Operations and structure

SCA is a leading global hygiene and forest products company that develops and produces sustainable personal care, tissue and forest products.

SCA divides and reports its operations according to three business areas – Personal Care, Tissue and Forest Products. Personal Care includes incontinence products, baby diapers and feminine care products. Tissue includes consumer tissue and Away-from-Home tissue (AfH tissue). Forest Products includes paper for packaging and print, pulp, solid-wood products and renewable energy.

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

SCA is Europe's largest private forest owner, with 2.6 million hectares of forest land, which covers approximately half of the Group's timber supply and enables efficient raw material integration and effective cost control.

Organization

SCA has seven business units. After a reorganization on January 1, 2016, the units are as follows:

- SCA Incontinence Care, which offers incontinence products in Europe and North America.
- SCA Consumer Goods, which offers consumer goods in Europe.
- SCA Latin America, which offers personal care products and tissue.
- SCA MEIA (the Middle East, India and Africa), which offers personal care products and tissue.
- SCA Asia Pacific, which offers personal care products and tissue.
- SCA AfH Professional Hygiene, which offers AfH tissue in Europe and North America.
- SCA Forest Products, which offers paper for packaging and print, pulp, solid-wood products and renewable energy.

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

- Global Hygiene Category (GHC), with global responsibility for customer and consumer brands and innovation in the hygiene area.
- Global Hygiene Supply Tissue (GHS-T) with global responsibility for sourcing, production and technology in Tissue.
- Global Hygiene Supply Personal Care (GHS-PC) with global responsibility for sourcing, production and technology in Personal Care.

The organization has six Group functions: Finance, Human Resources, Sustainability, Legal Affairs, Communications, and Strategy and Business Development. Strategy and Business Development is also responsible for the Group's Global Business Services (GBS) and IT Services. GBS has global responsibility for providing professional and transactional services in finance, HR administrative support, organization of master data, and office-related support and service to all units within SCA. In addition there is also the unit Logistics.

Events during the year

SCA decided to invest in a new production facility for incontinence products in Brazil.

To further intensify the focus on the Group's two main operations, SCA decided to initiate a dividing of the Group into two divisions: a Hygiene division and a Forest Products division.

SCA decided to further enhance the hygiene organization. The change took effect on January 1, 2016.

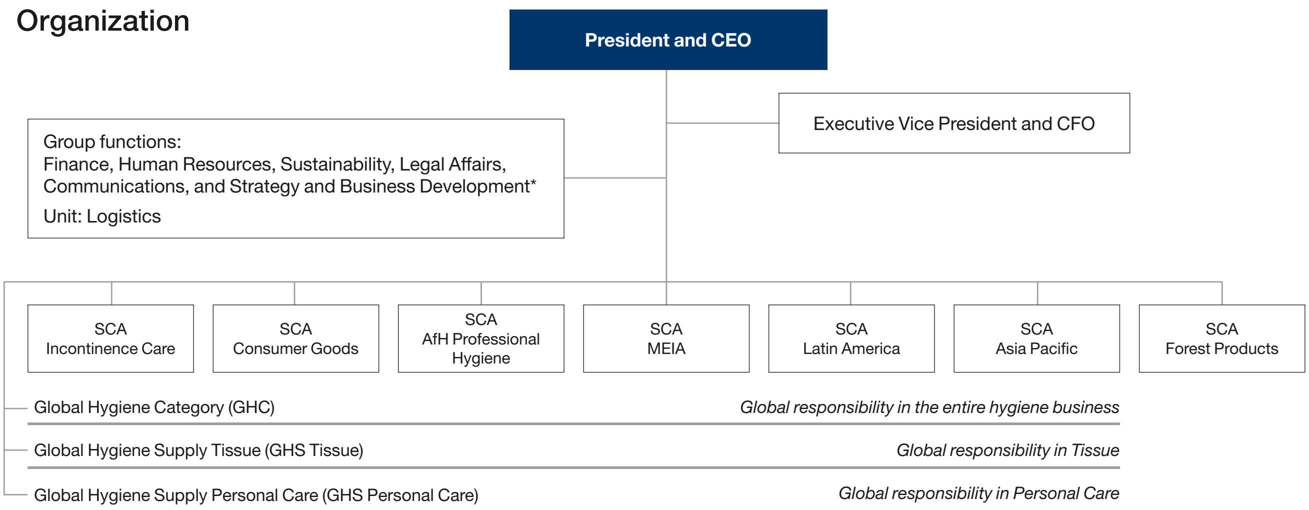
SCA decided to invest in increased capacity for pulp production in Sweden.

