

ANNUAL REPORT

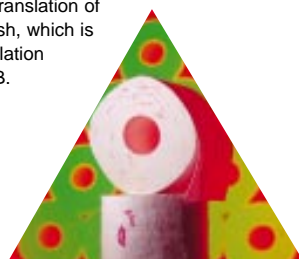
1996



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This Annual Report is a translation of the original text in Swedish, which is the official version. Translation by the Bugli Company AB.



**Hygiene Products**



**Packaging**



**Graphic Paper**

With extensive value-added processing, based on a broad knowledge of the applications of wood fiber and responding to customer needs, SCA produces a line of products used daily in the home, in institutions and within the industry. The visual theme of this Annual Report depicts some of SCA's value-added products.

SCA is a market-oriented integrated paper and packaging company with Europe as its primary market. The company conducts operations in hygiene products, packaging and graphic papers. SCA owns 1.8 million hectares of productive forest land and is Europe's foremost user of recycled paper. SCA products are based on equal quantities of recycled and fresh wood fibers.

The company's operations are based on wide expertise in wood fiber properties and its application in industry, institutions and by the individual consumer. Based on this know-how, the company's products have been developed with an increasing degree of added value.

At the beginning of 1997, SCA had about 33,000 employees in some 30 countries. The SCA share is listed on the stock exchanges in Stockholm and London, and is available in the form of ADRs (American Depositary Receipts) in the U.S.

## Financial information

Year-end and interim reports are published, for example, in SCA's *SCA Investor Report* magazine. This publication and the Annual Report will be sent automatically to shareholders who have notified that they wish to receive this information.

**April 28, 1997** Interim Report for the period January 1–March 31, 1997  
**August 13, 1997** Interim Report for the period January 1–June 30, 1997  
**October 22, 1997** Interim Report for the period January 1–September 30, 1997  
**January 29, 1998** Year-end Report on 1997 operations  
**March, 1998** 1997 Annual Report

These reports, which are available in Swedish and English, may be ordered directly from:

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# 1996 in brief

In 1996, SCA posted the next highest operating earnings in the Group's history.



Earnings for the Hygiene Products business area increased by 70% to SEK 2,323 M. In a structural transaction with Kimberly-Clark, SCA Mölnlycke's unprofitable diaper operations in France were divested, acquiring the Prudhoe tissue plant in Great Britain.



The Packaging business area launched an expansion program in Eastern Europe and established a joint venture in Asia with the U.S. Weyerhaeuser company.



Graphic Paper's new LWC machine was started up at Ortviken. The fine paper business commenced a comprehensive program of rationalization and improvements which is expected to improve earnings by SEK 500 M annually.

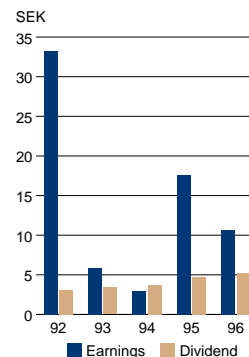


PWA Dekor was divested in 1996.



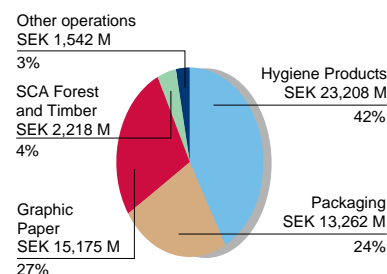
SCA Raw Materials and Logistics, a new supporting business group, was formed to take advantage of opportunities for coordination in the Group's procurement of raw materials, energy and transportation services.

## Earnings per share and dividend

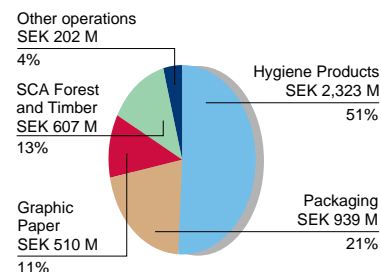


## Net sales by business area, 1996

(excluding intra-Group deliveries)



## Operating profit by business area, 1996



## Key ratios

|  | 1996               | 1995   |
|--|--------------------|--------|
| Net sales, SEK M                                     | 55,405             | 65,317 |
| Earnings after financial net, SEK M                  | 3,573              | 5,731  |
| Earnings per share after tax, SEK                    | 10.71              | 17.55  |
| Cash flow from operations, per share, SEK            | 21.30              | 25.02  |
| Dividend, SEK  | 5.25 <sup>1)</sup> | 4.75   |
| Strategic investments, incl. acquisitions, SEK M     | 2,684              | 9,547  |
| Shareholders' equity, incl. minority interest, SEK M | 26,237             | 25,517 |
| Return on shareholders' equity, %                    | 10                 | 17     |
| Debt/equity ratio, multiple                          | 0.67               | 0.69   |
| Average number of employees                          | 34,106             | 34,859 |

<sup>1)</sup>Board proposal  
See cover flap for definitions

# PRESIDENT'S LETTER

The year 1996 was characterized by falling prices and declining profitability for most companies in the European packaging and paper market. Declining prices for recycled fiber and pulp impacted already early in the year on LWC and fine papers, liner products and corrugated board. However, in SCA's case, this negative trend could be offset partially by the strong development in the hygiene products segment, where profitability was affected positively by favorable volume growth and declining raw material prices.

In addition to the hygiene products area, only newsprint and SC paper posted a stable price trend during the year. However, at the beginning of 1997 prices of these two paper grades had also declined. On the other hand, some recovery was noted for sawn timber, fine paper and packaging during the latter half of 1996.

## Strategic measures during 1996

In line with SCA's business concept and strategy (page 4), a number of structural changes were implemented during 1996. The Group's tissue operations were integrated after an exchange of products between SCA and PWA. In addition, a significant position in the British tissue market was acquired through the purchase of a part of Kimberly-Clark's operations in this field.

The strategic character of the transaction was underlined further through being combined with the divestment of SCA Mölnlycke's loss-burdened French diaper operations. The streamlining of PWA continued during the year through the sale of PWA Dekor, which was subsequent to the divestment in 1995 of companies involved in the field of form paper and barrier products. SCA Packaging initiated expansion in Central and Eastern Europe during the year and formed a joint-venture company in Asia with U.S.-based Weyerhaeuser.

The new LWC machine in Ortviken was started up in the spring. This con-



cluded the realignment program which among other aims was intended to markedly increase the amount of high-quality magazine paper in SCA Graphic's combined product portfolio. An extensive efficiency enhancement and improvement program was initiated within SCA Fine Paper, which within a three-year period and with marginal investments is expected to improve earnings by about SEK 500 M annually. In order to

*“In line with SCA's business concept and strategy, a number of structural changes were implemented during 1996.”*

achieve synergies in the Group's extensive procurement of raw materials, energy and transport services, a specific organization was created during the year, SCA Raw Materials and Logistics, based in Brussels.

Today, SCA is an integrated Group with operations restricted to three product areas which, combined, create a favorable critical mass.

The Group has a good market position in Europe and is active in many segments with favorable or highly favorable growth. The foundation is laid for beneficial future volume development while concurrently the possibilities to exploit the considerable Group synergies

will be further pursued.

A decisive factor for this positive future assessment is the situation that the Group currently is not facing any major restructuring or current investments. Instead, it will be increasingly possible to apply the future cash flow for value-adding expansion investments and for increased dividends.

## Board's strategy review

During the year, the SCA Board of Directors carried out a comprehensive review of the Group's strategic direction prior to entering the 21st century. This was a natural step considering the new phase which arises when the extensive acquisition and restructuring program of recent years is now concluded and the debate being carried out in the capital market regarding the industry's profitability problems.

As part of assessing SCA's strategy, a determination of how the Group had fulfilled the financial goals over time was made. In this respect, the most important criteria is the effective return on the SCA share, that is, value appreciation including dividends. The goal is that this value should be doubled within a period of about five years. As shown in the accompanying diagram, this goal was in all significant respects fulfilled. In a longer perspective, the effective return on the SCA share has compared satisfactorily with the forestry industry yield index on the Stockholm Stock Exchange.

The strategic plan set by the Board is based on SCA, within the framework of the current business areas, developing and strengthening the Group's critical mass. Among other actions, this will be accomplished through creating a competitive Hygiene Products business area which has favorable growth potential in many markets. The Packaging business area shall maximize the profitability effects of the strong positions held in western Europe and also create increased volume growth in more rapidly growing markets. In the printing paper area, work shall focus on continued fine-tuning of the investments recently completed. Fine paper operations will concentrate on raising its currently weak profitability through the aforementioned improvement program. This will increase

the competitiveness of the fine paper assets, which improves the opportunities of a possible participation in the additional consolidation which the European fine paper industry is expected to undergo.

The Group's combined operations today form a tightly knit and well-functioning European network, which contributes to the Group's inherent synergies. Although the focus of future operations will continue to fall on Europe, the plan is also based on an active expansion of the hygiene product and packaging areas in eastern and central Europe and continued global development of certain product segments, possibly in cooperation with partners.

In order to ensure a favorable fulfillment of goals, the Group's product portfolio strategy and the development of each unit in SCA will be continually followed up against a number of criteria. Particular emphasis will be placed on each unit's ability to generate the cash flow necessary for positive value growth. Moreover, the individual operations shall contribute to the Group's synergies and demonstrate a competitiveness which is sufficient for sustained profitability.

The requirements also include that the development of the various units

shall be reflected in the further development of the SCA share.

**Dividend**

In conjunction with the strategy review, the Board of Directors concluded that the current Group structure and earnings capacity should successively provide the possibility of a higher dividend level. For 1996, the Board has proposed an increase in the dividend of 11 percent.

It is worth noting that SCA's dividend has continually been increased or retained unchanged since the share was listed on the Stockholm Stock Exchange in 1950. During the more recent five-year period, dividend growth has been 11 percent, including the proposed dividend for 1996. Measured as a share of visible shareholders' equity, the dividend has amounted to about 4 percent.

**Market outlook for 1997**

Positive economic growth is anticipated in Europe in 1997, although the rate of recovery may be slow.

It is expected that demand for SCA's hygiene products will continue to be

satisfactory. Sales of corrugated board should gradually benefit from greater industrial production in Europe. Stabilization of volumes and prices is now occurring for the printing and fine paper areas. The conditions should exist in the second half of the year for price increases. Recovery will be from a low starting point, however, and the process will be slow. There is considerable uncertainty about price developments for raw materials in the form of pulp and recycled paper.

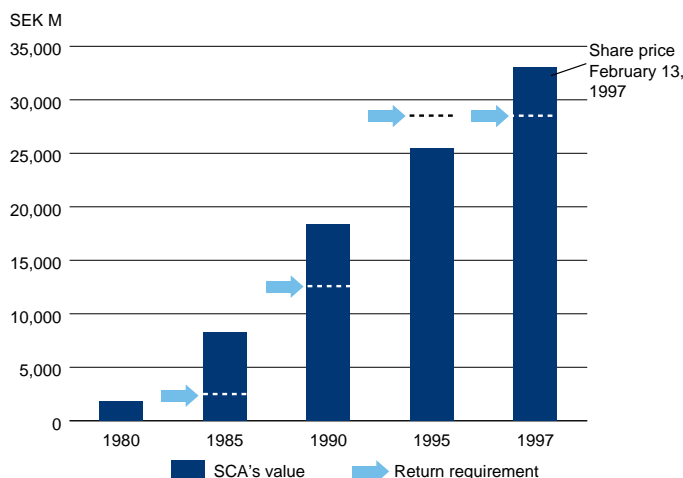
*“It will be increasingly possible to apply the future cash flow for value-adding expansion investments and for increased dividends.”*

Stockholm, March 5, 1997



Sverker Martin-Löf  
President and CEO

**SCA's return on capital requirement\***  
Doubled value every five years



The diagram shows that SCA exceeded the requirement in the 1980-1985 and 1985-1990 periods, although this was not the case in 1990-1995. Strong growth in value in 1996, compensated for this lag, however.

\* The return requirement is based on 13% return on shareholders' equity, adjusted for annual dividends, which are also estimated to provide an annual return of 13%. This results in a doubling of value approximately every five years.



# BUSINESS CONCEPT

*SCA's business concept is to offer the market customized and value-added products based on the building block of the tree – wood fiber – which is converted into pulp and used in a number of application areas.*

SCA is a market-oriented, integrated paper and packaging company, with its primary markets in Europe. The company is active in the hygiene products, packaging and graphic paper areas.

SCA's business concept is based on the company's broad expertise in the many different application areas for wood-fiber-based products in industry, health-care services and by individual consumers. Taking the unique properties of wood fiber as its starting point, SCA endeavors to meet the user's needs in terms of moisture absorption (hygiene products), mechanical strength (packaging) and a satisfactory printing surface (graphic paper).

In these areas, SCA must offer its customers value-added products which comply with the needs of the end user. SCA's competence, products and service must give the customer higher

product quality, reliability, productivity and profitability, and enhance the end-user's quality of life.

SCA's business concept is based on minimizing the consumption of natural resources. As a result, a high proportion of the company's products consist of renewable and recyclable materials (see the SCA Closed Loop). SCA uses equal quantities of recycled fibers and fresh wood fibers.

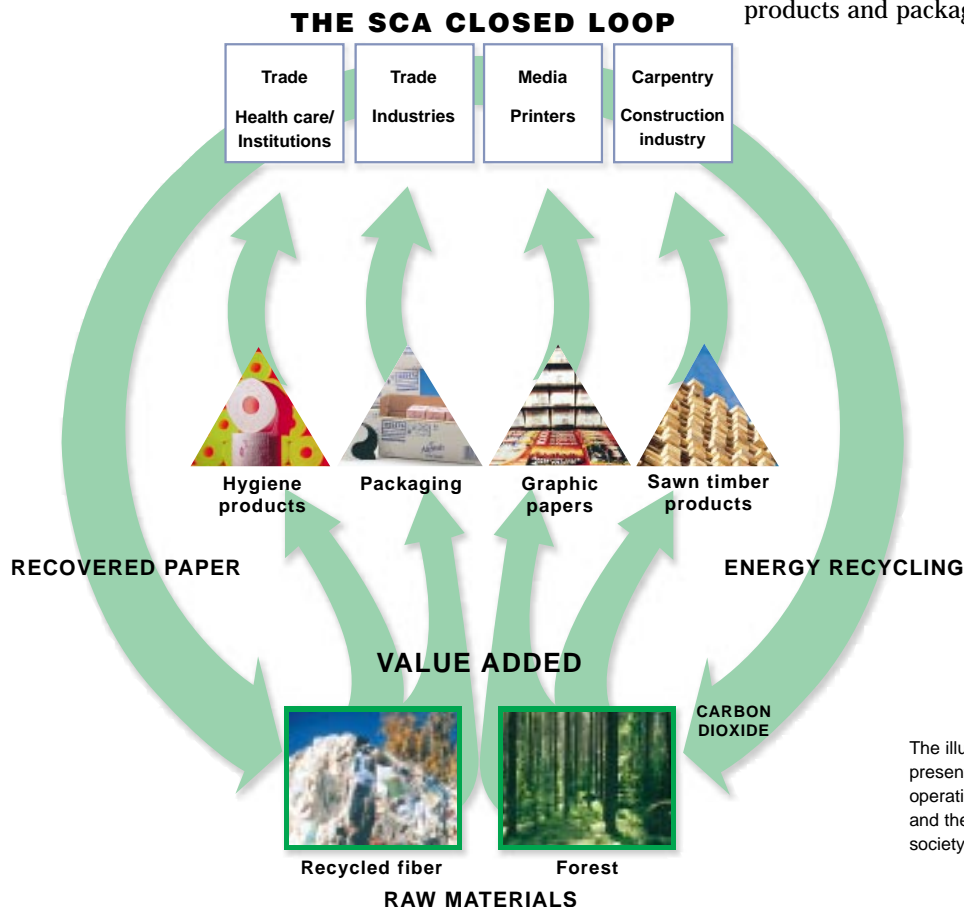
### Business strategy

SCA's strategy is to increase the value-added content of its products on a continuous basis, thus achieving leadership in its market segments. This strategy lays the foundations for satisfactory and sustained profitability.

One of the prerequisites for this strategy is an appropriate corporate structure which can create competitive

advantages in the form of high product quality and low production costs. A number of different operations have therefore been divested or acquired, and SCA is now a highly-focused, integrated group. This structure produces valuable synergies between the company's current business areas: for example optimal utilization of raw materials and coordinated purchasing, joint transport solutions and sales channels, and the concentration of resources in research and development and in the handling of environmental issues.

In the immediate future, SCA will maximize its profitability within the framework of the Group's structure in the European market. SCA will expand in Eastern and Central Europe, and develop its markets in Asia and America in certain rapidly growing product areas, such as incontinence products and packaging.



The illustration is a schematic presentation of the focus of SCA's operations on value-added products and their role in a closed-loop society.

# FINANCIAL GOALS

*The Group's objective is to give SCA's shareholders satisfactory growth in value and dividend levels. This calls for a stable earnings capability and long-term profitability.*

*As a result, SCA continues to give priority to the development of products which offer satisfactory market growth and enhancement of the company's competitiveness in terms of product quality and manufacturing costs.*

The aim is to give SCA's shareholders a return which is competitive in the context of the forest industry. The return on the market value of the SCA share should be 13–15% per year over the course of the business cycle. The target level return varies in line with inflation and changes in the real interest rate. This means that the value of the SCA share (the sum of share-price changes and reinvested dividends) should double roughly every five years.

The company must have a strong cash flow, that is to say high earnings capacity and financial stability, if this target is to be achieved.

## Cash flow

SCA's objective with the current operational structure, fully streamlined and integrated, is to generate a sustained operating cash flow of approximately SEK 6 billion per year. Cash flow from operations is estimated to amount to about SEK 3 billion. The aim, expressed in present money values, and the ambition is to as a minimum compensate for inflation through productivity improvements.

Annually, SCA makes strategic investments in which the aim is to increase the value of the company, and subsequently shareholder value. After each such strategic investment made, the operating cash flow requirement will be increased.

Cash flow from operations can be used for dividends and strategic capital expenditures, which in turn contribute to future cash flow. This provides greater possibilities for increased borrowing with retained financial stability.

The above goals do not include build-up of operating capital which is attributable to strategic expansion. Depending on the pace of expansion, build-up of operating capital could burden cash flow by about SEK 500 M.

## Financial stability

Financial stability is an important factor in assessing the Group's total risk profile. SCA's earnings capacity, which is improved by measures which enhance product value and reinforce competitiveness, is one aspect of this risk profile. If SCA is to be financially stable, there must be a reasonable relationship between net debt and the book value of shareholders' equity. SCA's objective is a debt/equity multiple of 0.6 (0.7 including pension liabilities). The market value of shareholders' equity (the share price) is higher than the book value, however. This implies a lower debt/equity ratio

from the shareholder's perspective. The interest coverage ratio, that is to say the ability to pay interest charges from the company's own funds, should be 4.5. Both these objectives are measured over the course of the business cycle and should be permitted to vary somewhat, for example in connection with major acquisitions.

## Yield requirements

At the target debt/equity ratio and at current interest-rate and tax levels, the yield requirement on shareholders' equity is 13%, and 15% on working capital.

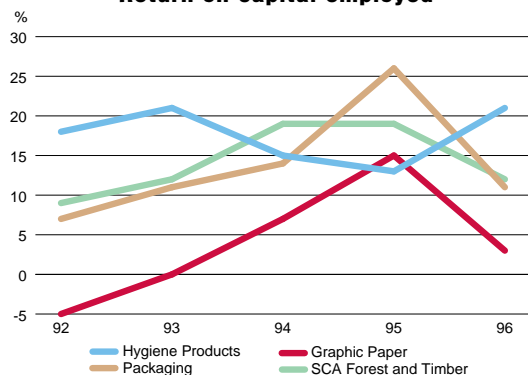
## Financial goals

Key ratios are reported excluding nonrecurring items through 1995. The cash flow measurement is reported as from the date of the acquisition of PWA (1995).

|  | 1992 | 1993 | 1994 | 1995 | 1996 | Target |
|--|------|------|------|------|------|--------|
| <b>Cash flow</b>                             |      |      |      |      |      |        |
| Operating cash flow (SEK billion)            |      |      |      | 6.7  | 6.2  | –      |
| Cash flow from operations (SEK billion)      |      |      |      | 4.9  | 4.2  | –      |
| <b>Rates of return</b>                       |      |      |      |      |      |        |
| Capital employed (%)                         | 7    | 7    | 10   | 15   | 11   | 15     |
| Shareholders' equity (%)                     | 3    | 6    | 7    | 16   | 10   | 13     |
| <b>Financial measurements</b>                |      |      |      |      |      |        |
| Debt/equity ratio (multiple)                 | 0.6  | 0.5  | 0.5  | 0.7  | 0.7  | 0.6    |
| Market-adjusted debt/equity ratio (multiple) | 0.5  | 0.4  | 0.5  | 0.7  | 0.6  | –      |
| Interest coverage rate                       | 1.3  | 2.2  | 4.0  | 4.4  | 4.5  | 4.5    |

Definitions: see cover flap.

