activities, brands, products and services	3, sca.com	
102-3	Location of headquarters	151	
102-4	Location of operations	83 (TB1:1)	
102-5	Ownership and legal form	44-45	
102-6	Markets served	5, 83 (TB1:1)	
102-7	Scale of the organization	4-5, 81-83 (Note B1)	
102-8	Information on employees and other workers	125, 139, 83	Apart from SCA's own employees, the main group that is not employed by SCA comprises contractors conducting forest services, some 900 people.
102-9	Supply chain	130	
102-10	Significant changes to the organization and its supply chain	57	No major changes have taken place in 2018.
102-11	Precautionary Principle or approach	122	
102-12	External initiatives	122	
102-13	Membership of associations	122	
Strategy			
102-14	Statement from senior decision-maker	6	
Ethics and integrity			
102-16	Values, principles, standards and norms of behavior	43, 128-129	
Governance			
102-18	Governance structure	55-56, 122	
Stakeholder engagement			
102-40	List of stakeholder groups	123	
102-41	Collective bargaining agreements	132	
102-42	Identifying and selecting stakeholders	122-123	
102-43	Approach to stakeholder engagement	122-123	
102-44	Key topics and concerns raised	123-124	
Reporting practice			
102-45	Entities included in the consolidated financial statements	105 (Note F1), 124-125	
102-46	Defining report content and topic Boundaries	124-125	
102-47	List of material topics	124	
102-48	Restatements of information	124	
102-49	Changes in reporting	124	
102-50	Reporting period	124	
102-51	Date of most recent report	124	
102-52	Reporting cycle	124	
102-53	Contact point for questions regarding the report	151	
102-54	Claims of reporting in accordance with the GRI Standards	124	
102-55	GRI content index	147-148	
102-56	External assurance	142, 146	

GRI 103: Management approach				
Area	Disclosure number	103-1 Explanation of the material topic and its Boundary	103-2 The management approach and its components, page	GRI 103-3 Evaluation of the management approach
Economic performance				
GRI 201: Economic performance	201-1	124-125	122, 126-127	122
Anti-corruption				
GRI 206: Anti-competitive Behavior	206-1	124-125	122, 126-127	122
Energy				
GRI 302: Energy	302-1	124-125, 137	122, 126-127	122
Biodiversity				
GRI 304: Biodiversity	304-3	124-125	122, 126-127	122
Emissions				
GRI 305: Emissions	305-5	124-125	122, 126-127	122
Occupational Health and Safety				
GRI 403: Occupational Health and Safety	403-9	124-125	122, 126-127, 131	122
Diversity and Equal Opportunity				
GRI 405: Diversity and Equal Opportunity	405-1	124-125	122, 126-127	122

GRI 403: Occupational Health and Safety							
	403-1 Occupational health and safety management system	403-2 Hazard identification, risk assessment, and incident investigation	403-3 Occupational health services	403-4 Worker participation, consultation, and communication on occupational health and safety	403-5 Worker training on occupational health and safety	403-6 Promotion of worker health	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships
Occupational Health and Safety							
403-9	131	122, 125, 129, 131	132	123, 125, 131-132	132	132	134

Material Sustainability Topics				
Area	Disclosure number	Description	Page	Comment/Omission
Economic performance				
GRI 201: Economic performance	201-1	Direct economic value generated and distributed	120	
Anti-corruption				
GRI 206: Anti-competitive Behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	128-129	
Energy				
GRI 302: Energy	302-1	Energy consumption within the organization	137, 140-141	
Biodiversity				
GRI 304: Biodiversity	304-3	Habitats protected or restored	39, 134-136	
Emissions				
GRI 305: Emissions	305-5	Reduction of GHG emissions	136, 138, 140-141	On account of the expansion project at Östrand pulp mill, the outcome for 2018 is not representative of the operation. The reduction in greenhouse gases is therefore reported for the 2010-2017 period.
Occupational Health and Safety				
GRI 403: Occupational Health and Safety	403-9	Work-related injuries	125, 129, 131-132, 139	Reporting for contractors who performed work at SCA's facilities, in forestry operations or conducted transport activities, only used for CLTA and fatal accidents.
Diversity and Equal Opportunity				
GRI 405: Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	62-63, 83, 131, 139	Departure for information on minority groups in accordance with Swedish law. Age distribution is reported for all employees at SCA, since a breakdown by employment category currently lacks system support.