SCA decided to make a public bid on Wausau Paper Corp., one of the largest AfH tissue companies in the North American market. The transaction was completed on January 21, 2016.

SCA decided to divest its business in Southeast Asia, Taiwan and South Korea for integration with Vinda. SCA is the majority shareholder in Vinda, one of China's largest hygiene companies.

SCA decided to close down a newsprint machine at the Ortviken paper mill in Sweden.

Organization



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

Acquisitions, investments and divestments

Acquisition of North American tissue operation
In 2015, SCA decided to make a public bid for Wausau Paper Corp. for a total consideration of USD 513m in cash. Wausau Paper is one of the largest Away-from-Home tissue companies in North America. The company manufactures and markets Away-from-Home towel and tissue products, and markets soap and dispensing systems. The combined operations will provide customers access to a comprehensive portfolio of food service offerings, premium tissue and washroom products. Wausau Paper's reported sales for the first half of 2015 amounted to USD 175m (SEK 1.5bn) with EBITDA of USD 32m (SEK 268m) and operating profit of USD 11m (SEK 94m). Wausau Paper's reported sales for full year 2014 amounted to USD 352m (SEK 2.4bn) with EBITDA of USD 38m (SEK 263m) and an operating profit of USD –3m (SEK –19m). On a pro forma basis, giving effect to the acquisition, SCA's sales for the full year 2014 would have increased from SEK 104.1bn to SEK 106.5bn. Pro forma operating profit for the full year 2014, excluding items affecting comparability, would have been on a similar level and amounted to approximately SEK 11.8bn. The acquisition is expected to generate annual synergies of approximately USD 40m, with full effect three years after closing. Synergies are expected in sourcing, production, logistics, reduced imports, increased volumes of premium products and reduced sales, general and administration costs. The restructuring costs are expected to amount to approximately USD 50m. The transaction was completed on January 21, 2016.

Acquisition and divestment in South Africa
In 2015, SCA acquired the remaining 50% of the jointly owned South African subsidiary Sancella S.A from the South African company Nampak. At the same time, Sancella S.A.'s baby diaper operations was divested to another South African company. Sancella S.A. generated approximately SEK 330m in net sales in 2014, of which the baby diaper operations accounted for about SEK 250m. Going forward, in South Africa SCA will focus on feminine care and incontinence products under the Lifestyle and TENA brands, which accounted for approximately SEK 80m of Sancella S.A.'s net sales in 2014.

Investment in new production facility for incontinence products in Brazil
In 2015, SCA decided to invest approximately SEK 650m in a new production facility in Brazil for the manufacture of incontinence products. Production is scheduled to commence in 2016.

Investment in increased capacity for pulp production in Sweden
In 2015, SCA decided to invest in increased capacity for pulp production at Östrand pulp mill in Timrå, Sweden in order to satisfy the long-term growth in demand for pulp. The annual production capacity for bleached sulphate pulp will increase from the current level of approximately 430,000 tons to about 900,000 tons. The investment will amount to about SEK 7.8bn over a three-year period. Production is expected to commence in 2018.

Divestment of business jet operation
In 2015, SCA announced that the Company, together with the other part-owners, was divesting Bromma Business Jet. The transaction gave rise to costs of approximately SEK 95m and was recognized as an item affecting comparability in 2015.