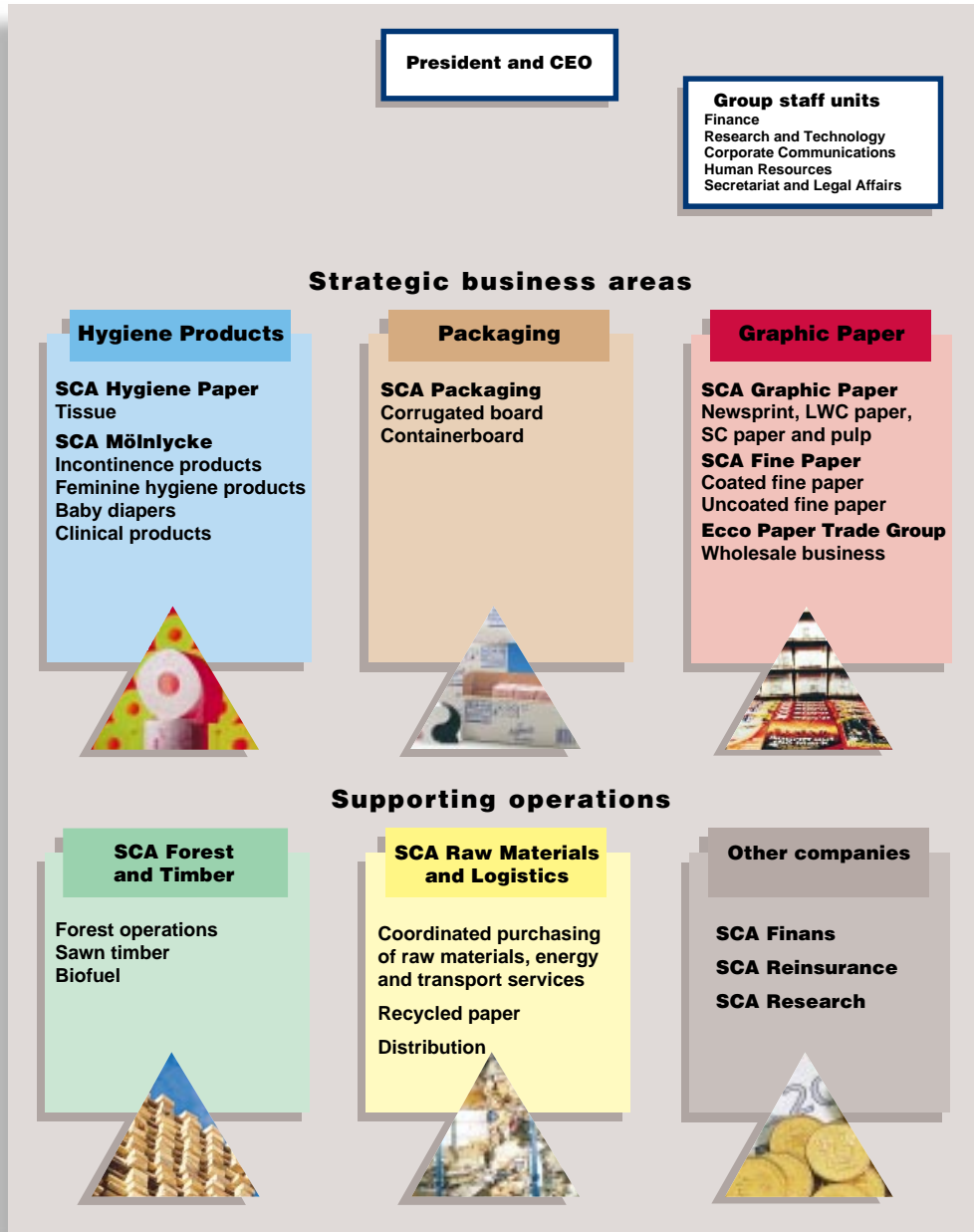
## Return on capital employed



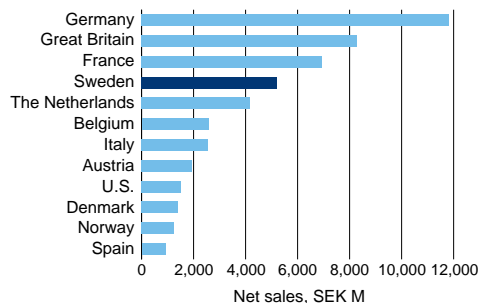
Return on capital employed for the Hygiene Products business area increased from 13% to 21%.

# ORGANIZATION, PRODUCTS AND MARKETS

## OPERATING STRUCTURE 1997

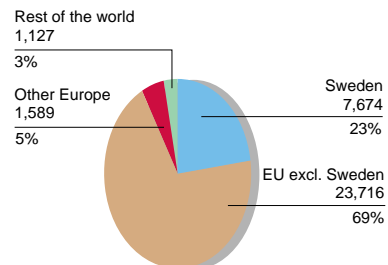


**The Group's 12 largest markets, 1996**



SCA's 12 largest markets are jointly responsible for 88% of consolidated net sales.

**Employees per region, 1996**



The average total number of employees was 34,106. The proportion in countries other than Sweden was 77%.



# OPERATIONS IN BRIEF 1996

## Group total<sup>1</sup>

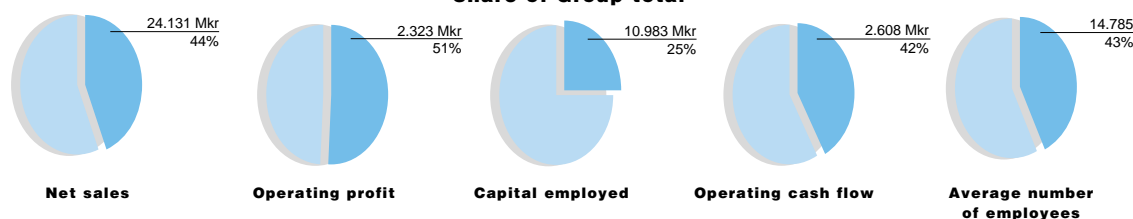


## Strategic business areas<sup>1</sup>

### HYGIENE PRODUCTS

Pages 8-11

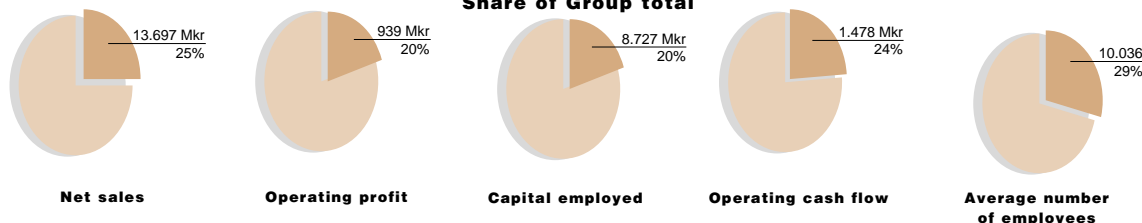
#### Share of Group total



### PACKAGING

Pages 12-15

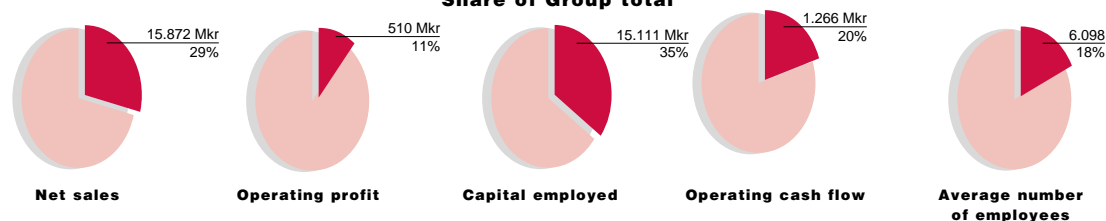
#### Share of Group total



### GRAPHIC PAPER

Pages 16-18

#### Share of Group total

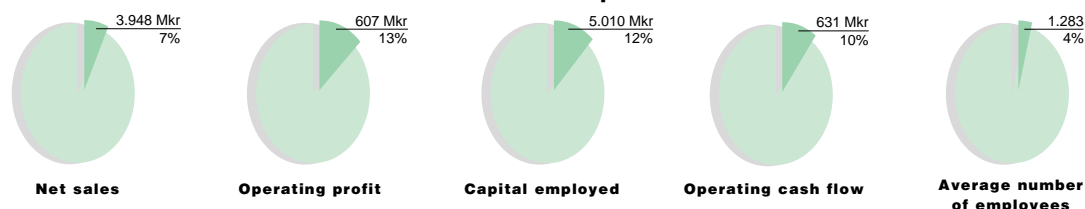


## Supporting operations<sup>1</sup>

### SCA FOREST AND TIMBER

Page 19

#### Share of Group total



### SCA RAW MATERIALS AND LOGISTICS

Page 20

Coordination of Group purchasing of recycled paper and other raw materials, energy and transport services.

<sup>1</sup> Consolidated net sales does not include intra-Group deliveries. Net sales reported for the business areas includes intra-Group deliveries, however. The Group totals also cover other operations which are not included in the business areas.

# HYGIENE PRODUCTS

The business area consists of  
**SCA Hygiene Paper and SCA Mölnlycke.**

| Key ratios                               | 1996   | Group share % | 1995                |
|--|--------|---------------|---------------------|
| Net sales (SEK M)                        | 24,131 | 44            | 24,491 <sup>1</sup> |
| Operating profit (SEK M)                 | 2,323  | 51            | 1,366 <sup>1</sup>  |
| Operating margin (%)                     | 10     |               | 6                   |
| Operating cash flow (SEK M)              | 2,608  | 42            | 1,431               |
| Capital employed, excl. goodwill (SEK M) | 10,983 | 25            | 10,776              |
| Return (%)                               | 21     |               | 13                  |
| Capital expenditures (SEK M)             |        |               |                     |
| – strategic                              | 445    | 40            | 252                 |
| – current                                | 1,006  | 40            | 1,279               |
| Average number of employees              | 14,785 | 43            | 14,578              |

<sup>1</sup> Adjusted for operations transferred to Graphic Paper.  
Production capacity: see cover flap.

## BUSINESS UNITS

### SCA Hygiene Paper

#### TISSUE

Tissue paper for institutional and consumer applications.

**Production:** Austria, Belgium, France, Germany, Great Britain, the Netherlands, Sweden and USA.

**Net sales:** SEK 11,467 M (12,129).

**Employees:** 6,844 at December 31, 1996.

### SCA Mölnlycke

#### FLUFF

Incontinence care products for adults, baby diapers and feminine hygiene products.

#### CLINICAL PRODUCTS

Disposable surgical products, wound-management products, etc.

**Production:** Austria, Belgium, Finland, France, Greece, Great Britain, Hungary, Ireland, the Netherlands, Norway, Poland, Slovakia, Sweden and USA, and through partly owned companies in Australia, Colombia, Mexico and Thailand.

**Net sales:** SEK 12,664 M (12,362), of which incontinence products SEK 4,952 M (4,553), baby diapers SEK 3,607 M (4,031), feminine hygiene products SEK 2,642 M (2,228), clinical products SEK 1,463 M (1,550).

**Employees:** 7,825 at December 31, 1996.

## Substantial improvement in profitability

*SCA Hygiene Paper's new structure resulted in reduced costs and a stronger position on the European tissue market. SCA Mölnlycke increased its sales volume and is expanding in new markets.*

The Hygiene Products business area comprises SCA Hygiene Paper and SCA Mölnlycke. SCA Hygiene Paper produces tissue products for use by institutions and consumers, while SCA Mölnlycke produces fluff and clinical products. The operating profit for this business area increased by a full 70%.

## TISSUE PRODUCTS

### Market

The tissue industry is the most consolidated sector of the paper industry in Europe. It is estimated that total sales in the European market amount to SEK 60 billion. Growth in 1996 was about 2%.

The tissue market consists of two segments: a consumer market with sales to households via retailers, and an institutional Away From Home (AFH) market. Consumer market products are sold under the manufacturer's own brand names as well as under private labels.

Sales in the consumer market represent more than 3 million tons of tissue per year, or 70% of the total tissue market. Sales increased by 2% in 1996, despite relatively weak economic growth in Europe. The launching of new products with higher quality continued to be intensive. As a result of increasing

concentration in the retail sector, retailer private label sales increased at the expense of manufacturers' brands.

The AFH market in Europe represents 30% of the total tissue market. Products are distributed via distributors or directly to the various customer categories – manufacturing companies, hotels and restaurants, hospitals and other public institutions. Due to relatively weak business conditions, sales volumes were basically unchanged.

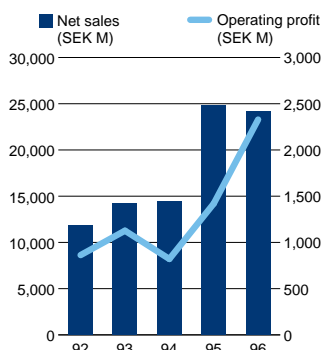
### SCA's strategy and market position

SCA Hygiene Paper is the next largest tissue supplier in Europe, and has good market coverage in Europe.

SCA Hygiene Paper was formed in January 1996 by merging PWA's and SCA Mölnlycke's tissue operations. A number of measures were implemented in the year to coordinate operations and establish the prerequisites for improvements in the production structure.

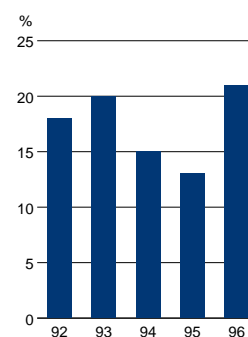
The number of products has been reduced, for example, and this also applies to the number of sales staff employed by the two companies. Production will be streamlined at the various tissue plants, thus increasing total capacity. Significant marketing and logistics synergies will

**Net sales and operating profit**



Operating profit improved by 70% to SEK 2,323 M.

**Return on capital employed**



Return on capital employed rose from 13% to 21%.

also be achieved as a result of the new organization.

The development of new products is becoming a more important competitive tool and, therefore, SCA has allocated greater resources for research and development.

SCA's expansion is focused primarily on the AFH market and private label sales in the consumer market, supplemented by a number of SCA brands which hold strong positions locally.

In order to increase its presence on the British market, SCA acquired the Prudhoe tissue mill in the northern Great Britain from Kimberly-Clark. The agreement with Kimberly-Clark includes the right to sell certain tissue products in Britain and Ireland under the Kleenex trademark. SCA currently has high market shares in northern and central parts of Europe. The company will reinforce its market coverage in Southern, Central and Eastern Europe by means of acquisitions and natural growth.

**Consumer products**

SCA is the market leader for private label products in the European market. The company also has a number of its own brands with strong regional market positions: Zewa and Danke in Germany and Austria, Edet in Scandinavia and the Netherlands, Kleenex in Great Britain and Ireland and Domex in Belgium.

The primary objective is to take advantage of rapid growth in the private label segment and strengthen the position of SCA's local brands. Market share increased to 17% at year-end as a result of the acquisition of Kleenex. Sales



SCA Hygiene Paper is the second largest supplier of tissue, with a number of successful brands such as Zewa "soft" toilet paper.

increased by 2%.

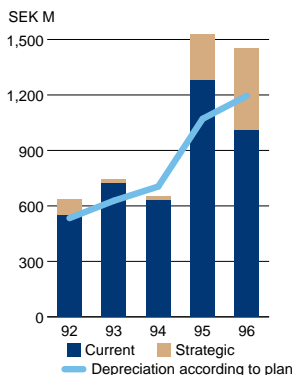
In 1996, new, improved products were launched for brands such as Zewa in Germany and Edet in the Netherlands. Introduction of products under the Zewa trademark continued in Poland, the Czech Republic, Slovakia, Hungary and the Baltic states. In France, SCA defended its market leadership as a supplier of private label products.

**Away From Home products**

SCA is the second largest supplier in Europe in the AFH segment under the Tork and Apura trademarks, with a market share of 15%. Sales are either via distributors or directly to customers. The market share increased slightly during the year, and sales rose by 2%.

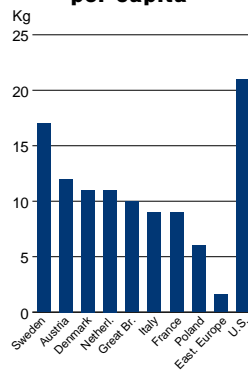
SCA's strategy is to develop special products, customized to meet specific

**Capital expenditures**



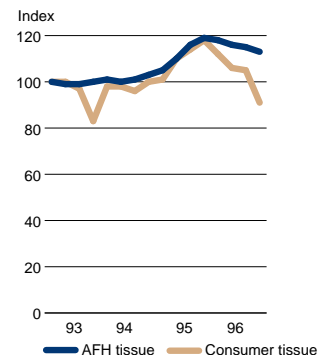
In 1996, capital expenditures totaled SEK 1,451 M.

**Tissue consumption per capita**



Tissue consumption in Eastern Europe is expected to increase in the future.

**Tissue price trend**



Tissue prices were under pressure in 1996 due to low raw material costs and additional production capacity.

customer requirements and, concurrently, to compete in the market for standard products. The aim is to expand in the AFH segment in Europe by increasing penetration of existing markets and expansion in new markets.

The product range was reduced by 30% as a result of the concentration achieved after merging PWA's and SCA Mölnlycke's AFH operations.

**FLUFF AND CLINICAL PRODUCTS**

**Market**

Fluff products are absorbent hygiene articles which are largely based on fluff pulp: incontinence products for adults, baby diapers and feminine hygiene products.

The market for absorbent hygiene products is becoming increasingly consolidated, and the major manufacturers are achieving growing global coverage. One major competitive tool is the launching of a continuous flow of new products. Large retail chains are increasingly interested in selling products under private labels.

It is estimated that sales of adult incontinence products in Western Europe and in North America amounted to about SEK 10 billion in each market, with annual growth of 8-10%. Products for minor incontinence problems are expected to experience particularly rapid growth. The Asian and Central and Eastern European markets have considerable potential and are expected to expand rapidly.

It is estimated that in Western Europe the markets for baby diapers represent sales of SEK 30 billion and feminine hygiene products SEK 25 billion.

Growth is relatively limited. The markets in Central and Eastern Europe are undeveloped in some respects, and are expected to expand dramatically.

Clinical products include disposable items used for operations and wound-management products. The primary factor in the surgical products market is the transition from traditional textile materials to disposable products. It is estimated that sales in the European market amount to SEK 6.5 billion and that annual growth is 7%. Wound-management products, which constitute a limited market, are also growing by 8-10% a year.

**SCA's strategy and market position**

In recent years, SCA Mölnlycke has reinforced its leadership in incontinence and clinical products among institutional customers, such as hospitals and other care units. This has been achieved, for example, by successful entry into a number of new markets.

SCA Mölnlycke's global leadership in incontinence products, with brands such as Tena and Promise, will be further reinforced. There will be a focus on well-established markets in western Europe and North America, and also in other parts of the world, such as Asia and Latin America.

SCA Mölnlycke successfully defended its leadership in the Nordic baby diaper market, where its products are sold under the Libero brand. SCA also holds a leading position in the private label market segment in Europe. The target is a market share of 50%.

Efforts will be made to further improve the company's position in the

feminine hygiene market in Western Europe (with brands such as Libresse and Nana). Existing ventures in Latin America, Australia and Africa via jointly owned companies will be extended to other countries. Eastern and Central Europe are high-priority growth markets. SCA has developed a strong position in several countries in this region.

SCA Mölnlycke is the leading supplier of disposable surgical products under the Klinidrape trademark. Investment will be made in continued development in the European market.

*Incontinence products*

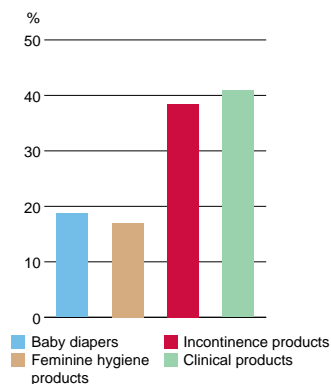
Incontinence products for adults constitute SCA Mölnlycke's largest and fastest-growing segment. The company has global leadership in this field, and was able to reinforce its position in most countries. Products for minor incontinence problems experienced strong growth, for example in France and Germany, and were launched in the autumn in Italy.

A number of new products were launched during the year. SCA Mölnlycke's basic product development concept is to minimize customer utilization costs, and to optimize performance for the user.

The integration of the incontinence operations of Cascades, a Canadian company acquired in March 1996, has proceeded very successfully. SCA Mölnlycke is now the second largest supplier of incontinence products in the North American market.

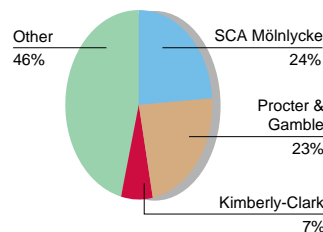
In December 1996, agreement was reached regarding the marketing of

**Fluff and clinical product market shares - Europe**



A combined weighting of SCA Mölnlycke's market shares in European markets in which the company operates demonstrate its strength in most product areas.