Multi-year summary

Continuing operations (SEKm)	2018	2017	2016 ¹⁾	2015 ¹⁾	2014 ¹⁾
INCOME STATEMENT					
Net sales	18,755	16,664	15,373	16,152	15,412
Adjusted EBITDA	5,252	3,761	3,269	3,741	3,683
Items affecting comparability	0	-113	116	40	-383
EBITDA	5,252	3,648	3,385	3,781	3,300
Forest	1,394	1,363	1,238	1,213	1,240
Wood	904	670	531	484	607
Pulp	709	482	530	970	768
Paper	2,468	1,479	1,246	1,317	855
Other	-223	-346	-160	-203	-170
Depreciation/amortization	-1,250	-1,137	-1,114	-1,197	-1,209
Items affecting comparability impairment	0	0	0	-1,320	-9
Operating profit	4,002	2,511	2,271	1,264	2,082
Financial items	-29	-93	-84	-128	-221
Profit before tax	3,973	2,418	2,187	1,136	1,861
Taxes	-314	-544	-417	-262	-482
Profit for the period	3,659	1,874	1,770	874	1,379
BALANCE SHEET					
Biological assets	32,065	31,386	30,770	30,119	29,685
Deferred tax liabilities related to biological assets	-6,605	-6,905	-6,769	-6,626	-6,531
Working capital	3,735	2,861	2,740	3,002	3,118
Other capital employed	16,887	15,377	13,386	11,341	12,556
Capital employed	46,082	42,719	40,127	37,836	38,828
Equity	39,062	36,753	35,127 ²⁾	-	-
Net debt	7,020	5,966	5,000 ²⁾	-	-
Capital employed	46,082	42,719	40,127	37,836	38,828
CASH FLOW STATEMENT					
Operating cash flow	2,751	2,273	1,917	2,481	1,469
Cash flow before dividend	528	-754	-350	1,673	1,050
Current capital expenditures, net	-1,002	-638	-959	-869	-876
Strategic capital expenditures in non-current assets	-1,967	-2,863	-2,231	-946	-184
KEY FIGURES					
EBITDA margin	28.0%	21.9%	22.0%	23.4%	21.4%
Adjusted EBITDA margin	28.0%	22.6%	21.3%	23.2%	23.9%
Operating margin	21.3%	15.1%	14.8%	7.8%	13.5%
Industrial return on capital employed	16.4%	9.7%	9.8%	2.2%	8.1%
Return on capital employed	9.0%	6.1%	5.8%	3.3%	5.4%
Working capital as a percentage of sales	17.5%	17.7%	17.8%	18.6%	20.2%
Net debt/EBITDA	1.3x	1.6x	1.5x ²⁾	-	-
Net debt/Equity	18%	16%	14% ²⁾	-	-
Data per share					
Earnings per share, SEK	5.21	2.67	2.52	1.24	1.96
Dividend per share, SEK	1.75 ³⁾	1.50	-	-	-
Operating cash flow per share, SEK	3.92	3.24	2.73	3.53	2.09

1) Restated financial information.

2) Pro forma. Pro forma net debt after reallocation to SEK 5,000m on December 31, 2016. Pro forma equity calculated as capital employed less pro forma net debt. Pro forma value of net debt and equity used in relation to EBITDA (not pro forma).

3) Board of Directors' proposal.

Definitions and glossary

Financial terms

Performance measures

EBITDA

Profit before depreciation, amortization and impairment, financial items and taxes.

EBITDA margin

Profit before depreciation, amortization and impairment, financial items and taxes as a percentage of net sales for the year.

Adjusted EBITDA

Profit before depreciation, amortization and impairment, financial items and taxes excluding items affecting comparability.

Items affecting comparability

Profit/loss items of a non-recurring nature with a significant impact on profit which are important in understanding the underlying development of the business. See Note B5.

Capital definitions

Capital employed

Calculated as the balance sheet's total assets excluding financial assets and pension assets, less any trade payables and other current non-interest-bearing liabilities.

Working capital

Working capital is calculated as short-term operating receivables (inventories, accounts receivable and other non-interest-bearing current receivables) less current operating liabilities (trade payables and other non-interest-bearing current liabilities).

Net debt

Calculated as financial liabilities and provisions for pensions with deductions for financial assets (surplus in funded pension plans, financial assets and cash and cash equivalents).

Profitability ratios

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 capital employed on average for the two most recent quarters.