Strengthened cooperation with Vinda
In 2015, SCA decided to divest its business in Southeast Asia, Taiwan and South Korea for integration with Vinda International Holdings Limited ("Vinda"). SCA is the majority shareholder in Vinda, one of China's largest hygiene companies. As part of the transaction, SCA and Vinda have signed an agreement regarding the exclusive license to market and sell the SCA brands: TENA (incontinence products), Tork (AfH tissue), Tempo (consumer tissue), Libero (baby diapers), and Libresse (feminine care) in Southeast Asia, Taiwan and South Korea. With this agreement, Vinda will hold the rights to these product brands in these Asian markets. Vinda will acquire the brands Drypers, Dr.P, Sealer, Prokids, EQ Dry and Control Plus in these markets. SCA's hygiene business in Southeast Asia, Taiwan and South Korea had net sales of approximately SEK 2.2 billion in 2014. The purchase consideration amounted to HKD 2.8bn on a debt-free basis. Vinda is listed on the Hong Kong Stock Exchange. As a consequence of this transaction, SCA's Shanghai office will stop to have operations. This led to approximately SEK 90m in restructuring costs, which were recognized as an item affecting comparability in 2015.

Divestment of holding in Industrivärden
In 2015, SCA sold its entire holding of 12,108,723 Class A shares in AB Industrivärden, corresponding to 4.3% of the votes and 2.8% of the capital in the company. The shares were sold to Swedish institutions and investors for a price of SEK 169 per Class A share. Following the transaction SCA does not own shares in AB Industrivärden.

Closure of newsprint machine in Ortviken
In 2015, SCA decided to close down a newsprint machine at the Ortviken paper mill in Sweden and recognized an impairment loss for the mill. Efficiency improvement measures are being implemented at the kraftliner mills in Obbola and Munksund. The closure, impairment loss and efficiency improvement measures entail total costs of approximately SEK 1.4bn and will result in annual cost savings of about SEK 180m, of which approximately SEK 120m is attributable to lower depreciation, with full impact in 2017. The impairment loss amounted to approximately SEK 1.3bn and was recognized as an item affecting comparability in 2015. The transaction gave rise to restructuring costs of approximately SEK 90m, which were recognized as an item affecting comparability in 2015.

Other Group information

Parent Company

The Group's Parent Company, Svenska Cellulosa Aktiebolaget SCA (publ), owns most of the forest land and other real estate relating to forestry operations, and grants felling rights for standing timber to the subsidiary SCA Skog AB. The Parent Company is otherwise a holding company with the main task of owning and managing shares in a number of business group companies and performing Group-wide management and administrative functions. In 2015, the Parent Company recognized operating income of SEK 430m (414) and profit before appropriations and tax of SEK 10,098m (4,116). The Parent Company's divestments in shares and participations in companies outside SCA amounted to SEK 7m (0). Investments in property and non-current assets totaled SEK 157m (544) during the year. Cash and cash equivalents at year-end amounted to SEK 0m (0).

Research and development

Research and development (R&D) costs during the year amounted to SEK 1,093m (1,050), corresponding to 0.9% of consolidated net sales. R&D is coordinated and conducted from a global perspective. Product development is carried out in close cooperation with the local units, as well as through direct collaboration with customers. A slightly more long-term approach is adopted when it comes to R&D in the fields of materials and technology.

Holdings of treasury shares

SCA implemented a directed cash issue of a total of 1,800,000 shares in 2001. These shares were subsequently acquired by SCA to be used for transfer to senior executives and key individuals under the employee stock option program. The program ended in 2009. Following the share split in 2007 and transfer of the shares under the concluded program, the company holds a total of 2,767,605 treasury shares. The Board was not authorized to repurchase shares in 2015.

Distribution of shares

During the year, 18,608,314 Class A shares were converted into Class B shares. The proportion of Class A shares was 9.6% at year-end.