**Incontinence product market shares - the world**



SCA Mölnlycke is the world's leading supplier of incontinence products.

SCA's incontinence products in Japan via a jointly-owned company.

**Baby diapers**

SCA Mölnlycke is the second largest supplier of diapers in Europe, with an increasing proportion of sales under private label.

In the year, SCA sold the French Peaudouce trademark to the U.S. Kimberly-Clark company in a major structural transaction, thus stemming SCA Mölnlycke's losses in the French market and permitting the company to achieve a higher tempo in its expansion elsewhere.

In 1996, a new production technology for baby diapers was introduced, which doubled the rate of production, minimized changeover times and facilitated product development. The new Baby Comfort diaper was introduced in the year and was well received by the market.

**Feminine hygiene products**

SCA Mölnlycke sells feminine hygiene products in some 25 countries in Europe, Latin America, Africa and Australia via wholly and partly owned companies, and exports hygiene products to an additional 15 markets.

SCA Mölnlycke successfully maintained its positions in countries such as France and Italy as a result of satisfactory volume growth for slim sanitary towels.

In 1996, SCA Mölnlycke signed an agreement with the U.S. Tambrands company regarding the sales of Tampax



Incontinence products are SCA Mölnlycke's largest and fastest-growing product segment. Other products include feminine hygiene products and baby diapers.

tampoon products in France. Cooperation with Tambrands has already been established in the British and Russian markets.

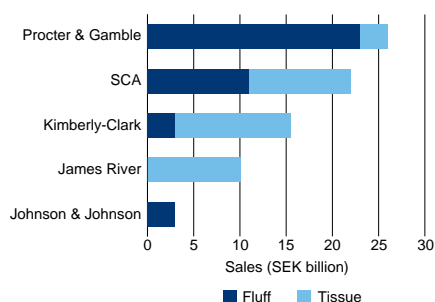
**Clinical products**

SCA Mölnlycke is the leading supplier in Europe of disposable products for the protection of patients and medical personnel during operations. Klinidrape

operation sheets, sets and protective clothing have achieved market leadership in most European countries.

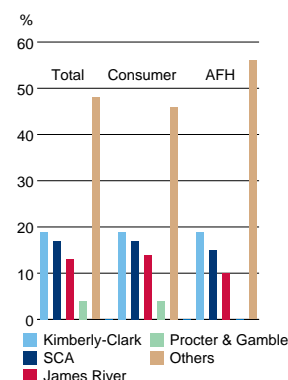
SCA Mölnlycke will retain its leadership in surgical products in the European market, and will reinforce its position in wound-management products. Increased resources will be devoted to expansion in non-European markets.

**Tissue and fluff products Competitors – Europe**



There are a limited number of players in the European fluff and tissue industry.

**Tissue market competitors – Europe (by customer/distribution segments)**



The three largest players hold approximately 50% of the market.



# PACKAGING

The business area consists of SCA Packaging, SCA Packaging Industripapier and minority holdings in Widmer-Walty Group AG (Switzerland) and Selkasan-Kaplamin (Turkey).

| Key ratios <sup>1</sup>                  | 1996   | Group share % | 1995   |
|--|--------|---------------|--------|
| Net sales (SEK M), of which, intra-Group | 13,697 | 25            | 17,609 |
| Operating profit (SEK M)                 | 939    | 20            | 2,370  |
| Operating margin (%)                     | 7      |               | 13     |
| Operating cash flow (SEK M)              | 1,478  | 24            | 2,295  |
| Capital employed, excl. goodwill (SEK M) | 8,727  | 20            | 9,271  |
| Return (%)                               | 11     |               | 26     |
| Capital expenditures (SEK M)             |        |               |        |
| – strategic                              | 166    | 15            | 179    |
| – current                                | 629    | 25            | 678    |
| Average number of employees              | 10,036 | 29            | 10,146 |

<sup>1</sup>Incl. SCA Recycling.

Production capacity: see cover flap.

| Deliveries   | 1996      | 1995      |
|--|-----------|-----------|
| Corrugated board (m <sup>2</sup> million)              | 2,618     | 2,443     |
| Containerboard (tons), of which, recycled-based (tons) | 2,196,000 | 1,937,000 |
| Intra-Group (tons)                                     | 1,414,000 | 1,302,000 |
|  | 1,141,000 | 970,000   |

## BUSINESS UNITS

### CORRUGATED BOARD

Production of transport packaging at 82 plants in Belgium, France, Germany, Great Britain, Hungary, Ireland, Italy, the Netherlands and Sweden, and in plants in which the company has minority holdings in Switzerland and Turkey.

**Net sales:** SEK 10,419 M (12,441).

**Employees:** 7,958 at December 31, 1996.

### CONTAINERBOARD

Production of testliner and kraftliner in Sweden (Obbola and Munksund). Production of testliner/fluting in the Netherlands (Eerbeek), Italy (Lucca), Great Britain (Aylesford), Germany (Aschaffenburg, Redenfelden, Witzenhausen) and minority holdings in Switzerland (Oftringen) and Turkey (Izmir).

**Net sales:** SEK 3,278 M (5,168).

**Employees:** 1,955 at December 31, 1996.

## Stronger position in Western Europe

*SCA Packaging is continuing to reinforce its position in Western Europe. With this market as its home base, expansion is forging ahead in Eastern Europe and Asia, thus supporting global customers who are establishing themselves in these markets.*

SCA Packaging is Europe's leading manufacturer of corrugated board packaging. SCA Packaging has 93 production facilities in 12 countries, offering local services and customized packaging solutions. Modern printing technology makes it possible to display the product on the packaging.

SCA Packaging also produces containerboard (kraftliner and testliner) in its own paper mills, and sells products both to external customers and within the SCA Group. Containerboard is based on fresh wood fiber from the Group's own forest resources and on recycled fiber derived from recovered paper.

Earnings for the year were appreciably lower than in 1995, which was a highly successful year. This deterioration was primarily due to falling prices for corrugated board packaging and liner products.

### CORRUGATED BOARD

#### Market

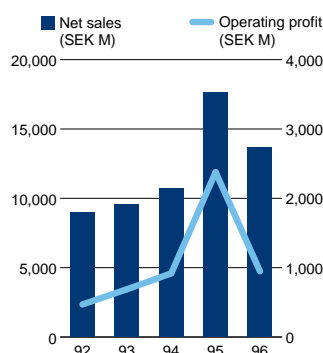
The corrugated board market is dominated increasingly by major buyers. The operations of strategic customers, such

as large producers of foodstuffs and consumer products, are becoming more global. Since the transportation of corrugated board for distances of more than approximately 300 kilometers is not economically viable, the production of corrugated board must be established in new geographical areas, for example in Eastern Europe and Asia, where export-oriented industries and local demand are expanding rapidly. In addition, customers demand just-in-time deliveries, effective logistics to reduce production costs, customized packaging solutions and an attractive graphic presentation of their products.

Alternative packaging materials such as plastics offer some competition, but on a global scale, corrugated board's market share is steady or increasing slightly.

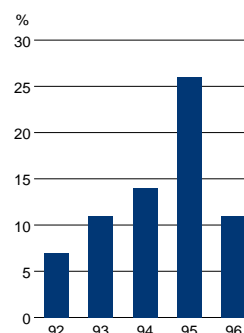
In 1996, the corrugated board market was characterized by relatively weak retail sales and slow economic growth. This trend was reflected in the decline in the price of corrugated board in the first half of 1996. Prices stabilized in the second half of the year. There was a 4% increase in sales volumes compared with 1995.

#### Net sales and operating profit



Operating profit declined to SEK 939 M.

#### Return on capital employed



Return on capital employed amounted to 11%.



**SCA's strategy and market position**

SCA Packaging aims to increase its market share further by expanding and offering improved service and product development in close cooperation with major customers. In order to ensure continued growth, SCA will also be following the expansion of global customers' business into new markets, primarily in Eastern Europe and Asia.

As a result of acquisitions and expansion of its basic operations, SCA Packaging has achieved a market share of more than 12% in Western Europe.

**Western Europe**

Western Europe is SCA Packaging's home market, and this will continue to be the case. Increased customer service and further adaptation of operations to meet customer needs were high priorities in 1996. A program to give all employees in SCA Packaging plants greater security was also initiated in the course of the year.

The Corrugated Business System (CBS), a new tailor-made computer program for production and sales process control, was developed and tested with considerable success in Great Britain and the Netherlands. This system controls all the stages of the process in accordance with customer specifications, from receipt of orders and the purchasing of raw materials to the final delivery of the packaging product. CBS is to be introduced at all SCA units within the business area.

A design software program is to be

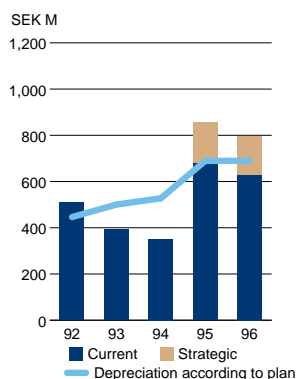


SCA Packaging supplies transport packaging to Reckitt & Colman – a typical pan-European customer – in Germany, France and Great Britain. As a result of modern printing technology and the white outer surface of the containerboard, the packaged products are attractively displayed.

further developed and installed at sales and design departments throughout Europe. This system (Finite Element Method/FEM Interface) makes it possible to test the design of packaging products on the computer screen, thus

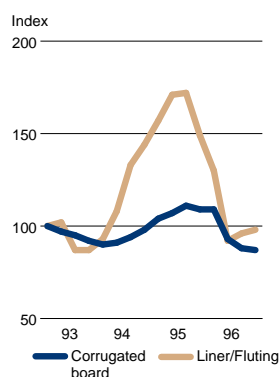
eliminating the need to produce prototypes. This system will improve customer service, while achieving further reductions in production and packaging costs. Flexible programs to improve productivity, production reliability and

**Capital expenditures**



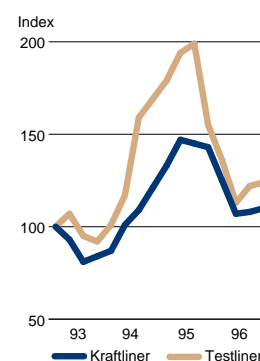
Capital expenditures totaled SEK 795 M.

**Corrugated board price trend**



Low raw material prices and weak demand resulted in a reduction in corrugated board prices in early 1996. There was some recovery at the end of the year.

**Containerboard price trend**



Low recovered paper prices reduced testliner prices which, in turn, affected kraftliner prices. The price of containerboard stabilized at the end of 1996.

maintenance have been introduced in the manufacturing operation. A special design school has also been established at the Technical Center in Aylesford in Great Britain to train packaging designers from all the company's plants in Europe.

SCA Packaging's leadership as a producer of corrugated board and corrugated board packaging has been further strengthened in 1996 as a result of a number of acquisitions.

In Italy, SCA acquired Biopack, an integrated packaging plant in the South Tyrol (Alto Adige), in addition to two sheet plants in Emilia.

In the Benelux countries, the company acquired a conversion plant in Kortrijk in Belgium, and two sheet plants in the Netherlands (Mendels Cartonagefabrieken).

At the end of the year, SCA acquired a 49.9% shareholding in Widmer-Walty Group AG, a Swiss packaging group. This company comprises a paper mill, a packaging plant, two sheet production facilities and part-ownership of the German Nestler Wellpappe packaging plant in Germany. Widmer-Walty Group AG is the second largest company in the Swiss market and produces more than 70 million m<sup>2</sup> of corrugated board per year and 75,000 tons of containerboard based on recycled fiber. Total sales are approximately SEK 550 M. SCA has an option to acquire the remaining shares.

A new integrated packaging facility was built in the southern part of Turkey (Tarsus).

**Central and Eastern Europe**

SCA's strategy of following its major customers when they expand in Eastern Europe led to the setting up of a number of new operations in 1996.

SCA is planning for eight plants in Central and Eastern Europe in the near future. Construction of two facilities commenced at Pila and Kwidzin in Poland. The first sheet plant in Hungary is in operation at Nagykata, and a second plant is under construction at Sarvar. In all these cases, SCA is installing production equipment from existing facilities in Western Europe.

**Asia**

SCA has decided to establish operations in China, in cooperation with the U.S. Weyerhaeuser forest industry company. The SCA Weyerhaeuser Packaging Asia joint venture initially involves installation of an integrated facility for corrugated board packaging in Shanghai, which is currently under construction. Another integrated packaging facility is planned for Wu-Han, north of Hong Kong. In both cases, existing production equipment from Europe and the U.S. will be installed. Contracts have already been signed with several of SCA's and Weyerhaeuser's global customers. In the

long term, a network of packaging facilities and paper mills producing containerboard will be established in China.

**CONTAINERBOARD**

**Market**

Demand for containerboard – kraftliner, testliner and fluting – reflects the demand for corrugated board.

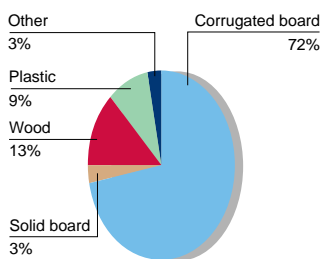
Testliner and kraftliner prices fell by 24% in the first half of the year, finally bottoming out at the end of June 1996. The market stabilized in July and August and testliner prices increased. Kraftliner prices were increased in September and October.

Demand for testliner and fluting continued to be low in the first quarter of 1996, due to the reduction of inventories by customers and weak consumer demand. Demand increased in the second quarter and stabilized in the third quarter. Demand for testliner followed the same trend, but prices recovered more slowly and did not start to increase until September.

**SCA's strategy and market position**

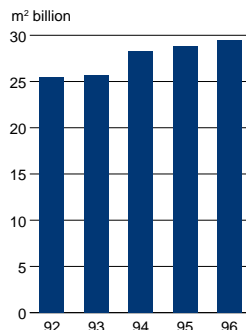
In Europe, SCA Packaging is the market leader in the production of containerboard, and has a capacity of 2.2 million tons. SCA's market share was 15% in 1996. SCA sells extensively on the open market, but the bulk of its liner output is used in SCA's own plants.

**Transport packaging (types of material) in Europe**



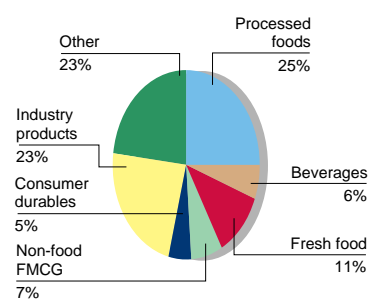
Corrugated board is the predominant packaging material.

**Total deliveries of corrugated board in Europe**



Deliveries of corrugated board increased by approximately 4 billion m<sup>2</sup> in the 1992–1996 period.

**Sales of corrugated board by end-user in Europe**



Food packaging in various forms represents almost half the end-uses of corrugated board.

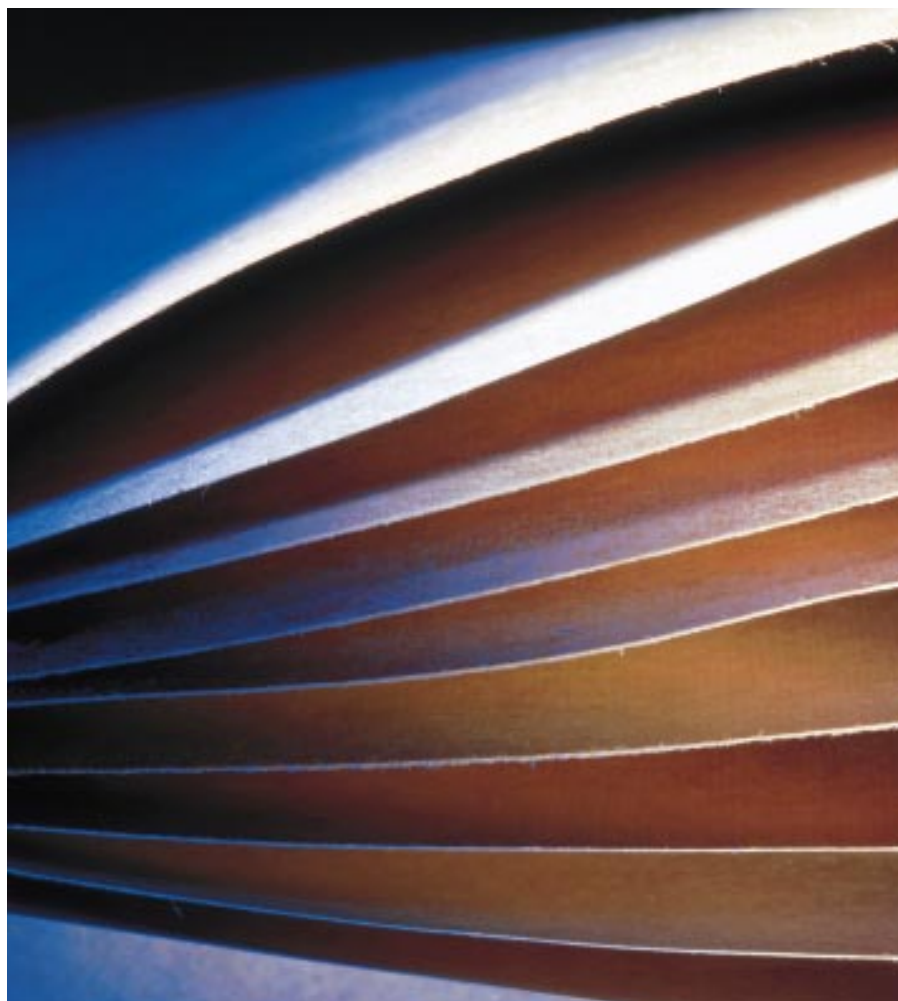
SCA Packaging's ten European sales offices and the new Asian sales organization, with offices in Hong Kong, Singapore, Beijing and Shanghai, market a full range of products.

The company's investment in the production of white-coated kraftliner was completed at the Munksund paper mill in Sweden. Total white kraftliner capacity is now one third of total production at Munksund. This product strengthens SCA's product range and makes the company more competitive.

There have been further improvements in customer service in 1996, for example SCA Transforest's new sea-freight system.

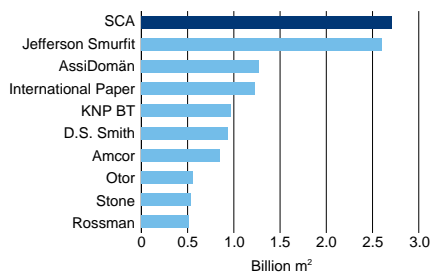
The new Paper Manufacturing System (PMS) software program was installed at all the company's paper mills, and is also being introduced through the sales organization. PMS improves SCA's level of service by enabling the company to guarantee delivery dates and achieve a considerable reduction in lead times for paper deliveries, thus permitting customers to reduce their inventories and working capital.

Higher productivity was achieved by reducing the number of paper-making machines and rationalization of paper mill production systems. In the interests of achieving a better balance in the market, one of SCA Packaging's machines was shut down at the New Hythe paper mill in Great Britain. This corresponded to a reduction of about 60,000 tons of containerboard.



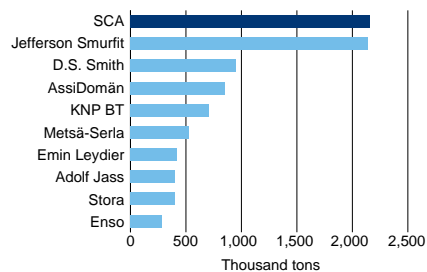
Kraftliner with a white outer surface is strengthening SCA's product range, making the company more competitive. This product represents an increasing proportion of the output of the Munksund paper plant.

**Corrugated board Competitors - Europe**



SCA, closely followed by the Irish company Jefferson Smurfit, is the European market leader in corrugated board.

**Containerboard Competitors - Europe**



SCA and Jefferson Smurfit are also the main suppliers of containerboard.

**The business area consists of  
SCA Graphic Paper, SCA Fine Paper  
and Ecco Paper Trade Group.**

| Key ratios                                  | Group         |                               |
|---|---------------|-------------------------------|
|   | 1996          | share % 1995                  |
| Net sales (SEK M),<br>of which, intra-Group | 15,872<br>697 | 29 18,159 <sup>1</sup><br>730 |
| Operating profit (SEK M)                    | 510           | 11 2,345 <sup>1</sup>         |
| Operating margin (%)                        | 3             | 13                            |
| Operating cash flow<br>(SEK M)              | 1,266         | 20 2,367                      |
| Capital employed,<br>excl. goodwill (SEK M) | 15,111        | 35 15,183                     |
| Return (%)                                  | 3             | 15                            |
| Capital expenditures (SEK M)                |               |                               |
| – strategic                                 | 515           | 46 1,418                      |
| – current                                   | 682           | 27 564                        |
| Average number<br>of employees              | 6,098         | 18 6,080                      |

<sup>1</sup> Adjusted for operations transferred from Hygiene Products.