Cash flow performance measures

Operating cash surplus

EBITDA with deductions for capital gains and capital losses from property, plant and equipment and intangible assets and the reversal of the share of profits of associates and the result of the forest revaluation.

Operating cash flow

Operating cash flow comprises the sum of operating cash surplus and change in working capital, with deductions for current capital expenditure and restructuring 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 expenditures in non-current assets

Strategic capital expenditures increase the company's future cash flow through acquisitions of companies, capital expenditures to expand facilities, or new technologies that boost competitiveness.

Current capital expenditures, net

Current net investments consist of investments made to maintain competitiveness, and include maintenance, rationalization and replacement measures or investments of an environmental nature, with deductions for compensation from divested non-current assets, aimed at preserving the value of assets.

Glossary

CTMP (Chemical thermo mechanical pulp) A high-yield pulp produced through heating and mechanical defibration in a refiner of preheated, chemically pre-treated softwood.

FSC (Forest Stewardship Council)

An international organization working to ensure responsible forest management. The FSC has developed principles for responsible forestry that can be applied for certifying forest management and that facilitate FSC labeling of wood products from FSC-certified forests.

Kraftliner The surface layer of corrugated board based on fresh wood fiber.

LWC paper (Light Weight Coated)

LWC paper is a coated paper with a high mechanical pulp content. Used for high-quality magazines and advertising materials with demanding color-printing requirements.

m³sub Solid cubic meter under bark. Specifies the volume of timber excluding bark and tops. Used in harvesting and the timber trade. 1 m³sub equals about 1.22 m³fo.

m³fo Forest cubic meter. Volume of timber including tops and bark, but excluding branches. Used to describe the forest portfolio of standing timber. Growth is also specified in forest cubic meters. 1 m³fo equals about 0.82 m³sub.

PEFC – Programme for the Endorsement of Forest Certification An international forest certification system.

Productive forest land Land with a productive capacity that exceeds an average of one cubic meter of forest per hectare annually.

NBSK bleached softwood kraft pulp manufactured by boiling wood fiber with chemicals.

Solid-wood products Wood sawn into various sizes for use in, for example, furniture manufacturing and the joinery industry or as construction timber.

Wood raw material relates to fresh wood fiber used in solid-wood products, pulp and paper products.

About the Annual General Meeting

The Annual General Meeting of Svenska Cellulosa Aktiebolaget SCA will be held on Wednesday, March 20, 2019 at 1:00 p.m. at Hotel Södra Berget, Södra Stadsberget 1, Sundsvall, Sweden.

Registration for the Annual General Meeting will start at 11:30 a.m.

Notification of attendance

Shareholders who wish to attend the Annual General Meeting must be listed in the shareholders' register maintained by Euroclear Sweden AB on Thursday, March 14, 2019, and, give notice of their intention to attend the meeting no later than Thursday, March 14, 2019.

Notification may be given in any of the following manners:

- by telephone at +46 60 19 33 00, weekdays between 8:00 a.m. and 5:00 p.m.
- on the company's website www.sca.com

– by mail to Svenska Cellulosa Aktiebolaget SCA, Group Function Legal Affairs, "Annual General Meeting" SE-851 88, Sundsvall, Sweden

The following applies to shareholders who have their shares registered through a bank or other nominee in order to be entitled to attend the meeting. In addition to giving notification, shareholders must request that their shares be registered under their own names. Such registration in the shareholders' register must be completed at Euroclear Sweden AB by Thursday, March 14, 2019 at the latest. In such cases, the shareholders in question should instruct the bank or nominee of this well in advance of Thursday, March 14, 2019. Such registration may be temporary.

Name, personal identity number/corporate registration number, address and telephone number, and telephone number of assistants, if any, should be stated

when notification is given. Shareholders represented by proxy must issue a power of attorney for their representative. Proxy forms are available in Swedish and English upon request from the company and are also available on the company's website www.sca.com. A power of attorney is valid for one year from its issue or the longer period of validity stipulated in the power of attorney, though not more than five years. Anyone representing a legal entity must present a copy of the registration certificate, not older than one year, or equivalent authorization documents, listing the authorized signatories. To facilitate entry into the Meeting, the power of attorney in the original, the registration certificate and other authorization documents should be sent to the company at the above address, well in advance of the Meeting.

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

Addresses

Headquarters

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SCA's Annual Report is produced with the greatest possible environmental consideration. Our paper, GraphoSilk 90 g/m², is manufactured using raw material from responsibly managed forests in Northern Sweden at Ortviken paper mill, a mill with exceptionally low emissions of CO₂ from fossil sources.