Dividend

The Board of Directors proposes an increase in the dividend by 9.5% to SEK 5.75 (5.25) per share. The dividend is expected to total approximately SEK 4,038m (3,687). Accordingly, dividend growth over the most recent five-year period amounted to 7.5%. The Board's assessment is that the proposed dividend will provide the Group with the scope to fulfill its obligations and make the required investments. The record date for entitlement to receive dividends is proposed as April 18, 2016.

Environmental impact in Sweden

In 2015, SCA conducted 13 operations for which a permit is required in Sweden. Operations for which permits are required accounted for 16% of consolidated net sales. Five 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 value-added wood products, and biofuel. These operations affect the environment through emissions to air and water, and noise. One permit relates to the manufacture of fuel pellets. This operation affects the environment through emissions to air and water, as well as noise.

Guidelines for remuneration of senior executives

The Board of Directors has decided to propose to the 2016 Annual General Meeting the following guidelines for determining salaries and other remuneration for senior executives to apply for the period following the Annual General Meeting.

"Remuneration of the CEO and other senior executives will be a fixed amount, possible variable remuneration, additional benefits and pension. Other senior executives include the Executive Vice President, Business Unit Managers and equivalent, and Central Staff Managers. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession. Fixed and variable remuneration are to be linked to the manager's responsibility and authority.

For the CEO, as well as for other senior executives, the variable remuneration is to be limited and linked to the fixed remuneration. The variable remuneration is to be based on the outcome of predetermined objectives and, as far as possible, be linked to the increase of value of the SCA share, from which the shareholders benefit. Programs for variable remuneration should be formulated so that the Board of Directors, if exceptional financial circumstances prevail, has the possibility to limit, or refrain from, payment of variable remuneration if such an action is considered reasonable and in compliance with the company's responsibility to shareholders, employees and other stakeholders.

In the event of termination of employment, the notice period should normally be two years if termination is initiated by the company, and one year, when initiated by the senior executive. Severance pay should not exist.

Previously agreed pension benefits in the company are either defined benefit or defined contribution plans, or a combination of both, and can entitle the senior executive to pension from the age of 60, at the earliest. To earn full defined benefit pension benefits, the period of employment must be long-term, at present 20 years. When resigning before the age providing entitlement to pension, the senior executive will receive a paid-up pension policy from the age of 60. Pension benefits in new employment contracts should, wherever possible, only include defined premium pension benefits and entitle the executive to receive a pension from the age of 65. Variable remuneration is not pensionable income. Matters of remuneration of the senior management are to be dealt with by the Remuneration Committee and, as regards the President, be resolved by the Board of Directors."

This proposal entails that the guidelines remain essentially unchanged compared with 2015, with the addition that pension benefits in new employment contracts should, wherever possible, only include defined premium pension benefits and entitle the executive to receive a pension from the age of 65. For information concerning the company's application of previously agreed guidelines and information on the company's calculated expenses for remuneration of senior executives, see Note C3 on pages 97–99.

Sales and earnings

SCA's operating profit for 2015, excluding items affecting comparability, rose 10% compared with the preceding year. A better price/mix, higher volumes and cost savings contributed to the earnings improvement.

Net sales

SCA's net sales for 2015 increased 11% compared with the preceding year and amounted to SEK 115,316m (104,054). Organic sales growth, which excludes exchange rate effects, acquisitions and divestments, was 5%, of which volume accounted for 3% and price/mix for 2%. Organic sales growth was 2% in mature markets and 11% in emerging markets.

Profit

SCA's operating profit for 2015, excluding items affecting comparability totaling SEK –2,067m (–1,400), increased 10% compared with the preceding year and amounted to SEK 13,014m (11,849).