Production capacity: see cover flap.

| Deliveries (tons)                             | 1996               | 1995               |
|---|--------------------|--------------------|
| Newsprint <sup>1</sup>                        | 466,700            | 501,500            |
| Magazine paper<br>(SC and LWC paper)          | 541,800            | 480,500            |
| Fine paper                                    | 682,400            | 604,400            |
| Bleached kraft pulp,<br>of which, intra-Group | 613,500<br>427,700 | 559,300<br>395,800 |
| Other paper<br>and paperboard                 | 26,000             | 56,000             |

<sup>1</sup> Incl. SCA's share of Aylesford Newsprint Ltd (50%).

| Net sales (SEK M)<br>(excl. distribution and wholesale business) |                |                |
|--|----------------|----------------|
| Newsprint  | 2,355          | 2,477          |
| Magazine paper<br>(SC and LWC paper)                             | 3,293          | 3,496          |
| Fine paper   | 4,255          | 5,414          |
| Bleached kraft pulp<br>of which, intra-Group<br>deliveries       | 1,865<br>1,425 | 3,030<br>2,081 |
| Other paper and paperboard                                       | 51             | 185            |

## BUSINESS UNITS

### SCA Graphic Paper

#### ORTVIKEN, SWEDEN

Production: Newsprint and LWC paper.

#### ÖSTRAND, SWEDEN

Production: Pulp.

#### LAAKIRCHEN, AUSTRIA

Production: SC paper

#### SCA TRANSFOREST, SWEDEN

(Incorporated in SCA Raw Materials and Logistics from January 1, 1997)

Distribution of forest industry products.

**Net sales:** SEK 8,905 M (9,536), of which intra-Group SEK 2,195 M (2,380). **Number of employees:** 2,250 at December 31, 1996. (Figures refer to Ortvikén, Östrand, Laakirchen and SCA Transforest combined).

#### AYLESFORD NEWSPRINT, GREAT BRITAIN (50%)

Production: Newsprint based on recycled fiber.

**Net sales:** SEK 760 M. **Number of employees:** 450 at December 31, 1996.

### SCA Fine Paper

#### STOCKSTADT, GERMANY

Production: Coated and uncoated fine paper and pulp.

#### HALLEIN, AUSTRIA

Production: Coated and uncoated fine paper and pulp.

#### WIFSTA, SWEDEN

Production: Uncoated fine paper.

**Net sales:** SEK 5,836 M (6,394), of which intra-Group SEK 938 M. **Number of employees:** 2,180 at December 31, 1996. (Figures refer to Stockstadt, Hallein and Wifsta combined).

### Ecco Paper Trade Group, Germany

Wholesaling business.

**Net sales:** SEK 4,264 M (4,609).

**Number of employees:** 1,142 at December 31, 1996.

# GRAPHIC PAPER

## Measures to increase profitability

*Intensive efforts were initiated during 1996 to restructure SCA's fine paper business in order to achieve greater profitability. A new plant for the production of coated magazine paper (LWC) was started up at the Ortvikén paper mill. In 1996, SCA also initiated a new distribution system for the transportation of paper products between Sweden and the Continent.*

The Graphic Paper business area is a full-range supplier of printing paper and fine paper in the European market. Wood-containing printing papers such as newsprint, SC and LWC paper are primarily supplied for the production of daily newspapers, popular and trade magazines, catalogues and advertising materials.

The SCA Fine Paper business unit was formed in 1996. This includes SCA's fine paper operations in Sweden, Germany and Austria. The fine paper range includes uncoated and coated grades for commercial print and office use.

The paper business's earnings were substantially lower than in 1995. Overall, the earnings trend was very stable in the last three quarters, although the various product areas were subject to different business conditions.

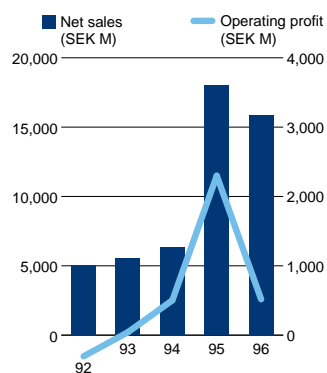
### Market

Demand for printing paper is affected by the volume of printed media, which are largely financed by advertising revenue. This also applies to fine paper, which is employed for printed advertising materials and more exclusive paper products such as corporate presentations. Office paper is the exception in this context.

So far, the rapid expansion of electronic media such as the Internet, CD-ROM, etc. has contributed to a greater utilization of paper due to the increased need for paper printouts and several new specialized media publications.

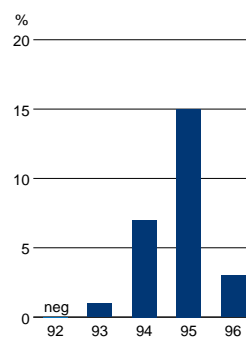
In the next few years, the total demand for paper is expected to increase by about 3% annually.

**Net sales and operating profit**



Operating profit amounted to SEK 510 M.

**Return on capital employed**



Return on capital employed was 3%.



**SCA's strategy and market position**

SCA's strategy is to be a competitive supplier of high-quality paper products in the European market, as a result of its cost-effective production facilities.

SCA's substantial forest holdings contain a wood fiber raw material which is very suitable for the production of wood-containing printing paper. This resource is utilized for the production of high-quality coated printing paper – LWC – which is entirely based on fresh wood fiber. At Aylesford in southern England, where there is full access to recovered paper from the London region, SCA and the South African company, Mondi, have expanded the production of newsprint based on recycled fiber. At the Austrian Laakirchen plant, which is close to forest and recovered fiber resources, SCA bases its production of SC paper on both fresh wood fiber and recycled fiber.

SCA is one of the most cost-effective producers in Europe in the LWC and newsprint areas. Investments designed to improve quality were implemented in 1996 to give the company a leading position in SC paper.

The short transportation routes between the German and the Austrian fine paper units and the large market in Western and Central Europe offer an important competitive advantage. SCA's fine paper mills in Sweden constitute a cost-effective production unit which has developed several new office paper products.

In 1996, SCA initiated a new distribution system, including three new special vessels which transport paper

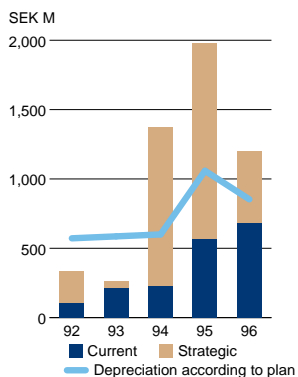


Graphic Paper is offering a full product range in the printing paper sector, supplying its products to most of the major publishers and printing houses in Europe.

products from mills in Sweden to customers on the Continent and in Great Britain on a continuous basis. On the return trip to Sweden, these ships carry recovered paper from SCA Recycling. A completely new loading and unloading

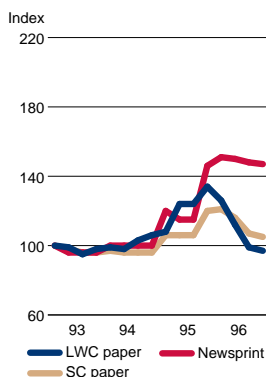
system reduces waiting times in port, thus achieving greater frequency of services and substantially improved delivery service. This distribution system also minimizes damage to cargoes.

**Capital expenditures**



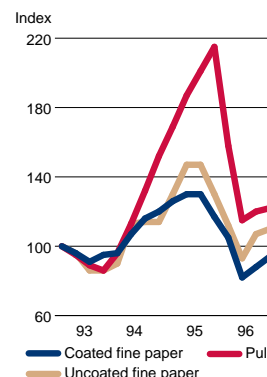
Capital expenditures amounted to SEK 1,197 M.

**Price trends for newsprint, LWC and SC paper**



Newsprint prices were stable in 1996, but SC prices and, to a greater extent, LWC prices fell during the year.

**Price trends for fine paper and pulp**



Heavy demand for fine paper led to higher prices in the year. Pulp prices recovered and stabilized.

**SCA GRAPHIC PAPER**

**Wood-containing paper**

*Newsprint*

Consumption of newsprint in Western Europe amounted to 8.3 million tons, a decline of 6%. Prices rose by 12% compared with 1995.

The new paper machine at Aylesford in the Great Britain, which is based on recycled fiber, has rapidly achieved full production since it went into operation in May 1995. The quality of the paper is high and consistent, and has been well received by customers. The manufacturing costs are highly competitive.

*SC Paper*

The market for SC paper was relatively stable in 1996. Although consumption fell by 4% to 2.4 million tons, this must be compared with the very high level of consumption in 1995. A decline in prices for LWC paper resulted in pressure on SC paper prices in the latter part of the year, but the average price remained unchanged compared with 1995. Earnings during the year were improved by cost reductions at the Laakirchen paper mill in Austria.

*LWC paper*

The consumption of coated, wood-containing paper – LWC – fell 11% to 4.5 million tons, compared overall with the high level in 1995. Much of the decline was attributed to inventory reductions by customers, but changes in the market share in relation to competing products such as SC paper was also a factor. During the latter half of the year, orders received improved and demand was favorable at year-end. The price fell 15%.

The new LWC machine at the Ortvik paper mill was started up during

the year. Production capacity was increased successively while paper quality continually remained at a high level.

*Pulp*

The sharp price drop in market pulp rebounded during the summer in a cautious price rise. However, a relatively low capacity utilization and fairly high inventories reduced the possibilities of further price increases. Demand for pulp in the Norscan region rose 1% during the year. The average price level fell 34%.

Since SCA is a net purchaser of pulp, the Group's plants could operate at full capacity. Östrand's successful further development of high-quality, chlorine-free pulp continued during the year.

**SCA FINE PAPER**

*Fine paper*

The SCA Fine Paper business unit was formed on September 1, 1996. In an intensive restructuring effort, the new unit concentrated its operations on coated and uncoated large sheets for commercial print and high-quality office paper grades. The restructuring efforts also includes a focus on the most important markets in Central Europe. Actions included formation of Customer Service Centers at the paper mills to further develop technical service, logistics and production planning in cooperation with the customers.

SCA Fine Paper comprises the fine paper mills in Stockstadt, Germany, Hallein, Austria, and Wifsta in Sweden. The German sales company Tatra, which holds the sales rights to parts of the Slovenian company Ruzomberok's fine paper, is also included in the business unit.

In 1996, the market for fine paper

was characterized by excess supplies and low prices. After the summer, customer inventories declined, leading to higher demand and some price increases. The decline in pulp prices contributed to improved earnings toward the end of the year.

*Fine paper for commercial printing*

Demand for coated fine paper increased rapidly in the summer, following a very weak period earlier in the year. At year-end, orders received were highly satisfactory. Demand increased by 12% during the year to 4.9 million tons. The average price was 25% below the 1995 level.

*Office papers*

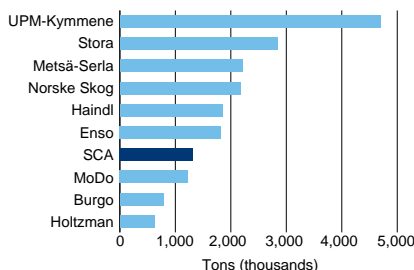
Demand for uncoated fine paper also increased substantially in the summer and autumn. Overall demand for the full year increased by 4%. Demand for A4 cut-size increased by 11%. Prices for uncoated fine paper were 24% below 1995 levels, despite some increase at the end of the year.

**WHOLESALE BUSINESS**

The Ecco Paper Trade Group wholesale business was also influenced by the low level of demand at the beginning of the year and low prices for fine paper. In the first half of the year, it is estimated that prices fell by 20–25%, resulting in lower margins, inventory values and earnings. Prices improved in the autumn.

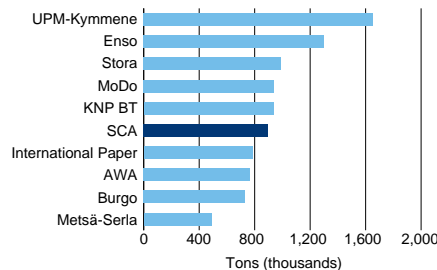
Despite a difficult market situation, Ecco increased its sales and gained market shares in 1996. The acquisition of the Scaldia Bührmann wholesaling business made Ecco one of the leading paper wholesalers in Belgium, with nearly 25% of the market. Overall, deliveries increased by 18%, and sales by more than 5%.

**Printing papers  
Competitors – Europe**



SCA is a full-range supplier of printing papers on the European market.

**Fine paper  
Competitors – Europe**



SCA has a satisfactory position in the central European market.



# SCA FOREST AND TIMBER

## Developed Timber closer to the customer

*The proportion of Developed Timber, wood which is specially adapted to meet the needs of a specific product or end-application, rose to 21% of the total volume of sawn timber. In the Great Britain, SCA established its own sales organization in order to improve distribution and service in this market.*



### SCA Forest and Timber

| Key ratios  | Group |              |
|---|-------|--------------|
|   | 1996  | share % 1995 |
| Net sales (SEK M), of which, intra-Group                                  | 3,948 | 7 4,245      |
| Operating profit (SEK M), of which, capital gains on sales of forest land | 607   | 13 877       |
| Operating margin (%)  | 31    | 41           |
| Operating cash flow (SEK M)   | 15    | 21           |
| Capital employed, excl. goodwill (SEK M)                                  | 631   | 10 591       |
| Return (%)  | 5,010 | 12 4,702     |
| Capital expenditures (SEK M) – strategic                                  | 12    | 19           |
| – current   | –     | –            |
| Average number of employees   | 133   | 5 216        |
|   | 1,283 | 4 1,456      |

Production capacity: see cover flap.

### Deliveries, m<sup>3</sup>

|             |         |         |
|-------------|---------|---------|
| Sawn timber | 686,200 | 670,000 |
|-------------|---------|---------|

### Forest value

(2.3 million hectares, of which 1.8 million hectares are productive forest land)

|  |        |        |
|--|--------|--------|
| Book value (SEK M)                             | 4,187  | 4,156  |
| Forest land tax assessment value (SEK M)       | 9,588  | 7,140  |
| Est. market value after tax (SEK M)*           | 13,500 | 12,000 |
| Est. market value after tax, per hectare (SEK) | 7,600  | 6,800  |

\* This value is calculated on the basis of average earnings for forest operations (excl. capital gains) in the period 1993-1996 and an assessment for 1997, capitalized at a real rate of interest of 4%.

### Wood consumption, million m<sup>3</sup> under bark

|                                     |      |      |
|-------------------------------------|------|------|
| SCA's Swedish forest products mills | 5.53 | 5.62 |
|-------------------------------------|------|------|

### Fellings, million m<sup>3</sup> under bark

|                                     |      |      |
|-------------------------------------|------|------|
| On own forest land                  | 3.65 | 3.72 |
| As a percentage of wood consumption | 66   | 66   |

## BUSINESS UNITS

### SCA Skog AB

Six forest districts, two wood procurement units, a plant nursery and forest fuel services unit.

Net sales: SEK 3,546 M (3,729), of which intra-Group SEK 774 M (815).

Employees: 469 at December 31, 1996.

### SCA Timber AB

Sawmills at Tunadal (Sundsvall), Lugnvik (Kramfors), Holmsund (Umeå) and Munksund (Piteå). Marketing companies in Germany, Great Britain, the Netherlands and Sweden, and partly owned market companies in Sweden and France.

Net sales: SEK 1,415 M (1,522), of which intra-Group SEK 243 M (191).

Employees: 598 at December 31, 1996.

SCA Forest and Timber manages and develops SCA's forest resources and supplies the Group's Swedish plants with fresh wood fiber for the production of paper, packaging and hygiene products. SCA's forest operations buy 50% of their total pulpwood and sawmill chip requirements on the open market.

Extensive sawmill operations, representing about 5% of the output of wood products in Sweden, are conducted in order to maximize the value of the company's forest holdings. Production in SCA's sawmills is entirely based on timber from the company's own forests.

The business group's earnings deteriorated in 1996, due to falling prices for sawn timber, pulpwood and chips. Favorable cost trends offset the decline in earnings to some extent.

## Market

### Sawn timber

In the first half of the year, there was a low level of activity on most markets in Europe. After the summer, demand increased, primarily for whitewood (spruce). Due to a reduction in supplies from major producers and limited buyer inventories in the autumn, SCA was able to raise whitewood prices by 15%, and redwood (pine) prices by 6%. Demand was satisfactory in important markets such as Great Britain, the U.S. and Japan.

The average delivery price from SCA sawmills was 22% lower for redwood than in 1995, and 14% lower for whitewood.

### Saw logs and pulpwood

Prices declined in the first half of the year for both saw logs and pulpwood, due to weak demand. Demand for saw logs increased during the autumn and prices rose. Demand for pulpwood

continued weak in the autumn, and prices dropped 15% during the year. Deliveries from private forest owners were very low in 1996.

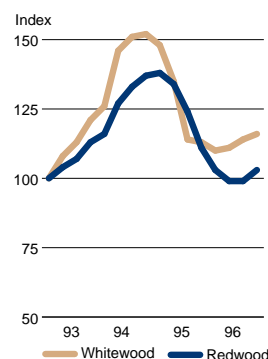
### SCA's strategy and market position

Sawmill operations must improve their market position by meeting customer requirements, supplying Developed Timber wood products which are specially adapted for their ultimate uses.

The sawmill business has well-developed sales and distribution organizations in the most important European markets. A wholly owned sales organization was established in Great Britain. This will further strengthen contacts with end-customers and improve the level of service.

The forest business is continuing to invest in bioenergy, and is achieving revenues of SEK 200 M via the Norrbränslen profit unit. Norrbränslen collects and processes the parts of trees which cannot be used for sawn timber or to provide wood chips for the pulp industry. Norrbränslen supplies fuel products corresponding to 2.0 TWh of electricity – enough to provide heating for 100,000 private houses.

Price trend for sawn whitewood (spruce) and redwood (pine)



There was a recovery in 1996, following an earlier collapse in prices. Redwood prices did not stabilize until the end of the year.

The business group was formed on January 1, 1997, and comprises SCA Recycling, SCA Transforest and SCA Transport UK.



A new distribution system, providing substantial improvements in delivery service, was initiated in 1996 for the transportation of paper products.

#### SCA Recycling<sup>1</sup>

Net sales: SEK 1,046 M (1,755) of which, intra-Group SEK 588 M (841).

Employees: 653 at December 31, 1996.

#### SCA Transforest<sup>2</sup>

Net sales: SEK 998 M (1,012).

Employees: 83 at December 31, 1996.

#### SCA Transport UK<sup>1</sup>

Net sales: SEK 241 M (254).

Employees: 240 at December 31, 1996.

<sup>1</sup> Included in Packaging business area.

<sup>2</sup> Included in Graphic Paper business area.

#### SCA's degree of self-sufficiency, 1996

| Total wood consumption           | Felling own forest            | Degree of self-sufficiency |
|----------------------------------|-------------------------------|----------------------------|
| 7.9 million m <sup>3</sup>       | 3.6 million m <sup>3</sup>    | 46%                        |
| of which, Sweden <sup>1</sup>    |                               |                            |
| 5.5 million m <sup>3</sup>       | 3.6 million m <sup>3</sup>    | 65%                        |
| Total recycled fiber consumption | Own handling                  | Degree of self-sufficiency |
| 2.8 million tons <sup>2</sup>    | 2.3 million tons <sup>2</sup> | 82% <sup>2</sup>           |
| Total pulp consumption           | Own production                | Degree of self-sufficiency |
| 1.3 million tons                 | 0.8 million tons              | 60%                        |

1) Net consumption, less own sawmill chips.

2) Incl. Aylesford.

# SCA RAW MATERIALS AND LOGISTICS

## Capitalizing on coordination benefits

*SCA coordinates the Group's procurement of raw materials, energy and transportation in a business group.*

SCA purchases raw materials, energy and transport services for more than SEK 17 billion annually. The main items are oil, electricity, chemicals, pulp, recovered paper and other raw materials.

SCA is one of Europe's largest users of fresh wood fiber and recycled fiber. As a net buyer, SCA purchases 700,000 tons of pulp annually on the open market. In addition, SCA is the major European player in the recycled-paper market.

In order to take advantage of the possibilities of coordinated procurement, SCA formed the SCA Raw Materials and Logistics business group, which commenced operations on January 1, 1997. This business group supports the SCA Group's strategic business areas: Hygiene Products, Packaging and Graphic Paper.

The newly formed group includes SCA Recycling, SCA Transforest and SCA Transport UK.

#### SCA Recycling

SCA Recycling, which was formed in 1995, is the largest unit in the SCA Raw Materials and Logistics business group. SCA Recycling is responsible for supplying the Group with recovered paper at the lowest possible cost, as a result of the efficient collection of recovered paper from industry and households and trading in the global recycled paper market.

The company is represented in eight European countries and is one of the major players in the European recycled paper market.

The total volume of recovered paper handled in the company's own depots amounted to 1.23 million tons in 1996, in addition to 1.34 million tons traded on the open market.