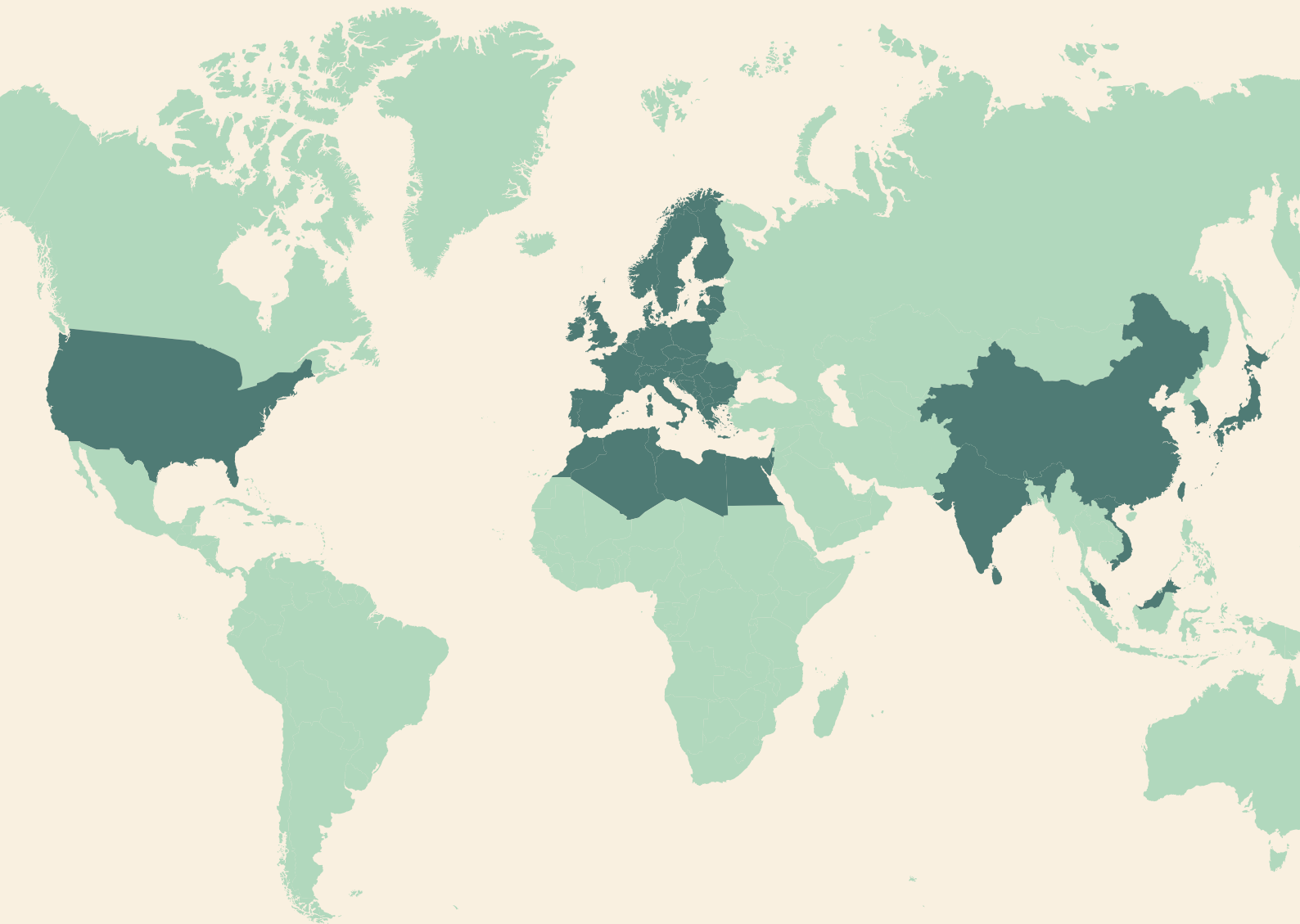
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SCA in the world

Products demanded by customers across the globe are manufactured from the raw material found in the forests of Northern Sweden. But the aim is not to sell to as many countries as possible.

Instead, SCA seeks out the markets and customers where the company's products can generate the greatest value and where SCA can gain a significant and strategic market position.



■ SCA's markets

A year has passed.
Our forest continues to grow in diversity, in size and in value.
And from it, a new and sustainable society is growing.