Financial items decreased to SEK –955m (–961). The decrease was attributable to lower average net debt, which compensated for somewhat higher interest rates during the year. Profit before tax, excluding items affecting comparability, rose 11% to SEK 12,059m (10,888). The average tax rate for the year's profit, excluding items affecting comparability, was 27.4%. Profit for the year, excluding items affecting comparability after tax of SEK –1,301m (–1,176), amounted to SEK 8,753m (8,244). Earnings per share attributable to owners of the Parent amounted to SEK 11.82 (11.07) excluding items affecting comparability and to SEK 9.97 (9.40) including items affecting comparability.

Key figures

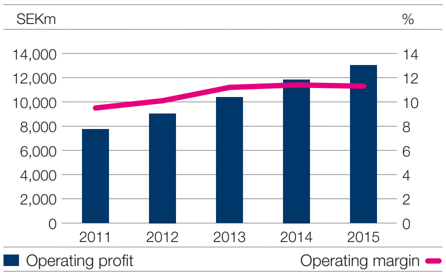
The Group's gross margin amounted to 25.9%, compared with 25.5% in the preceding year, and the operating margin, excluding items affecting comparability, was 11.3%, compared with 11.4% in 2014. The return on capital employed, excluding items affecting comparability, improved to 12% (11). The return on equity was 12% (12). The interest coverage ratio rose to 11.5, compared with 10.9 in the preceding year.

Summary income statement

SEKm	2015	2014	2013[2]
Net sales	**115,316**	**104,054**	**92,873**
Gross profit	**29,840**	**26,534**	**23,288**
Operating profit[1]	**13,014**	**11,849**	**10,381**
Financial items	–955	–961	–1,061
Profit before tax[1]	**12,059**	**10,888**	**9,320**
Tax[1]	–3,306	–2,644	–2,639
Profit for the year[1]	**8,753**	**8,244**	**6,681**

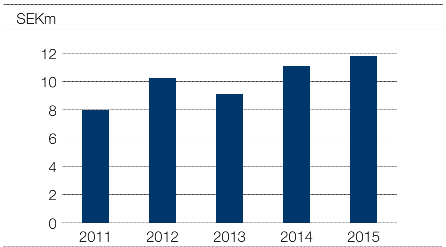
[1] Excluding items affecting comparability amounting to SEK –2,067m before tax and SEK –1,301m after tax for 2015, SEK –1,400m before tax and SEK –1,176m after tax for 2014 and SEK –1,239m before tax and SEK –820m after tax for 2013.
[2] Restated in accordance with IFRS 10 and 11.

Operating profit and operating margin



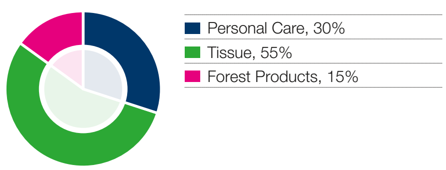
Excluding items affecting comparability.
2012 and 2013 restated in accordance with IFRS 10 and 11.

Earnings per share after dilution effects



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

Net sales, share of Group



Operating cash flow

A high level of control of the operating cash flow is a key part of SCA's long-term competitiveness strategy. Operating cash flow amounted to SEK 12,921m (11,184). The increase is primarily attributable to a higher operating cash surplus compared with the preceding year.

The operating cash surplus rose 13% to SEK 18,312m (16,250). Working capital increased due to higher inventory values and trade receivables. Working capital in proportion to net sales amounted to 7% (8). Current capital expenditures increased SEK 425m during the year and amounted to SEK 4,162m (3,737), corresponding to 4% (4) of net sales. Operating cash flow increased to SEK 12,921m (11,184).

Financial items decreased SEK 6m to SEK –955m (–961). The decrease was the result of lower average net debt, which compensated for somewhat higher interest rates during the year. Tax payments totaled SEK 2,208m (2,101). Cash flow from current operations amounted to SEK 9,890m (8,149).