In 1996, the SCA Group acquired the Prudhoe tissue plant in Great Britain and the Reukema company in the Netherlands, thus increasing total recycled paper operations by 120,000 tons. In addition, SCA acquired a holding in Papernet, a recovered paper company trading in East Asian markets.

There was a relatively weak growth in the European recycled paper market in 1996, although, prices rose in the earlier part of the year and in the summer as a result of higher exports to Eastern Asia and replenishment of inventories by mills and wholesalers in Europe. In the latter half of the year, prices began to fall, and several forecasts predict continued pressure on prices in early 1997.

#### SCA Transforest

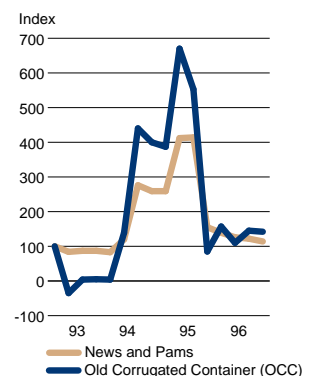
SCA Transforest is responsible for SCA's shipments between Sweden and the Continent, and has introduced a completely new sea-freight system for Transforest's own terminals on the Continent and in Great Britain. Transforest is also responsible for Group road transportation services and transshipment through Europe, excluding Great Britain.

#### SCA Transport UK

SCA Transport UK coordinates and procures SCA's road transport services in Great Britain, utilizing both the company's own modern fleet of trucks and outside contractors.

The expansion of SCA's strategic business areas in Europe provides opportunities for rationalizing transport flows, reducing inventories and achieving efficient partnerships with various transport contractors.

#### Recovered paper Price trend



Prices of all grades of recovered paper declined slightly in 1996.

# RESEARCH AND DEVELOPMENT

## Strategic research in focus

*The R&D organization has been rationalized to provide additional resources for such strategic research which will lead to renewal of the product program.*

A project organization has been established which assigns responsibility to all units in the company for pursuing development operations. In particular, there is a focus in the new organizational structure on building up resources for the tissue paper area and creating scope for innovation and an entrepreneurial spirit. SCA's research and development operations employ nearly 800 persons. Research is centered in four research centers: Sundsvall and Gothenburg in Sweden, Aylesford in Great Britain and Mannheim in Germany.

SCA's research focuses on developing new products and improving existing products and processes. One of the explicit objectives is to further develop process technology to reduce costs and to adapt products and product properties to meet customers' requirements.

In order to consolidate the technological advantages achieved in the development process, there is a growing emphasis on satisfactory patent protection. In the five-year period ending in 1992, SCA submitted 20 patent applications annually. In 1996, the corresponding figure was 66 applications. The SCA Group has a total of about 1,500 individual patents in force in some 30 countries, representing approximately 350 inventions and innovations.

Several new machine systems and process solutions gained full impact in 1996. New technology has resulted in a high degree of capital utilization, flexible

manufacturing and improved final product performance.

The three foremost examples of systems developed by SCA's R&D organization – from the concept stage to full-scale implementation – are:

- Fenix: a new machine system for the manufacture of diapers. Several machines have been installed and targets for increased production capacity and reduced waste have been met.
- A new, flexible process technology for the manufacture of liner (the outer surface of corrugated board), providing a brighter and improved surface. This technology is opening new and highly profitable markets.
- New process technology for LWC production, developed together with equipment suppliers, improves paper quality and is less capital intensive.

### IT security

Information Technology is an increasingly important aspect of SCA's business operations. New business systems were installed in 1996 and the technical infrastructure was enhanced. Measures were taken to improve IT security – a full-time IT security manager was appointed for example. In 1996, considerable effort has been devoted to minimizing the potential problems which could arise in computer systems as a result of the change to the year 2000.

### Some product and process changes made by SCA in recent years

#### SCA Hygiene Paper

##### Forming and binding technology

Manufacture of wet-strength drying cloths without binding agents.

##### Coreless rolls

Tissue paper rolls with no inner core can be compressed, thus saving space in the transportation process.

##### Layered materials

Double-layered materials – one side absorbs grease and the other side absorbs water.

#### SCA Mölnlycke

##### Slim feminine hygiene pads

New absorption materials, resulting in much thinner products and improved performance.

##### New light incontinence range

Product improvements with a focus on seepage protection and comfort.

##### Silicone dressings

Dressings which provide minimum adhesion in the wound, thus reducing the risk of scars.

#### SCA Packaging

##### Packaging design systems

A system for dimensioning packaging products and presenting the best alternatives to customers.

##### Packaging with absorbent moisture cores

Specially treated boxes for the transport of fish and other moist products.

#### SCA Graphic Paper

##### New TMP technology

Low-energy process offering 10–15% lower energy costs.

##### Deinking of SC paper

Technology for deinking of recovered paper, thus avoiding quality deterioration in the end-product.

#### SCA's patents

| Year                          | 1992 | 1993 | 1994 | 1995 | 1996 |
|-------------------------------|------|------|------|------|------|
| Number of patent applications | 35   | 55   | 85   | 67   | 66   |

Expensive technological development and global markets mean that patents are becoming an increasingly important competitive tool. As a result, SCA will be further expanding its patent activities in the years immediately ahead.

A test-run of Fenix, SCA's new machine system for diaper manufacture.





# ENVIRONMENTAL MANAGEMENT

## Environmental policy and strategy

SCA's environmental policy is based on the following principal points:

- SCA assumes responsibility for the environment.
- Decisions shall take the environment into account.
- Environmental responsibility shall be a natural aspect of all operations.
- Information about SCA's environmental efforts shall be open and freely available.
- SCA's environmental initiatives shall be characterized by continuous review and improvements.

SCA's environmental policy and closed-loop concept play a central role in SCA's environmental strategy. The aim is to reduce the use of non-renewable and non-recyclable resources in SCA's production and distribution. This applies to materials as well as energy.

In 1996, SCA's environmental endeavors were based on the following strategic objectives:

- SCA shall strengthen its position as a leading ecocycle company by expanding its recycling operations.
- SCA shall create new products based on renewable resources, while maintaining high productivity.
- SCA shall develop new methods to reduce the use of non-renewable resources.
- SCA shall continue to conduct and develop forest management which combines sustainable wood production with preservation of biodiversity in the company's forests.

## Following up objectives for 1996

All business areas have developed systems to control pulp, energy and discharge balances. Administrative systems are being developed.

**Objective:** To evaluate EMAS (the EU Eco Management and Audit Scheme) or other environmental management systems.

**Result:** EMAS or similar systems have been introduced at several plants. Experiences have permitted the organizational improvements required to achieve effective environmental control. ISO 14001 has proved to be appropriate as an environmental management system, both in forestry and production operations.

## New objectives for 1997

- SCA will introduce the SCA Resource Management System (RMS) in all business areas, with a special emphasis on transportation.
- SCA will complete the introduction of environmental management in all operations in which an appreciable environmental impact may be anticipated.

## Forestry management in focus

*SCA's environmental management is based on a combination of cost efficiency and concern for the environment. This applies to forestry management, tree felling, paper recycling, transport and energy recovery.*

SCA adheres to the closed-loop concept in all aspects of its operations. The company is one of the world's leading users of recycled fibers. Moreover, it is also one of the largest forest owners in Europe. Tree growth exceeds harvesting in SCA's forests, which ensures a continuous increase in the potential supply of timber. However, manufacturing large volumes of products results in substantial total emissions and consumption of energy. SCA considers that it is important to continuously reduce the load on the environment and minimize the consumption of specific energy.

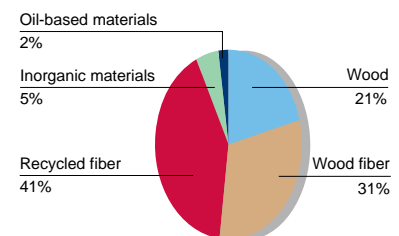
SCA has analyzed energy consumption in transportation and the cost of different forms of transport. There is a direct correlation between transport costs and the goal to reduce energy consumption. A transport analysis indicates that better transportation economics and positive environmental effects can be achieved by improved goods handling. One concrete example is SCA's new sea transport system which in some cases has resulted in the halving of transport costs by employing vessels with cassette systems. In addition, coordination with other shippers has resulted in better utilization of capacity, with subsequently higher efficiency.

## SCA products

SCA's products contain 93% renewable materials, primarily wood, wood fibers and recycled fibers. The non-renewable content consists of oil-based and inorganic materials. The former category mainly consists of products with high moisture absorption used in SCA Mölnlycke's hygiene products to improve their quality and functionality. Use of such products permits weight and volume to be reduced, which means smaller packages and less transportation, resulting in reduced emissions per product unit. The inorganic materials are primarily clay and marble, which are used by SCA Graphic Paper and SCA Fine Paper as fillers and coating pigments to meet customers' paper quality requirements.

In 1996, discharges of organic substances from SCA's pulp and paper mills to the waterways amounted to 63,969 tons, calculated in terms of COD (Chemical Oxygen Demand).

**Raw materials used in SCA products in 1996**



SCA's products contain only 7% non-renewable materials. During 1996, a total of 7.3 million tons of products were delivered to external customers.

### Forest and wood fiber

SCA owns 2.3 million hectares of forest land, of which 1.7 million hectares are commercial forests. This corresponds to 8% of Sweden's total productive forest area. During the past 50 years, the growing stock of timber has increased by 40%, while annual harvesting has doubled. New growth nonetheless exceeds harvesting. This is primarily due to investments in forest management made in recent decades and the high growth in the young forests established by SCA. SCA's costs for planting and forest management totaled more than SEK 100 M in 1996.

The SCA Nature Conservation Action Program which was adopted in 1995 is based on the nature conservation policy established in 1987, in which the aim was to integrate forest management and environmental considerations. This program contains six main points. The progress achieved in 1996 may be summarized as follows:

#### 1. Nature consideration in all types of forestry operations.

In the past three years, SCA Skog has monitored the extent to which environmental factors have been taken into account in final felling operations. In 1996, 4.3% of the timber volume was left intact, which corresponds to 7.5% of the land area. A supplementary quality measurement resulted in an "approved" or "excellent" assessment of 78% for

final felling operations. SCA Skog will concentrate on improving this rating in 1997.

#### 2. Environmentally compatible management methods which, in many respects, resemble natural disturbance factors, such as fires.

The predominant forest management system in northern Sweden is final felling in combination with natural regeneration or planting. The Nature Conservation Action Program stresses the importance of developing alternative forest management methods, such as selective cutting, shelterwood regeneration and controlled burning. Burning-over increased from 103 hectares in 1995 to 611 hectares in 1996, for example.

#### 3. Detailed knowledge of the production conditions and conservation aspects of SCA's forests.

An inventory of SCA forests which are more than 30 years old was completed in 1995. Supplementary inventories for areas of special interest are currently in progress.

#### 4. Ecological landscape planning.

Ecological landscape planning is based on information obtained from the inventory. The aim is to conserve biological diversity in the forest landscape in order to achieve a varied forest environment in which all species can survive in viable populations. This is achieved by recreat-

ing rare forest environments, for example forests with a high proportion of deciduous trees, and by conserving areas of special environmental interest. One example of the latter is the approximately 9,000 hectares of primeval-like forest identified in the inventory process. On the average, 5% of the total area is protected.

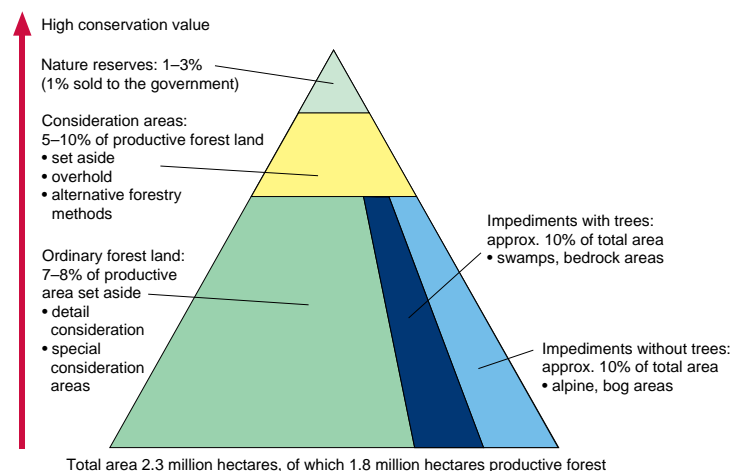
#### 5. High level of competence among all employees and continued development of the knowledge base and methods.

The training of employees and contract personnel continued in 1996. In total 1,470 man-days were devoted to ecological and environmental conservation training. This intensive training program is expected to continue at the same level for the next few years. There will be a special emphasis on training of personnel involved in tree-harvest planning.

#### 6. Cooperation with public authorities with regard to special protection under the Nature Conservation Act.

SCA is cooperating with the authorities in establishing nature reserves. This has involved the sale of certain extensive forest areas to the government. A total of 30,037 hectares has been sold since 1989, corresponding to about 1.3% of SCA's total land holdings. The impact of the recently established Snöberget nature reserve in the north of Sweden is reinforced by the setting aside of surrounding land owned by SCA.

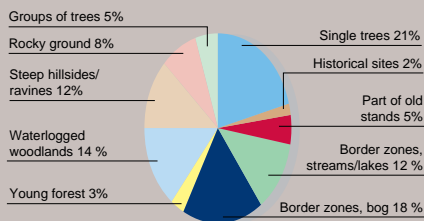
### SCA's nature values



SCA Forest's strategy for environmental protection. Areas of special environmental interest are preserved in nature reserves or set aside by SCA. Special methods are applied in other areas. SCA owns 500,000 hectares of low-productivity forest land (impediments) which are protected by legislation.

**Environmental consideration  
in final felling operations, 1996**

Total felling 3,385,317 m<sup>3</sup>sk  
Total saved 153,496 m<sup>3</sup>sk (4.3%)



Annually, SCA monitors the company's environmental consideration in final felling operations. The total saved volumes are shown by type of land.

SCA Skog's expenditures for environmental conservation measures amount to about SEK 75 M annually – mainly the alternative cost of timber which is not felled and areas which are set aside or managed in accordance with alternative methods. The development of computer aids, training and inventory operations is another aspect of these environmental costs.

**Forest certification**

SCA Forest and Timber is currently introducing ISO 14001 as an environmental management system for forestry operations, transport planning and biofuel operations. The ambition is that environmental management systems should cover the entire chain, from the forest to the finished product.

Through the Swedish Forest Industries Association SCA is actively participating in a national working group which is developing criteria for forest certification in Sweden in accordance with FSC (Forest Stewardship Council) principles. This working group was formed in February 1996 and consists of representatives from environmental protection organizations, trade unions, the Sami people, forest-owner associations and the forestry industry.

**Environmental policy for forestry machines**

In 1995, SCA introduced a new policy for forestry machines, under which all fuel and oil used for such equipment is replaced by environmentally compatible alternatives. This policy was followed up in 1996, and more than 95% of all forestry machines operating on SCA land now use low-emission fuels and biologically degradable oils.

**Paper recycling and recycled fibers**

SCA Recycling was established in 1995 and now forms part of the SCA Raw Materials and Logistics supporting business group. SCA Recycling is involved in the procurement, collection and sorting of waste paper, which is then mainly used by SCA plants, enabling the company to exploit business opportunities while at the same time helping to improve the environment.

In 1996, SCA's total consumption of recovered paper was 2.8 million tons (2.4 million tons in 1995), of which SCA Recycling supplied 1.9 million tons (1.2 million tons in 1995). Within the next few years, SCA Recycling aims to cover the company's entire needs and to increase the proportion controlled by SCA. This is a concrete example of the responsibility which SCA is taking to adapt its products to an ecocycle society.

Collection methods and systems vary considerably from one European country to another, for cultural reasons and due to legislative differences. The EU Packaging and Packaging Waste Directive became effective in 1996, and will make the various systems more similar. SCA is actively helping to reduce waste flows in Europe by recycling useful raw materials which would otherwise be dumped in landfills. In countries which have not previously had any legislation for the recycling of paper, for example Italy and Great Britain, recycling has been limited and primarily undertaken on the initiative of the industries concerned. SCA Recycling has contributed to a greater degree of paper recycling in this context. The following table presents a comparison of the proportion of recovery achieved, defined as the collection of waste paper as a percentage of paper consumption:

| Recovery rate, % | 1995 | 1994 |
|------------------|------|------|
| Great Britain    | 35.1 | 33.9 |
| Italy            | 29.1 | 26.9 |
| Western Europe   | 46.3 | 43.5 |

In Great Britain, Aylesford Newsprint Ltd (50% owned by SCA) has pioneered the large-scale collection of waste paper from consumers. This initiative is being followed by other manufacturers.

The British newspaper publishers have almost achieved their voluntary target of 40% recycled paper content, and discussions have commenced with the government concerning the feasibility of increasing this target.

SCA not only supplies its own mills with recovered paper but, as a result of its collection operations, also guarantees that Group companies comply with their producer liabilities and continue to work for an ecocycle society.

**SCA's Environmental Council  
1997**

**Berit Gullbransson**  
SCA Hygiene Paper, Away From Home

**Anders Hildeman**  
SCA Forest and Timber

**Klaus Hoch**  
SCA Hygiene Paper, Consumer

**Björn Lyngfelt**  
SCA Graphic Paper

**Elisabet Olofsson**  
SCA Mölnlycke

**Ole Terland**  
SCA Graphic Laakirchen

**Arno Wimpffen**  
SCA Recycling

**Folke Österberg**  
SCA Packaging Research



### Energy and recovery

The ecocycle concept also characterizes SCA's energy utilization. Pulp and paper manufacture produces wood waste and other by-products which can be employed for energy recovery. Bark and dissolved wood substances from chemical pulp production have been used for energy recovery for some time.

Increasingly, stringent water discharge and waste disposal regulations have led SCA to invest in equipment for dewatering and pressing of process effluents to facilitate burning, thus achieving energy recovery. As a result, SCA is now accelerating investments in new combustion facilities. Fossil fuels are being replaced by renewable biofuels, thus benefiting the environment by reducing the need for transportation to landfills, for example.

SCA's closed-loop concept also includes energy savings and efficient energy production. Steam turbines are installed at all major pulp and paper mills for local production of electricity (co-generation power).

Accordingly, electricity is also produced via combined heat and power (CHP) schemes. This means increased fuel consumption. The additional consumption of fuel in connection with electricity production is presented in the fol-

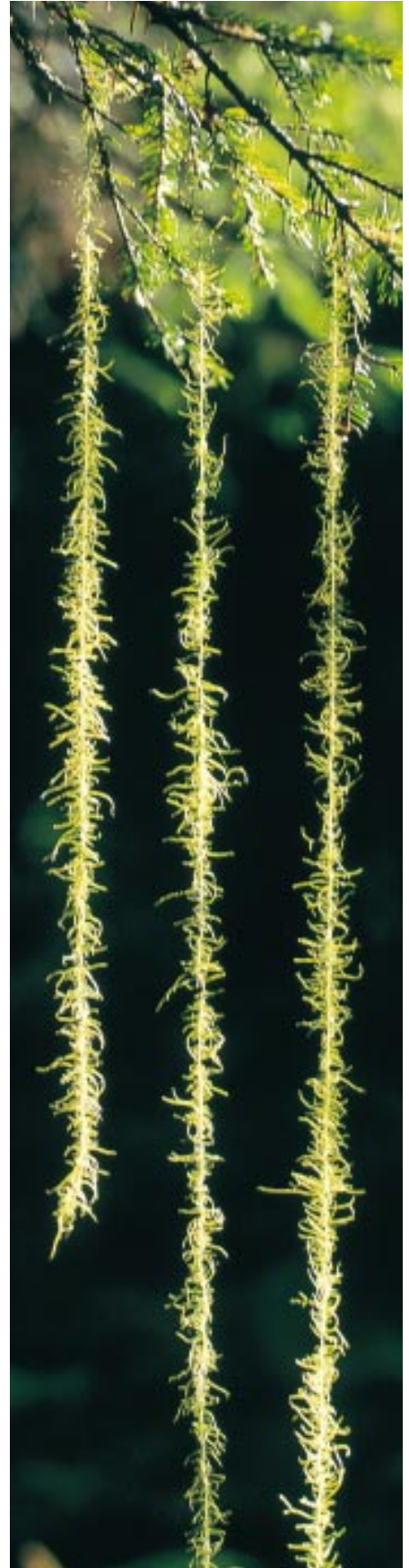
lowing table. In SCA wood-fiber-based pulp and paper mills, biofuel is the main source of energy and steam turbines are employed for electricity production. At other SCA plants, where the raw material for the manufacture of paper consists of recycled fibers and where access to biofuels is limited, fossil fuels are used for the most part. In areas where natural gas is available, power generation is greatly improved by using gas and steam turbines for electricity production.

CHP schemes based on gas and steam turbines have been installed in recent years at six SCA paper mills, providing a combined output of 315 MW.