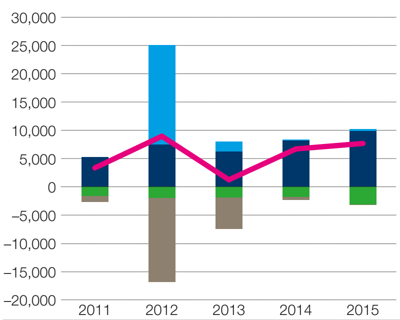
Strategic capital expenditures in non-current assets made to strengthen organic growth totaled SEK 3,125m (1,816). The year's expense for strategic capital expenditures pertained to for example investments in Forest Products in Sweden and Personal Care in Brazil.

Net debt declined SEK 6,469m during the year to SEK 29,478m at year-end. Net cash flow decreased net debt by SEK 3,098m. Fair value measurement of pension assets and pension obligations together with fair valuation of financial instruments decreased net debt by SEK 1,910m. Exchange rate movements decreased net debt by SEK 1,461m.

The debt/equity ratio amounted to 0.39 (0.49), while the Group's debt payment capacity was 47% (39). Excluding pension liabilities, the debt/equity ratio was 0.36 (0.42).

The Group's cash flow

SEKm



Divestments — Cash flow before dividend
Cash flow from current operations
Strategic capital expenditures, non-current assets
Company acquisitions

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

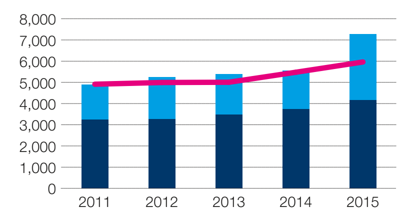
Summary operating cash flow statement

SEKm	2015	2014	2013[1)]
Operating cash surplus	18,312	16,250	14,004
Change in working capital	–399	–446	–328
Current capital expenditures, net	–4,162	–3,737	–3,489
Restructuring costs, etc.	–830	–883	–1,294
Operating cash flow	**12,921**	**11,184**	**8,893**
Financial items	–955	–961	–1,061
Income taxes paid, etc.	–2,076	–2,074	–1,580
Cash flow from current operations	**9,890**	**8,149**	**6,252**
Company acquisitions	–93	–508	–5,488
Strategic capital expenditures in non-current assets	–3,125	–1,816	–1,906
Divestments	329	206	1,716
Cash flow before dividend	**7,001**	**6,031**	**574**

1) Restated in accordance with IFRS 10 and 11.

Capital expenditures in non-current assets

SEKm

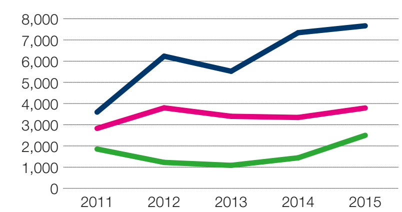


Strategic capital expenditures — Depreciation according to plan
Current capital expenditures

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

Operating cash flow by business area

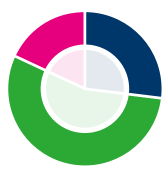
SEKm



Personal Care — Forest Products
Tissue

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

Operating cash flow, share of Group



Personal Care, 27%
Tissue, 55%
Forest Products, 18%

Financial position

Assets and capital employed

The Group's total assets declined 2% compared with the preceding year, amounting to SEK 152,372m (154,736). Non-current assets decreased SEK 4,243m compared with the preceding year to SEK 111,242m, of which property, plant and equipment declined SEK 1,379m to SEK 84,651m and intangible assets declined SEK 828m to SEK 22,852m. Current and strategic capital expenditures in property, plant and equipment amounted to SEK 7,333m and depreciation for the year to SEK 5,668m.

Current assets rose SEK 1,879m to SEK 41,130m (39,251). Working capital amounted to SEK 8,167m (8,350). Capital employed was 3% lower than in the preceding year and totaled SEK 105,169m (108,819). The distribution of capital employed per currency is shown in the table below.

The value denominated in SEK of the Group's foreign net assets amounted to SEK 62,196m at year-end. In 2014, the Group's foreign net assets totaled SEK 57,922m.

Equity

Consolidated equity amounted to SEK 75,691m (72,872) at year-end. Net profit for the period increased equity by SEK 7,452m (7,068), while shareholder dividends decreased equity by SEK 3,903m (3,564). Equity rose SEK 2,004m after tax due to remeasurements of the net pension liability to fair value. Fair value measurement of financial instruments decreased equity by SEK 774m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, after tax, decreased equity by SEK 1,920m. Acquisitions of non-controlling interests decreased equity by SEK 19m.

Financing

The Group's interest-bearing gross debt amounted to SEK 33,822m (38,886) at year-end. The maturity period was 3.4 (2.5) years.

Net debt amounted to SEK 29,478m (35,947) at year-end. Net cash flow decreased net debt by SEK 3,098m. Furthermore, net debt declined by SEK 1,910m as a result of fair value measurement of pension assets and pension obligations, together with fair valuation of financial instruments. Exchange rate movements decreased net debt by SEK 1,461m.

Key figures

The debt/equity ratio was 0.39 (0.49). Excluding pension liabilities, the debt/equity ratio was 0.36 (0.42). The visible equity/assets ratio was 46% (44). The return on capital employed (ROCE) and on equity (ROE), excluding items affecting comparability, amounted to 12% (11) and 12% (12), respectively. The capital turnover rate was 1.06 (0.99). At year-end, working capital amounted to 7% (8) of net sales.

Consolidated capital employed by currency, SEKm

	2015	%	2014	%	2013[1]	%
EUR	24,097	23	31,037	29	27,393	27
SEK	39,464	38	36,337	33	36,627	36
USD	7,124	7	7,192	7	6,145	6
GBP	4,879	5	5,452	5	4,894	5
Other	29,605	27	28,801	26	26,671	26
Sweden	**105,169**	**100**	**108,819**	**100**	**101,730**	**100**

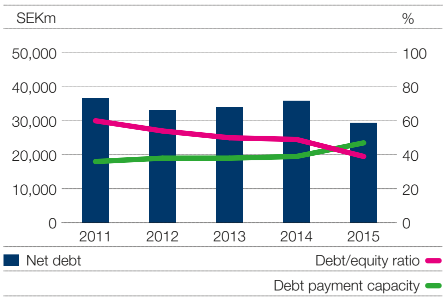
[1] Restated in accordance with IFRS 10 and 11.

Consolidated balance sheet

SEKm	2015	2014	2013[1]
Intangible assets	22,852	23,680	21,921
Property, plant and equipment	54,532	56,345	52,777
Biological assets	30,119	29,685	28,767
Other non-current assets	3,739	5,775	6,081
Total non-current assets	**111,242**	**115,485**	**109,546**
Current assets	41,130	39,251	35,430
Total assets	**152,372**	**154,736**	**144,976**
Equity	75,691	72,872	67,811
Non-current liabilities	36,481	40,347	42,375
Current liabilities	40,200	41,517	34,790
Total equity and liabilities	**152,372**	**154,736**	**144,976**
Working capital	8,167	8,350	7,740
Capital employed	105,169	108,819	101,730
Net debt	29,478	35,947	33,919

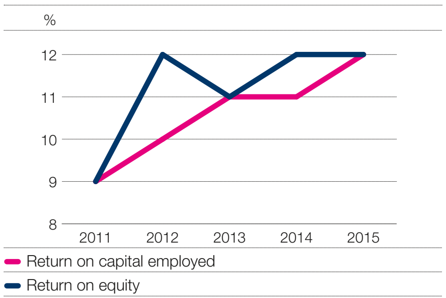
[1] Restated in accordance with IFRS 10 and 11.

Net debt, debt/equity ratio and debt payment capacity



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

Return on capital employed and equity



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

Capital employed, share of Group