Co-generation production of electricity and the increased use of biofuels mean that renewable energy sources represent a full 41% of SCA's total fuel consumption of approximately 70,000 TJ (corresponding to 1.8 million m<sup>3</sup> of oil). Electric power produced by co-generation covers about 40% of the total electricity requirement of 6.4 TWh. The development of CHP schemes has accelerated the transition from coal and fuel oil to natural gas, which is more environmentally friendly. Of SCA's total fossil fuel utilization, 75% is natural gas, while the remainder is fuel oil and coal.

**Energy balance for the SCA Group**

| Fuels (TJ)               | Group         |            | Sweden        |            | Group<br>1995 | Sweden<br>1995 |
|--------------------------|---------------|------------|---------------|------------|---------------|----------------|
|                          | 1996          | %          | 1996          | %          |               |                |
| Biofuels                 | 28,370        | 40         | 17,832        | 84         | 27,633        | 19,493         |
| Electric boilers         | 351           | 1          | 351           | 2          | 504           | 377            |
| Fossil fuels             | 41,160        | 59         | 3,134         | 14         | 40,486        | 2,997          |
| <b>Total</b>             | <b>69,881</b> | <b>100</b> | <b>21,317</b> | <b>100</b> | <b>68,623</b> | <b>22,867</b>  |
| of which, processes      | 57,439        | 82         | 19,747        | 93         | 57,028        | 21,195         |
| of which, co-generation  | 12,442        | 18         | 1,570         | 7          | 11,595        | 1,672          |
| <b>Electricity (GWh)</b> |               |            |               |            |               |                |
| Co-generation            | 2,531         | 40         | 373           | 13         | 2,489         | 383            |
| Internal hydro-power     | 40            | 1          | 0             | 0          | 44            | 0              |
| External grid            | 3,796         | 59         | 2,566         | 87         | 3,852         | 2,536          |
| <b>Total</b>             | <b>6,367</b>  | <b>100</b> | <b>2,939</b>  | <b>100</b> | <b>6,385</b>  | <b>2,919</b>   |



Old man's beard (*usnia longissima*), which is threatened by extinction, mainly grows in SCA's forests in Ångermanland in Northern Sweden. SCA feels a special responsibility for survival of this species.

# FINANCIAL RISK MANAGEMENT

*SCA Finans manages corporate financial risks, operates as an in-house bank for Group companies and offers these services in the cash management and corporate finance areas.*

SCA is exposed to financial risks as a result of its international and capital-intensive operations. The term financial risk is used to denote variations in SCA's cash flows due to unexpected changes in foreign exchange rates and interest-rate levels, and in liquidity, borrowing and counterparty risks.

Financial risks are managed in accordance with the guidelines established by SCA's Board, and they are designed to minimize the risks to the greatest extent possible.

## ORGANIZATION

SCA's wholly-owned subsidiary, AB SCA Finans, is responsible for managing the Group's financial risks at the corporate level, thus achieving a satisfactory overview and advantages of scale.

SCA Finans identifies, measures and analyzes the Group's financial risks and undertakes the major proportion of the Group's external transactions in financial markets. It also functions as an in-house bank for Group companies, arranging currency hedging, loan financing and the placement of liquid funds.

SCA Finans also provides consultancy services to Group subsidiaries in the cash management and corporate finance areas.

## CURRENCY RISKS

### Transaction exposure

Transaction exposure, meaning annual commercial net currency flow, currently amounts to SEK 9,500 M. SCA's currency flows are mainly exposed to the SEK, since SCA Graphic Sundsvall and SCA Packaging's Swedish liner mills have a high proportion of their exports priced in foreign currency and a high proportion of their costs in SEK. Exports from the PWA and SCA Laakirchen operations in Germany and Austria result in purchasing requirements for DEM and ATS which exceed the Group's receipts of these two currencies from other sources.

In net terms, SCA needs to sell foreign currency for SEK, and for ATS and DEM. These transactions correspond to SEK 7,300 M and SEK 2,000 M, respectively. The major currency inflows are in GBP and FRF. As a result, the currency relationships which have the greatest profit impact are SEK, DEM and ATS against GBP and FRF.

The Group's norm for hedging of transaction exposure is that the hedged period should correspond to the time it takes to adjust product prices in line with a new currency situation.

At year-end flows representing about 4 months (4) were hedged, corresponding to a volume of SEK 2,400 M.

### Translation exposure

SCA's foreign net assets, the sum of shareholders' equity and acquired goodwill, amounted to SEK 19,400 M at December 31, 1996. The diagram below indicates the distribution between currencies.

The currency impact on Group shareholders' equity is limited by matching foreign net assets by loans and currency derivatives in the corresponding currencies. However, the effect of hedged volumes on the Group's debt/equity ratio is taken into account. On December 31, 1996, foreign net assets were matched by loans for SEK 10,700 M in foreign currencies and SEK 8,300 M in currency derivatives. The proportion which was not hedged chiefly represented assets in countries with high rates of inflation.

### Long-term currency sensitivity

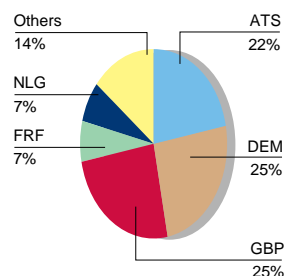
A high proportion of SCA's operations have sales and production facilities in the same country. The table below shows Group net sales and operating costs by currency, and provides an indication of the Group's long-term currency sensitivity. With the exception of the Swedish krona, SCA has a balance between revenues and expenses in the major currencies. SCA's earnings are indirectly affected by the trends for CAD,

**Transaction exposure**  
12-month flows

| Outflow   | SEK M        | Proportion  |
|-----------|--------------|-------------|
| SEK       | 7,300        | 77%         |
| ATS & DEM | 2,000        | 21%         |
| Others    | 200          | 2%          |
|           | <b>9,500</b> | <b>100%</b> |
| Inflow    | SEK M        | Proportion  |
| FRF       | 2,400        | 25%         |
| GBP       | 2,300        | 25%         |
| ITL       | 900          | 9%          |
| DKK       | 700          | 7%          |
| NOK       | 600          | 6%          |
| ESP       | 400          | 4%          |
| CHF       | 400          | 4%          |
| FIM       | 400          | 4%          |
| Others*   | 1,400        | 16%         |
|           | <b>9,500</b> | <b>100%</b> |

\* No single currency exceeds 3%.

**Foreign net assets -  
currency distribution**



SCA's foreign net assets (total shareholders' equity and acquired goodwill) amounted to SEK 19,400 M at December 31, 1996.

**Net sales and operating costs  
by currency**

|              | Net sales   | Operating costs |
|--------------|-------------|-----------------|
| DEM          | 25%         | 27%             |
| GBP          | 15%         | 12%             |
| FRF          | 12%         | 10%             |
| SEK          | 10%         | 19%             |
| NLG          | 8%          | 6%              |
| ATS          | 6%          | 8%              |
| USD          | 5%          | 5%              |
| BEF          | 4%          | 4%              |
| ITL          | 3%          | 3%              |
| Others       | 12%         | 6%              |
| <b>Total</b> | <b>100%</b> | <b>100%</b>     |

USD and FIM, since forest industry companies in Canada, the U.S. and Finland are major exporters.

#### **INTEREST-RATE RISKS**

SCA's net financial items improved by SEK 611 M during the year to SEK 1,008 M. Reduced borrowing volumes and lower interest rates accounted for SEK 491 M of this sum, while SEK 120 M was due to currency effects on the translation of foreign interest expenses to SEK.

SCA applies a short-term norm for interest-rate commitments. Empirical studies indicate that, long term, the lowest interest expenses are attained with a short fixed-interest period for most loan currencies. However, this is at the expense of greater variation in interest expenses than if a higher proportion of fixed-interest terms was applied. There is, however, a positive covariation between SCA's operative cash flow and the level of interest. When interest rates are high, the operative cash flow is higher, and the reverse applies when rates are low.

In 1996, the average period of fixed interest varied between 8 and 10 months, and was about 8 months at year-end.

#### **LIQUIDITY AND BORROWING RISKS**

Liquidity and borrowing risks denote the risk involved if the refinancing of mature loans proves difficult or expensive. The aim is that liquid funds and committed lines of credit should correspond to at least 10% of Group net sales and that the average maturity date for Group borrowing should be more than three years. On December 31, 1996, gross debt amounted to SEK 21,396 M. After deduction for liquid funds, interest-bearing receivables and capital investment in shares, net debt was

SEK 17,462 M. The maturity structure of gross debt and the currency distribution are shown in Notes 14 and 23.

At year-end, the average maturity period was 4.4 years. Liquid funds, interest-bearing receivables and share investment amounted to SEK 3,934 M and unutilized committed lines of credit totaled SEK 4,096 M, the combined total corresponding to 14% of Group sales in 1996.

The Swedish money market is used to achieve active management of liquidity in SEK. The aim is to achieve the best possible return while observing specific limits for market and credit risks. Priority is given to the accessibility of liquid funds, and therefore placements are only made in securities with high-liquidity.

In 1996, agreements were signed for long and medium-term bank credits totaling SEK 11,714 M. A ten-year bilateral bank loan for DEM 150 M was negotiated at the beginning of the year. At the end of the year, an agreement was signed with an international bank syndicate comprising 40 banks covering a seven-year DEM 2,500 M credit facility, which was used to refinance two outstanding syndicated bank loans of USD 700 M and DEM 1,200 M, respectively, thus extending the loan maturity period at a lower loan margin.

SCA's short-term borrowing needs are met by issuing commercial paper under a Swedish commercial paper program with a ceiling of SEK 4,000 M and by means of loans from Swedish and foreign banks in the form of uncommitted credit lines.

SCA has a long credit rating of A3/A- and a short rating of P2/A2 from Moody's and Standard and Poor's, respectively, and a K1 rating from Standard and Poor's in Sweden. The Standard and Poor long rating was raised in June 1996, due to "an improved operational risk following the

acquisition of PWA in 1995 and a gradual subsequent improvement in the financial position."

#### **DERIVATIVE AND COUNTERPARTY RISKS**

SCA Finans employs various types of derivative instruments such as currency forwards and swaps, interest-rate futures and swaps and options.

The counterparty rules approved by SCA's Board of Directors stipulate the maximum permitted credit exposure for various counterparties. Lending and derivative contracts with the counterparty concerned are taken into account when calculating such risks.

The degree of credit exposure to the credit risks inherent in derivative instruments is defined as the market value plus a supplementary amount based on credit risk factors which reflect the risk of increased exposure due to currency and interest-rate movements.

In order to reduce credit exposure, SCA employs agreements which, in countries where this is possible, permit netting of receivables and liabilities.

At December 31, 1996, credit exposure in derivative instruments amounted to SEK 1,515 M.

#### **VALUE-AT-RISK**

In 1996, SCA Finans commenced implementation of Value-at-Risk (VaR) as an instrument for measuring market risk. VaR, which is being developed as a market-risk measurement standard, is a probability-based risk measurement technique, expressing the maximum expected loss in a given time period and applying a specific level of confidence. SCA employs VaR to measure and communicate the degree of market risk, and as a tool for risk management.

# HUMAN RESOURCES

*SCA's activities in the human resources sector aim to develop and establish policies and methods that meet and support the requirements for knowledge, expertise and behavior imposed by Group operations.*

## **Corporate culture and values**

SCA's corporate culture is based on openness, which creates a foundation for widespread cooperation and exchange of experience among SCA's business areas. This has facilitated the integration of newly acquired companies and has contributed to the rapid acceptance by Group employees of business-related changes in the organization.

The values reflected in SCA's personnel policy include management's commitment to develop the expertise and knowledge of the Group's employees. The objective is that employees in all positions should have a level of competence for which there is a demand both within and outside SCA.

## **Group personnel policies and practices**

SCA's employees are increasingly being offered opportunities to develop international careers in the Group's established operations as well as in the expanding activities in Eastern Europe and Asia. To support this trend, special "Foreign Service Employee Policies" have been adopted as a basis for an active program involving transfers of personnel. These policies were applied in connection with the development of SCA's alliance with Weyerhaeuser in China.

A number of managers from different countries, with varying functions within SCA Packaging, were selected to partici-

pate in an exchange program with Weyerhaeuser managers. The program was part of the continuing education and training of Group managers.

## **SCA's European Works Council**

Two members from each business area's European Works Council have been appointed members of the SCA Group's European Works Council. The chairman and vice chairman of this Council constitute its working committee; their responsibilities include working with the Senior Vice President-Human Resources on matters involving communication between SCA and its employees pertaining to Group strategy, employee development and environmental issues, etc.

## **Knowledge and skills**

Providing development and educational opportunities at all levels within SCA constitute the foundation for achieving the overall objectives of SCA's personnel policies.

As one example, all employees in SCA Graphic Sundsvall are undergoing a training program – designed and developed by SCA's experts – that deals with important environmental issues related to company operations.

SCA Mölnlycke conducted a review of its employees' skills and potential for development to handle new work assignments. For example, SCA Packaging took over an SCA Mölnlycke plant in

Hungary, where the existing employees were successful in assuming completely new job responsibilities.

The personnel within PWA, which has employees in a number of the Group's business areas, were involved in a comprehensive restructuring during the year. In 1995, PWA had 12,000 employees, 65 percent of whom were in Germany and 35 percent in other European countries. As of December 1996, this ratio had been reversed and 60 percent of the employees were outside Germany. To implement the changes and create synergies within the Group, PWA conducted a number of major training programs in such areas as information technology, accounting and personnel policy.

SCA Forest and Timber is working actively to develop a more customer-oriented organization. Among other measures, this has resulted in replacing the company's former external sales channels with an internal sales organization.

A long-term objective of all SCA units is to create opportunities – organizationally and culturally – that will give employees more control over their work situations, as well as greater freedom of action. SCA will accordingly promote a corporate culture that is characterized by openness and participation and which supports the introduction of various forms of self-governing and cross-functional work groups.



SCA's operations call for a high degree of expertise in a number of different areas, for example in paper production on the new LWC machine at Ortviken, planting trees in SCA's forests, and in the Group's joint investments in IT.



# FINANCIAL REVIEW

## Board of Directors' Report\*

### Organizational changes in the SCA Group

SCA's fine paper operations were organized into a separate business unit under the name SCA Fine Paper. Operatively, the units in Stockstadt, Germany, Hallein, Austria, and Wifsta in Sweden are included in the new business unit, as well as the Tatra sales company in Germany. Through the more effective use of the machinery and equipment within the fine paper operations, substantial efficiency gains can be achieved. The changes increased profitability for the business unit and the service level to customers and consequently position the fine paper operations as one of the most competitive players in the European fine paper market.

At year-end 1996, SCA Raw Materials and Logistics was formed as a supporting business group to the SCA Group's strategic business areas, Hygiene Products, Packaging and Graphic Paper. The aim is to further capitalize on the synergies within raw material and energy procurement and within the transport sector. SCA Recycling, SCA Transforest and SCA Transport UK are organized with the new business group.

### Capital expenditures

In addition to capital expenditures for current investments of SEK 2,489 M, SEK 1,126 M in strategic investments were made during the year. This amount includes the final stages in the LWC project at the Ortviken paper mill in Sundsvall, amounting to SEK 420 M. The investment of SEK 310 M in the new diaper technology within SCA Mölnlycke is also included as well as the expansion of capacity in Östrand for the production of Totally Chlorine Free (TCF) pulp. SEK 100 M was invested during the year at Munksund for measures to improve the quality and increase production of white liner.

### Acquisitions

SCA Mölnlycke acquired Cascades Inc's North American incontinence

operations. Cascade's operations complement SCA Mölnlycke's, in terms of market coverage and products. The combined operations are the second largest on the North American market for institutional incontinence products.

In the incontinence operations, SCA Mölnlycke and Uni-Charm K.K. of Japan formed a 50/50 joint venture. The jointly owned company Uni-Charm SCA Mölnlycke K.K. markets SCA Mölnlycke's incontinence products under the Tena brand name.

SCA and Kimberly-Clark implemented a European structural transaction in the autumn in which SCA took over Kimberly Clark's Prudhoe tissue mill, with an annual capacity of 80,000 tons, in Great Britain. This gave SCA about 15% of the tissue capacity in Great Britain. As part of the transaction, Kimberly-Clark took over SCA Mölnlycke's Peadouce trademark for baby diapers in France.

SCA Packaging became established in Switzerland through part-ownership in the Widmer-Walty Group, which is the second largest player in corrugated board and containerboard in Switzerland.

The paper wholesaler ECCO Paper Trade Group strengthened its position in Belgium through acquisition of Scaldia Bührmann N.V.

### Divestments

As part of the streamlining of SCA/PWA to its strategic operations, PWA Dekor was divested in the autumn to Munksjö AB. The transfer resulted in a capital gain of SEK 166 M. With the sale of Dekor, PWA, since its acquisition by SCA in the beginning of 1995, has divested its non-strategic operations such as Systemform, Kunststoff and PWA Dekor for a total amount of SEK 900 M. These operations had sales of about SEK 3,000 M and slightly more than 1,700 employees.

### Restructuring

In addition to the above-mentioned structural transaction with Kimberly-Clark, work with the integration of the Group's tissue and fluff operations

\* In addition to this page, the Board of Directors' Report includes the discussions and analyses accompanying the statement of earnings, balance sheet and cash flow statement (pages 31, 33, 35).

continued. The ongoing restructuring program within Mölnlycke has been aligned with the new situation prevailing after divestment of the Peadouce diaper trademark in France. Accordingly, the number of employees declined during 1996 by 585. During 1997 and 1998, the number of employees is projected to decline by an additional 600 persons.

DEM 184 M of the DEM 200 M integration reserve allocated in the acquisition balance sheet for PWA remained at year-end 1996. The value adjustment reserve amounting to DEM 118 M which remained in the acquisition balance at year-end 1995 did not change during 1996.

### Leasing transaction

During 1996, SCA carried out a lease-out/lease-in transaction with American banks as counterparties. In accordance with American practice for this type of transaction, rental revenues and rental costs are paid in advance. The surplus, which amounts to SEK 250 M, is reported as income in SCA's finance operations during 1996.

Under the terms of the transaction, SCA leases out two LWC plants in Ortviken to American investors who pay the rent in advance. SCA then leases back the plants. The terms of the contracts are 32 and 36 years for the two plants. However, SCA has the opportunity to cancel the transactions after about 18 years without incurring any financial consequences.

### Dividend

A dividend of SEK 5.25 (4.75) per share to the shareholders is proposed, corresponding to a total of SEK 1,036 M.

See also Proposed Disposition of Earnings, page 43.

Dividend growth during the most recent five-year period has been 11% annually, including the proposed dividend for 1996.

# STATEMENT OF EARNINGS

## Consolidated

| SEK M                                     |        | 1996          | 1995          |
|---|--------|---------------|---------------|
| Revenues                                  |        |               |               |
| Net sales                                 |        | 55,405        | 65,317        |
| Other income                              |        | 688           | 695           |
|   |        | <u>56,093</u> | <u>66,012</u> |
| Operating costs and expenses              | Note 1 | -47,969       | -55,553       |
| Operating surplus                         |        | 8,124         | 10,459        |
| Depreciation according to plan            | Note 2 | -3,575        | -3,581        |
| Share in earnings of associated companies | Note 3 | 32            | 472           |
| <b>Operating profit</b>                   |        | <b>4,581</b>  | <b>7,350</b>  |
| Net financial items                       | Note 4 | -1,008        | -1,619        |
| <b>Earnings after net financial items</b> |        | <b>3,573</b>  | <b>5,731</b>  |
| Income taxes                              | Note 5 | -1,144        | -1,915        |
| Minority interest                         | Note 6 | -312          | -352          |
| <b>Net earnings for the year</b>          |        | <b>2,117</b>  | <b>3,464</b>  |

## By Business Area

| SEK M  |  | 1996          | 1995          |
|--|--|---------------|---------------|
| <b>NET SALES</b>                                     |  |               |               |
| Hygiene Products                                     |  | 24,131        | 24,491        |
| <i>Fluff and clinical products</i>                   |  | 12,664        | 12,362        |
| <i>Tissue</i>  |  | 11,467        | 12,129        |
| Packaging  |  | 13,697        | 17,609        |
| <i>Corrugated board incl. raw materials</i>          |  | 10,419        | 12,441        |
| <i>Liner products – external deliveries</i>          |  | 3,278         | 5,168         |
| Graphic Paper  |  | 15,872        | 18,159        |
| <i>Wood-containing printing papers</i>               |  | 6,190         | 6,045         |
| <i>Fine papers, paper merchandising, market pulp</i> |  | 9,682         | 12,114        |
| SCA Forest and Timber                                |  | 3,948         | 4,245         |
| Other operations                                     |  | 1,576         | 930           |
| Divested units                                       |  | 1,061         | 2,895         |
| Intra-Group deliveries                               |  | -4,880        | -3,012        |
| <b>Total net sales</b>                               |  | <b>55,405</b> | <b>65,317</b> |
| <b>OPERATING PROFIT</b>                              |  |               |               |
| Hygiene Products                                     |  | 2,323         | 1,366         |
| <i>Fluff and clinical products</i>                   |  | 660           | 337           |
| <i>Tissue</i>  |  | 1,663         | 1,029         |
| Packaging  |  | 939           | 2,370         |
| <i>Corrugated board incl. raw materials</i>          |  | 830           | 1,500         |
| <i>Liner products – external deliveries</i>          |  | 109           | 870           |
| Graphic Paper  |  | 510           | 2,345         |
| <i>Wood-containing printing papers</i>               |  | 990           | 1,047         |
| <i>Fine papers, paper merchandising, market pulp</i> |  | -480          | 1,298         |
| SCA Forest and Timber                                |  | 607           | 877           |
| Other operations                                     |  | 436           | 595           |
| Divested units                                       |  | 54            | 98            |
| Goodwill depreciation                                |  | -288          | -301          |
| <b>Total operating profit</b>                        |  | <b>4,581</b>  | <b>7,350</b>  |

## Discussion and analysis, Statement of Earnings

- SCA's earnings from current operations in 1996 were the next highest in the history of the Group.
- Earnings after net financial items during 1996 amounted to SEK 3,573 M, a decline of 38% compared with 1995. Of the decline, approximately 13% was attributable to the effects of the appreciation of the Swedish krona.
- Continued strong development for Hygiene Products business area, with strong volume growth and stable margin trend.

### Net sales

Net sales amounted to SEK 55,405 M (65,317). For comparable units, sales declined by SEK 8,838 M, or 14%, of which appreciation of the Swedish krona accounts for 8 percentage points. The rest of the change is attributable largely to lower sales prices for the Packaging and Graphic Paper business areas. The value of deliveries to customers outside Sweden amounted to 91% (91) of sales.

### Operating profit

Operating profit totaled SEK 4,581 M (7,350). Despite the improvement in Hygiene Products, the lower sales prices for the Packaging and Graphic Paper business areas and the effects of the appreciation of the Swedish krona resulted in a significant decline in earnings. The sub-item Other operations includes capital gains on the divestments amounting to SEK 166 M (296) and SEK 250 M in profit which arose in the leasing transaction carried out in December.

Share in earnings of associated companies totaled SEK 32 M (472). AB Industrivärden contributed SEK 257 M to the 1995 figure. As from 1996, the shareholding in AB Industrivärden is carried as capital investment shares.

### Earnings after net financial items

Earnings after net financial items totaled SEK 3,573 M (5,731). About SEK 700 M of the decline is attributable to currency effects. Net financial expense improved by SEK 611 M to SEK 1,008 M (1,619), due to less borrowing and lower interest rates.

### Net earnings and income taxes

Net earnings for the year amounted to SEK 2,117 M (3,464). Minority interest amounted to SEK 312 M (352). Total income taxes amounted to SEK 1,144 M (1,915), of which taxes payable were SEK 476 M (371), and the change in deferred tax liability was SEK 659 M (1,487) and taxes attributable to share in earnings of associated companies were SEK 9 M (57). The tax rate was 32% (33).

### Key ratios

Return on capital employed before tax was 11% (16). Return on shareholders' equity after tax was 10% (17). Earnings per share after full tax and full dilution, amounted to SEK 10.71 (17.55). Interest coverage rate amounted to 4.5 (4.5).

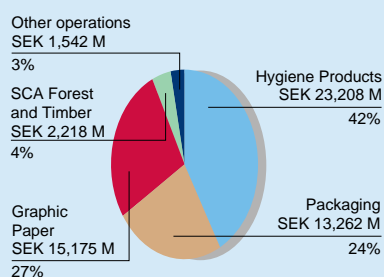
Definitions of key ratios, see cover flap.

### Proportional consolidation

Effective in 1996, SCA reports shares in earnings in joint-venture companies in accordance with the proportional consolidation method (see page 37). This means that 50% of all statement of earnings items and balance sheet items are included in the SCA Group's statement of earnings and balance sheet. The comparable figures in the statement of earnings and balance sheet were not adjusted since the effects are not significant from the SCA Group's perspective. In 1995 figures, share in earnings of associated companies amounted to SEK 148 M from companies which are reported in accordance with the proportional consolidation method in 1996.

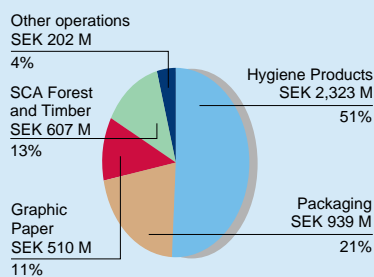
### Net sales by business area, 1996

(excluding intra-Group deliveries)



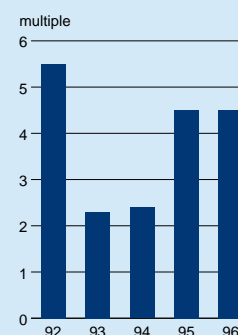
Combined, the three strategic business areas, Hygiene Products, Packaging and Graphic Paper, accounted for 93% of Group sales.

### Operating profit by business area, 1996



The Hygiene Products business area contributed strongly to the favorable operating profit.

### Interest coverage rate



Interest coverage rate in 1996 was unchanged compared with a year earlier.

# BALANCE SHEET

## Consolidated

| SEK M   |         | Dec. 31, 1996 | Dec. 31, 1995 |
|---|---------|---------------|---------------|
| <b>ASSETS</b>                                     |         |               |               |
| <b>Current assets</b>                             |         |               |               |
| Cash and short-term investments                   |         | 2,862         | 3,229         |
| Interest-bearing receivables                      |         | –             | 516           |
| Accounts receivable                               |         | 7,928         | 8,049         |
| Other current receivables                         | Note 7  | 1,963         | 2,067         |
| Inventories                                       | Note 8  | 5,570         | 6,319         |
| <b>Total current assets</b>                       |         | <b>18,323</b> | <b>20,180</b> |
| <b>Long-term assets</b>                           |         |               |               |
| Operational shares and participation              | Note 9  | 604           | 1,410         |
| Capital investment shares                         | Note 10 | 866           | 919           |
| Intangible assets                                 | Note 11 | 5,888         | 6,191         |
| Interest-bearing receivables                      |         | 206           | 209           |
| Other long-term receivables                       |         | 182           | 83            |
| Property and plant, net                           | Note 12 | 41,925        | 39,138        |
| <b>Total long-term assets</b>                     |         | <b>49,671</b> | <b>47,950</b> |
| <b>TOTAL ASSETS</b>                               |         | <b>67,994</b> | <b>68,130</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |         |               |               |
| <b>LIABILITIES</b>                                |         |               |               |
| <b>Current liabilities</b>                        |         |               |               |
| Operating liabilities                             | Note 13 | 10,767        | 11,344        |
| Income taxes payable                              |         | 464           | 646           |
| Interest-bearing debt                             | Note 14 | 4,549         | 5,073         |
| <b>Total current liabilities</b>                  |         | <b>15,780</b> | <b>17,063</b> |
| <b>Long-term liabilities</b>                      |         |               |               |
| Interest-bearing debt                             | Note 14 | 16,809        | 17,324        |
| Deferred tax liabilities                          | Note 15 | 4,710         | 4,072         |
| Other long-term liabilities                       | Note 16 | 4,420         | 4,112         |
| Convertible loans                                 | Note 17 | 38            | 42            |
| <b>Total long-term liabilities</b>                |         | <b>25,977</b> | <b>25,550</b> |
| <b>Minority interest</b>                          |         | <b>3,331</b>  | <b>3,493</b>  |
| <b>SHAREHOLDERS' EQUITY</b>                       |         |               |               |
| Non-distributable equity                          |         |               |               |
| Share capital                                     |         | 1,974         | 1,974         |
| Restricted reserves                               |         | 11,050        | 10,573        |
| <b>Total non-distributable equity</b>             |         | <b>13,024</b> | <b>12,547</b> |
| Distributable equity                              |         |               |               |
| Retained earnings                                 |         | 7,765         | 6,013         |
| Net earnings for the year                         |         | 2,117         | 3,464         |
| <b>Total distributable equity</b>                 |         | <b>9,882</b>  | <b>9,477</b>  |
| <b>Total shareholders' equity</b>                 |         | <b>22,906</b> | <b>22,024</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |         | <b>67,994</b> | <b>68,130</b> |
| Contingent liabilities                            | Note 20 | 772           | 862           |
| Assets pledged to secure indebtedness             | Note 21 | 1,902         | 2,547         |



## Discussion and analysis, balance sheet

### Assets and capital employed

In 1996, the Group's assets changed only marginally. Capital employed increased by SEK 615 M to SEK 43,699 M, due mainly to acquisitions.

Working capital declined by SEK 694 M to SEK 5,352 M.

Investments in property and plant amounted to SEK 3,615 M (4,776). These included SEK 1,126 M (1,849) in investments of strategic nature, that is, major expansions and transition to new technologies. The balance, SEK 2,489 M (2,927 M) is attributable to current capital expenditures.

The value in SEK of the Group's foreign net assets amounted at year-end to about SEK 19,400 M.

The value in Swedish krona of the Group's capital employed was SEK 43,699 M. The distribution by currency is shown below.

#### Capital employed by currency

| SEK M        | Dec. 31, 1996 | %          | Dec. 31, 1995 | %          |
|--------------|---------------|------------|---------------|------------|
| SEK          | 13,353        | 31         | 12,754        | 30         |
| DEM          | 8,044         | 18         | 8,180         | 19         |
| GBP          | 6,817         | 16         | 4,996         | 12         |
| NLG          | 4,637         | 11         | 5,096         | 12         |
| ATS          | 4,312         | 10         | 4,894         | 11         |
| FRF          | 1,614         | 4          | 2,211         | 5          |
| ITL          | 1,540         | 3          | 1,292         | 3          |
| BEF          | 990           | 2          | 1,506         | 3          |
| USD          | 826           | 2          | 570           | 1          |
| Others       | 1,566         | 3          | 1,585         | 4          |
| <b>Total</b> | <b>43,699</b> | <b>100</b> | <b>43,084</b> | <b>100</b> |

### Financing

SCA's gross debt amounted to SEK 21,396 M (22,439) at December 31, 1996. In 1996 agreements were signed for long and medium-term bank credits totaling SEK 11,714 M. As a result, the average term of SCA's gross debt was

extended at a lower interest expense. At year-end the average maturity period was 4.4 years.

Net debt amounted to SEK 17,462 M at December 31, 1996, down SEK 104 M compared with December 31, 1995. Minority interests amounted at December 31, 1996 to SEK 3,331 M.

As shown in the table below, a currency balance is achieved between capital employed and capital financing through forward contracts.

| Billion                 | SEK         | Currency    | Total       |
|-------------------------|-------------|-------------|-------------|
| <b>Capital employed</b> | <b>13.4</b> | <b>30.3</b> | <b>43.7</b> |
| Net debt                | -0.9        | 18.4        | 17.5        |
| Minority interests      | -           | 3.3         | 3.3         |
| Shareholders' equity    | 22.9        | -           | 22.9        |
| Currency derivatives    | -8.3        | 8.3         | 0.0         |
| <b>Total financing</b>  | <b>13.7</b> | <b>30.0</b> | <b>43.7</b> |

### Shareholders' equity

Shareholders' equity increased SEK 882 M during 1996, totaling SEK 22,906 M at December 31, 1996. The increase was attributable to the following factors:

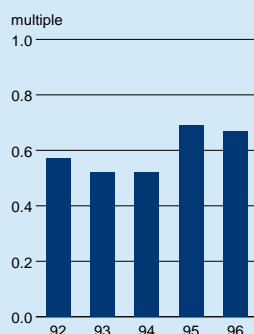
| SEK M                     |            |
|---------------------------|------------|
| Net earnings for the year | 2,117      |
| Dividends                 | -994       |
| Other changes             | -241       |
| <b>Total</b>              | <b>882</b> |

Other changes are due to translation effect of foreign subsidiaries, which were not fully currency hedged during the year.

### Key ratios

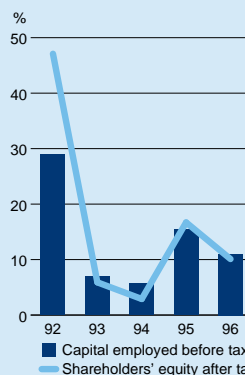
Net worth per share amounted to SEK 165 (153). Debt/equity multiple was 0.67 (0.69). The debt/equity multiple including surplus values was 0.49 (0.52).

#### Debt/equity ratio



The ratio between net debt and shareholders' equity in 1996 was 0.67.

#### Return on capital employed and shareholders' equity (incl. nonrecurring items)



Return on capital employed before tax was 11% and on shareholders' equity after tax 10%.

# CASH FLOW STATEMENT

## Consolidated

| SEK M  | 1996          | 1995          |
|--|---------------|---------------|
| <b>OPERATIONS</b>  |               |               |
| Net sales  | 55,405        | 65,317        |
| Operating costs and expenses   | -47,281       | -54,858       |
| Operating surplus  | 8,124         | 10,459        |
| Changes in   |               |               |
| Current receivables  | 206           | 363           |
| Inventories  | 749           | -569          |
| Operating liabilities  | -287          | -25           |
| Change in working capital  | 668           | -231          |
| Current capital expenditures   | -2,489        | -2,927        |
| Change in pension provisions   | 139           | 26            |
| Restructuring expenses   | -249          | -517          |
| Other operating cash flow changes                                    | 1             | -160          |
| <b>OPERATING CASH FLOW</b>   | <b>6,194</b>  | <b>6,650</b>  |
| Net financial items  | -1,008        | -1,619        |
| Dividends from associated companies                                  | 3             | 156           |
| Income taxes paid  | -659          | -303          |
| Other  | -320          | 59            |
| <b>CASH FLOW FROM OPERATIONS</b>                                     | <b>4,210</b>  | <b>4,943</b>  |
| <b>STRATEGIC CAPITAL EXPENDITURES AND DIVESTMENTS</b>                |               |               |
| Plants   | -1,126        | -1,849        |
| Company acquisitions   | -1,558        | -7,698        |
| Total strategic capital expenditures                                 | -2,684        | -9,547        |
| Divestments  | 480           | 931           |
| <b>Cash flow from strategic capital expenditures and divestments</b> | <b>-2,204</b> | <b>-8,616</b> |
| <b>CASH FLOW BEFORE DIVIDEND</b>                                     | <b>2,006</b>  | <b>-3,673</b> |
| Dividend to shareholders   | -994          | -727          |
| <b>NET CASH FLOW</b>   | <b>1,012</b>  | <b>-4,400</b> |

## Net debt

| SEK M  | 1996           | 1995           | 1994           | 1993           | 1992           |
|--|----------------|----------------|----------------|----------------|----------------|
| Net debt, January 1                          | -17,566        | -10,573        | -10,814        | -10,799        | -17,556        |
| Net cash flow                                | 1,012          | -4,400         | -155           | 3,209          | 4,767          |
| New issue of shares through                  |                |                |                |                |                |
| bond conversions                             | -              | 342            | -              | 28             | -              |
| Currency effects, etc.                       | 17             | 828            | 316            | -3,252         | -2,508         |
| Net debt in acquired and divested operations | -925           | -3,763         | 80             | -              | 4,498          |
| <b>Net debt, December 31</b>                 | <b>-17,462</b> | <b>-17,566</b> | <b>-10,573</b> | <b>-10,814</b> | <b>-10,799</b> |

## Discussion and analysis, cash flow statement

- **Cash flow from operations was strong and remained stable, amounting to SEK 4,210 M (4,943).**

### Operating cash flow

Operating cash flow amounted to SEK 6,194 M (6,650). The decline in operating surplus was offset by lower working capital and lower current capital expenditures.

### Cash flow from operations

Cash flow from operations amounted to SEK 4,210 M (4,943). A strong improvement in net financial items was to some extent offset by increased tax payments.

### Cash flow from strategic capital expenditures and divestments

Investments in property, plant and equipment of a strategic nature amounted in 1996 to SEK 1,126 M (1,849). This amount includes the final stages in the LWC project at the Ortviken paper mill in Sundsvall, investment in the new diaper technology within SCA Mölnlycke as well as the expansion of capacity in Östrand for the production of TCF pulp.

Company acquisitions amounted to SEK 1,558 M (7,698). In autumn 1996, SCA took over Kimberly-Clark's Prudhoe tissue mill in Great Britain. SCA Mölnlycke acquired Cascades Inc's North American incontinence operations. SCA Packaging became

established in Switzerland through part-ownership in Widmer-Walty Group. Divestments of operations amounted to SEK 480 M (931). This amount pertains mainly to the transfer of PWA Dekor to Munksjö AB and is reported excluding capital gains of SEK 166 M.

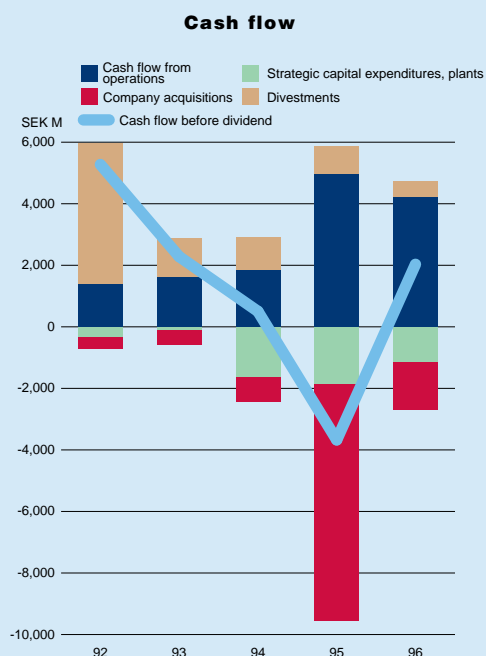
### Net debt

Net debt declined during 1996 by SEK 104 M. The change is attributable to a positive net cash flow amounting to SEK 1,012 M (neg: 4,400), net debt in acquired operations, SEK 925 M (3,763) and the positive currency effects, etc., SEK 17 M (828).

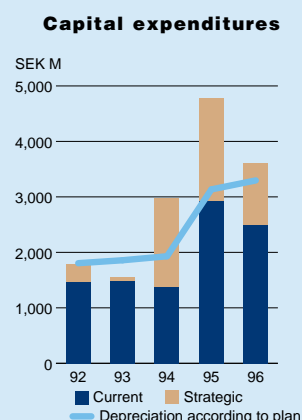
### Analysis of value development

|  | 1996         | 1995          |
|--|--------------|---------------|
| Net sales                                      | 55,405       | 65,317        |
| Operating surplus                              | 8,124        | 10,459        |
| % of net sales                                 | 15           | 16            |
| Current capital expenditures                   | -2,489       | -2,927        |
| % of net sales                                 | 4            | 4             |
| Change in working capital                      | 668          | -231          |
| Other operating cash flow changes              | -109         | -651          |
| <b>Operating cash flow</b>                     | <b>6,194</b> | <b>6,650</b>  |
| Tax, etc. <sup>1)</sup>                        | -1,309       | -622          |
| <b>Free cash flow</b>                          | <b>4,885</b> | <b>6,028</b>  |
| per share                                      | 24.72        | 30.50         |
| Interest expenses after taxes                  | -675         | -1,085        |
| <b>Cash flow from operations</b>               | <b>4,210</b> | <b>4,943</b>  |
| per share                                      | 21.30        | 25.02         |
| Strategic capital expenditures and divestments | -2,204       | -8,616        |
| per share                                      | -11.15       | -43.60        |
| <b>Cash flow before dividend</b>               | <b>2,006</b> | <b>-3,673</b> |
| per share                                      | 10.15        | -18.59        |

<sup>1)</sup> Tax attributable to earnings not affected by interest expenses.



Operating cash flow amounted to SEK 6,194 M (6,650). The lower operating surplus was offset by lower working capital and lower current capital expenditures.



Capital expenditures in 1996 amounted to SEK 3,615 M.

# PARENT COMPANY

## Statement of earnings

| SEK M                                     |         | 1996        | 1995         |
|---|---------|-------------|--------------|
| Revenues                                  |         | 30          | 128          |
| Operating costs and expenses              |         | -257        | 177          |
| Depreciation according to plan            | Note 2  | -33         | -28          |
| <b>Operating profit</b>                   |         | <b>-260</b> | <b>277</b>   |
| Net financial items                       | Note 4  | 1,166       | 615          |
| <b>Earnings after net financial items</b> |         | <b>906</b>  | <b>892</b>   |
| Appropriations                            | Note 18 | 163         | 151          |
| Group contribution                        |         | -81         | 268          |
| <b>Earnings before income taxes</b>       |         | <b>988</b>  | <b>1,311</b> |
| Income taxes                              |         | -           | -7           |
| <b>Net earnings for the year</b>          |         | <b>988</b>  | <b>1,304</b> |

## Balance sheet

| SEK M  |            | Dec 31, 1996  | Dec 31, 1995  |
|--|------------|---------------|---------------|
| <b>ASSETS</b>                                |            |               |               |
| Cash and short-term investments              |            | 93            | 278           |
| Receivables from subsidiaries                |            | 2,149         | 4,417         |
| Other current receivables                    | Note 7     | 66            | 17            |
| Operational shares and participations        | Note 9     | 19,958        | 18,991        |
| Capital investment shares                    | Note 10    | 617           | 654           |
| Interest-bearing receivables                 |            | 9             | 9             |
| Property and plant                           | Note 12    | 3,861         | 3,840         |
| <b>Assets</b>                                |            | <b>26,753</b> | <b>28,206</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |            |               |               |
| <b>Liabilities</b>                           |            |               |               |
| Current liabilities                          | Note 13,14 | 166           | 369           |
| Liabilities to subsidiaries                  |            | 5,621         | 6,682         |
| Long-term liabilities and pension provisions | Note 14,16 | 1,373         | 1,445         |
| Convertible loans                            | Note 17    | 36            | 39            |
| Untaxed reserves                             | Note 18    | 758           | 922           |
| <b>Shareholders' equity</b>                  | Note 19    | <b>18,799</b> | <b>18,749</b> |
| <b>Liabilities and shareholders' equity</b>  |            | <b>26,753</b> | <b>28,206</b> |
| Contingent liabilities                       | Note 20    | 15,914        | 17,770        |
| Assets pledged to secure indebtedness        | Note 21    | 481           | 539           |

## Cash flow statement

| SEK M                                       |  | 1996        | 1995          |
|---|--|-------------|---------------|
| Operating surplus                           |  | -227        | -71           |
| Other cash flow from operations             |  | 1,230       | 449           |
| Company acquisitions and divestments        |  | -930        | -5,822        |
| Group contribution                          |  | 268         | -19           |
| New issue of shares through bond conversion |  | -           | 342           |
| Dividend to shareholders                    |  | -938        | -727          |
| <b>Net cash flow</b>                        |  | <b>-597</b> | <b>-5,848</b> |



# ACCOUNTING PRINCIPLES

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The SCA Group financial statements are prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations. SCA also complies with the recommendations of the International Accounting Standards Committee (IASC) except that SCA in prior years implemented write-ups on fixed assets, which is not in conformity with IAS.

## CONSOLIDATED ACCOUNTS

### Group composition

The consolidated financial statements include the accounts of the Parent Company and all subsidiaries in which at year-end SCA held shares carrying more than 50% of the voting rights. In addition, SCA's share in joint-venture companies is included (see below). The financial statements have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations regarding consolidated accounting.

### Purchase method

The consolidated accounts have been prepared in accordance with the purchase method. This means that the shareholders' equity in subsidiaries at the time of acquisition is completely eliminated. Accordingly, only earnings reported after the date of acquisition are included in the Group's shareholders' equity. The Group's shareholders' equity in the acquired subsidiaries is determined on the basis of a market or utility valuation of assets and liabilities at the time of acquisition (a so-called purchase analysis). In those instances in which the market or utility valuation of land and other property results in significantly different values than the acquired company's book values, these values constitute the Group's acquisition cost. The difference between the acquisition cost of shares in the subsidiaries and the estimated value of the shareholders' equity at the time of the purchase analysis is reported as consolidated goodwill.

If necessary, an allocation to a reserve for future costs of reorganization and staff reductions in the acquired operations (a so-called restructuring reserve) may be made at the time of the purchase analysis.

Divested subsidiaries are included in the consolidated balance sheet up to and including the date of divestment.

### Translation of foreign subsidiary accounts

The balance sheet and the statement of earnings of foreign subsidiaries are translated in accordance with the current method. This means that the assets and liabilities in foreign subsidiaries are translated at the year-end exchange rates and all items in the statement of earnings are translated at the average exchange rate for the year. Translation differences are not reported in the statements of earnings but are charged directly to consolidated shareholders' equity.

### Minority interest

Minority interest in the consolidated statement of earnings is reported as a share in net earnings for the year.

Minority interest in shareholders' equity in the subsidiaries is reported as a separate item in the balance sheet. This item also includes minority interest in the shareholders' equity portion of untaxed reserves in subsidiaries.

### Taxes

Deferred tax is estimated and reported in accordance with the principles in IAS 12. However, deferred tax liabilities or claims attributable to temporary differences between the reported value of the asset and the tax value of long-term nondepreciable assets is not reported, to the extent that it is not probable that the assets will be realized in the foreseeable future. In the balance sheet, the estimated liability is reported to the tax authorities as current. Deferred tax liabilities are reported as long term.

The tax expenses reported for the year includes the tax that is payable on the taxable income for the year, changes in deferred taxes and the tax on the share in earnings of associated companies.

### Associated companies

An associated company is a long-term shareholding representing at least 20% of the voting right of the shares outstanding. Accounting for associated companies is done according to the equity method.

In the consolidated statement of earnings, SCA's share in earnings of associated companies is reported on two levels.

- The Group's share in earnings after financial items is included in the consolidated operating profits.
- The share in income tax expenses at associated companies, in accordance with the full-tax method, is included in the consolidated income tax expenses.

The Group's share in earnings of an associated company is computed on the basis of SCA's equity portion in that particular associated company.

In the consolidated balance sheet, shares in associated companies are reported separately under Operational shares and participations. The book value of the shareholding changes to reflect SCA's share of the after-tax earnings of the respective companies, reduced by dividends received. Non-distributed earnings of associated companies are included under non-distributable equity.

### Joint-venture companies

Joint-venture companies are defined as companies in which the shareholding amounts to 50% and in which SCA is liable for its share of the financial risk. Joint-venture companies are reported in accordance with the proportional consolidation method.

In applying the proportional consolidation method, 50% of all statement of earnings and balance sheet items are included in the SCA Group's statement of earnings and balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

## Parent Company

The Parent Company's statement of earnings, balance sheet and cash flow statement are shown in condensed form on page 36. The following notes pertain to the financial statements of the Parent Company and the SCA Group.

## Statement of earnings

### Note 1 Operating costs and expenses

Operating costs and expenses include capital gains from divestments amounting to SEK 166 M and SEK 250 M in profit which arose in the leasing transaction concluded in December.

Operating costs include R&D expenses amounting to SEK 749 M (523) for the Group.

### Note 2 Depreciation according to plan

| SEK M                   | Group        |              | Parent Company |           |
|-------------------------|--------------|--------------|----------------|-----------|
|                         | 1996         | 1995         | 1996           | 1995      |
| Machinery and equipment | 2,658        | 2,567        | 2              | 1         |
| Buildings               | 476          | 515          | 1              | 2         |
| Land and other property | 52           | 43           | 30             | 25        |
| Subtotal                | 3,186        | 3,125        | 33             | 28        |
| Rights and patents      | 101          | 155          | -              | -         |
| Goodwill                | 288          | 301          | -              | -         |
| <b>Total</b>            | <b>3,575</b> | <b>3,581</b> | <b>33</b>      | <b>28</b> |

Depreciation according to plan is based on the historical cost and estimated useful lives of the assets concerned, as specified in the accounting principles on page 37.

### Note 3 Share in earnings of associated companies

SCA's interest in associated companies' earnings and shareholders' equity is reported applying the equity method. See accounting principles on page 37.

Shares in pre-tax earnings are included in consolidated operating profit and amount to SEK 32 M (472).

The decline compared with a year earlier is attributable to AB Industrivärden no longer being reported as an associated company and the proportional consolidation method being applied for joint-venture companies as of 1996.

Dividends amounting to SEK 3 M (156) were received from associated companies. SCA's associated companies are listed in Note 9.

## Note 4 Net financial items

| SEK M                           | Group         |               | Parent Company |            |
|---------------------------------|---------------|---------------|----------------|------------|
|                                 | 1996          | 1995          | 1996           | 1995       |
| Dividends, external             | 70            | 6             | 59             | 128        |
| Dividends, subsidiaries         | -             | -             | 1,491          | 1,076      |
| Interest income, external       | 249           | 290           | 1              | 1          |
| Interest income, subsidiaries   | -             | -             | 132            | 216        |
| Interest expenses, external     | -1,297        | -1,862        | -110           | -229       |
| Interest expenses, subsidiaries | -             | -             | -395           | -415       |
| Other financial items           | -30           | -53           | -12            | -162       |
| <b>Total</b>                    | <b>-1,008</b> | <b>-1,619</b> | <b>1,166</b>   | <b>615</b> |

## Note 5 Income taxes

| SEK M  | 1996          | 1995          |
|--|---------------|---------------|
| Current taxes – consolidated companies                           | -476          | -371          |
| Deferred taxes – consolidated companies                          | -659          | -1,487        |
| Taxes attributable to shares in earnings of associated companies | -9            | -57           |
| <b>Total income taxes</b>  | <b>-1,144</b> | <b>-1,915</b> |

## Note 6 Minority interest

| Interest, %                          | 1996 | 1995 |
|--------------------------------------|------|------|
| SCA Laakirchen Holding AG, Austria   | 27   | 30   |
| Mölnlycke KFT, Hungary               | -    | 17   |
| Uni-Charm/Mölnlycke B.V.             | 60   | 60   |
| Thai Klinipro Co. Ltd                | 51   | 51   |
| Papierwerke Waldhof Aschaffenburg AG | 25   | 25   |
| Sodipel SARL                         | 12   | 17   |

Minority interest in net earnings is reported in the statement of earnings in an amount of SEK 312 M (352), specified as follows

| SEK M                              | 1996       | 1995       |
|------------------------------------|------------|------------|
| Minority interest in:              |            |            |
| earnings after net financial items | 491        | 484        |
| income taxes                       | -179       | -132       |
| <b>Minority interest</b>           | <b>312</b> | <b>352</b> |

## Balance sheet

### Note 7 Other current receivables

| SEK M                               | Group        |              | Parent Company |           |
|-------------------------------------|--------------|--------------|----------------|-----------|
|                                     | 1996         | 1995         | 1996           | 1995      |
| Bills receivable                    | 536          | 560          | -              | -         |
| Prepaid expenses and accrued income | 497          | 458          | 17             | 8         |
| Other receivables                   | 902          | 1,006        | 49             | 9         |
| Advances to suppliers               | 28           | 43           | -              | -         |
| <b>Total</b>                        | <b>1,963</b> | <b>2,067</b> | <b>66</b>      | <b>17</b> |

## Note 8 Inventories

| SEK M                            | Group        |              |
|----------------------------------|--------------|--------------|
|                                  | 1996         | 1995         |
| Finished and semi-finished goods | 2,728        | 3,030        |
| Raw materials and fuel           | 1,450        | 1,817        |
| Warehouse supplies               | 1,101        | 1,068        |
| Felling rights                   | 291          | 404          |
| <b>Total</b>                     | <b>5,570</b> | <b>6,319</b> |

## Note 9 Operational shares and participations

Group and Parent Company holdings of shares and participations were as follows:

| SEK M                | Group      |              | Parent Company |               |
|----------------------|------------|--------------|----------------|---------------|
|                      | 1996       | 1995         | 1996           | 1995          |
| Subsidiaries         | -          | -            | 19,942         | 18,975        |
| Associated companies | 449        | 1,285        | -              | -             |
| Other companies      | 155        | 125          | 16             | 16            |
| <b>Total</b>         | <b>604</b> | <b>1,410</b> | <b>19,958</b>  | <b>18,991</b> |

Major changes during 1996 in the Parent Company's and Group's holdings were as follows:

### Subsidiaries

The Parent Company's book value of shares in subsidiaries increased by SEK 967 M. During the year SEK 962 M was paid into SCA Group Holding B.V. and SEK 5 M into SCA Recycling Holding AB.

### Associated companies

The change compared with 1995 is attributable to the proportional consolidation method being applied to joint-venture companies as of 1996.

### Parent Company shareholdings in subsidiaries:

|   | Par value<br>in millions | Interest<br>% | Book<br>value<br>SEK M |                 |
|---|--------------------------|---------------|------------------------|-----------------|
| <b>Swedish subsidiaries</b>                               |                          |               |                        |                 |
| SCA Hedging AB  | SEK                      | 50.0          | 100                    | 72.0            |
| AB SCA Finans   | SEK                      | 42.1          | 100                    | 50.0            |
| SCA Försäkringsaktiebolag                                 | SEK                      | 14.0          | 100                    | 14.0            |
| SCA Research AB   | SEK                      | 0.0           | 100                    | 0.0             |
| SCA Holding AB  | SEK                      | 0.1           | 100                    | 0.2             |
| SCA Recovered Papers<br>Holding AB                        | SEK                      | 0.1           | 100                    | 0.1             |
| SCA Kraftfastigheter AB                                   | SEK                      | 0.1           | 100                    | 0.1             |
| Fastighets- och Bostads-<br>Aktiebolaget FOBOF            | SEK                      | 0.1           | 100                    | 0.1             |
| SCA Recycling Holding AB                                  | SEK                      | 0.1           | 100                    | 741.8           |
| <b>Foreign subsidiaries</b>                               |                          |               |                        |                 |
| SCA Group Holding B.V.                                    | NLG                      | 196.5         | 100                    | 19,064.1        |
| <b>Parent Company share-<br/>holdings in subsidiaries</b> |                          |               |                        | <b>19,942.4</b> |

## Group shareholdings and participations in other companies:

|  | Par value<br>in millions | Interest<br>% | Book<br>value<br>SEK M |              |
|--|--------------------------|---------------|------------------------|--------------|
| <b>Associated companies</b>  |                          |               |                        |              |
| SCA Packaging Holding B.V.<br>Staper Ltd.  | GBP                      | 0.1           | 50                     | 2.1          |
| Kaplamin Ambalaj Sanayi<br>ve Ticaret  | TRL                      | 44,000        | 29                     | 53.5         |
| SCA Packaging Ambalaj<br>ve Ticaret  | TRL                      | 206,460       | 34                     | 26.3         |
| Centrale Eerbeek   | NLG                      | -             | 50                     | 18.4         |
| Nordliner IL Returpapper   | SEK                      | 1.4           | 15                     | 2.7          |
| ASCA Holding AG  | CHF                      | 0             | 50                     | 131.6        |
| SCA Weyerhaeuser Packaging<br>Holding Company Asia Ltd.  | USD                      | 0             | 50                     | 4.8          |
| SCA Skog AB<br>Energiproduktion<br>i Norrbotten AB   | SEK                      | 0             | 40                     | 1.6          |
| SCA Timber AB<br>Les Bois de la Baltique S.A.  | FRF                      | 7.5           | 38                     | 19.0         |
| UNI Timber   | SEK                      | 1.0           | 25                     | 1.0          |
| AB Släden  | SEK                      | 2.5           | 25                     | 5.4          |
| SCA Recycling Holding B.V.<br>GAE Smith  | GBP                      | 0             | 50                     | 22.3         |
| Atkasan  | TRL                      | 44,625        | 35                     | 3.3          |
| SCA Hygiene Paper<br>Paredes   | FRF                      | -             | 35                     | 54.3         |
| Other associated companies   |                          |               |                        | 38.1         |
| Book value of shares in associated<br>companies before re-assessment in<br>accordance with the equity method |                          |               |                        | 384.4        |
| Non-distributed earnings in<br>associated companies  |                          |               |                        | 64.5         |
| <b>Book value of associated companies</b>  |                          |               |                        | <b>448.9</b> |

### Other companies

|   |       |
|---|-------|
| Group holdings of shares and<br>participations in other companies | 155.1 |
| Book value other companies  | 155.1 |

**Total Group shareholdings of  
operating shares and participations** 604.0

The complete statutory specifications are included in the Annual Report submitted to the National Swedish Patent and Registration Office. This specification is available from SCA, Corporate Communications, Box 7827, SE-103 97 Stockholm.

## Note 10 Capital investment shares

| SEK M             | Number    | Book value |
|-------------------|-----------|------------|
| <b>Group</b>      |           |            |
| AB Industrivärden | 4,348,066 | 866        |
| SAS Sverige AB    | 300,000   | -          |
| <b>Total</b>      |           | <b>866</b> |

The Parent Company divested 260,000 shares of its holding in Industrivärden during the year. Thereafter, the Parent Company's book value of the holding was SEK 617 M. The book value in the Group amounts to SEK 866 M, including the equity portion of SEK 249 M. The market value of exchange-listed shares at December 31, 1996 exceeds the consolidated book value by SEK 493 M.

**Note 11 Intangible assets**

| SEK M                      | Acquisition cost |              | Accumulated depreciation according to plan |              | Value according to balance sheet |              |
|----------------------------|------------------|--------------|--|--------------|----------------------------------|--------------|
|                            | 1996             | 1995         | 1996                                       | 1995         | 1996                             | 1995         |
| <b>Group</b>               |                  |              |  |              |                                  |              |
| Patents and similar rights | 1,879            | 2,374        | 669  | 794          | 1,210                            | 1,580        |
| Goodwill                   | 6,378            | 6,013        | 1,700                                      | 1,402        | 4,678                            | 4,611        |
| <b>Total Group</b>         | <b>8,257</b>     | <b>8,387</b> | <b>2,369</b>                               | <b>2,196</b> | <b>5,888</b>                     | <b>6,191</b> |

**Note 12 Property and plant**

| SEK M                    | Acquisition cost |               | Accumulated depreciation according to plan |               | Value according to balance sheet |               |
|--------------------------|------------------|---------------|--|---------------|----------------------------------|---------------|
|                          | 1996             | 1995          | 1996                                       | 1995          | 1996                             | 1995          |
| <b>Group</b>             |                  |               |  |               |                                  |               |
| Construction in progress | 306              | 1,582         | -  | -             | 306                              | 1,582         |
| Machinery and equipment  | 39,410           | 33,911        | 15,416                                     | 13,395        | 23,994                           | 20,516        |
| Buildings                | 12,442           | 11,310        | 2,889                                      | 2,272         | 9,553                            | 9,038         |
| Land and other property  | 8,546            | 8,448         | 474  | 446           | 8,072                            | 8,002         |
| <b>Total</b>             | <b>60,704</b>    | <b>55,251</b> | <b>18,779</b>                              | <b>16,113</b> | <b>41,925</b>                    | <b>39,138</b> |

**Parent Company**

|                         |              |              |            |            |              |              |
|-------------------------|--------------|--------------|------------|------------|--------------|--------------|
| Machinery and equipment | 7            | 6            | 4          | 2          | 3            | 4            |
| Buildings               | 57           | 55           | 27         | 27         | 30           | 28           |
| Land and other property | 4,099        | 4,071        | 271        | 263        | 3,828        | 3,808        |
| <b>Total</b>            | <b>4,163</b> | <b>4,132</b> | <b>302</b> | <b>292</b> | <b>3,861</b> | <b>3,840</b> |

Forest land was revalued in an amount of SEK 2,905 M in the accounts for the years up to and including 1992.

**Note 13 Operating liabilities**

| SEK M                               | Group         |               | Parent Company |            |
|-------------------------------------|---------------|---------------|----------------|------------|
|                                     | 1996          | 1995          | 1996           | 1995       |
| Liabilities to suppliers            | 5,282         | 5,907         | 15             | 20         |
| Advances from customers             | 7             | 7             | -              | -          |
| Accrued expenses and prepaid income | 3,473         | 3,133         | 145            | 210        |
| Reserves for restructuring measures | 438           | 506           | -              | 2          |
| Other operating liabilities         | 1,567         | 1,791         | 3              | 133        |
| <b>Total</b>                        | <b>10,767</b> | <b>11,344</b> | <b>163</b>     | <b>365</b> |

**Note 14 Interest-bearing debt**

| SEK M   | Group         |               | Parent Company |              |
|---|---------------|---------------|----------------|--------------|
|   | 1996          | 1995          | 1996           | 1995         |
| Amortization within one year                  | 415           | 326           | 3              | 4            |
| Loans maturing within one year                | 4,134         | 4,747         | -              | -            |
| <b>Total short-term interest-bearing debt</b> | <b>4,549</b>  | <b>5,073</b>  | <b>3</b>       | <b>4</b>     |
| Bond loans                                    | 29            | 29            | 29             | 29           |
| Other long-term loans                         | 16,780        | 17,295        | 1,206          | 1,315        |
| <b>Total long-term interest-bearing debt</b>  | <b>16,809</b> | <b>17,324</b> | <b>1,235</b>   | <b>1,344</b> |
| <b>Total interest-bearing debt</b>            | <b>21,358</b> | <b>22,397</b> | <b>1,238</b>   | <b>1,348</b> |

A total of SEK 300 M (1,041) in current liabilities has been netted against funds investments deposited as security for the corresponding debt.

All bond loans were assumed in Sweden. Other long-term loans have been assumed in foreign currencies, mainly for financing the Group's assets abroad.

Assets have been pledged as security for SEK 1,121 M (1,293) of these long- and short-term loans.

Maturities of long-term debt:

|                | SEK M         |
|----------------|---------------|
| 1997           | 4,549         |
| 1998           | 1,052         |
| 1999           | 1,247         |
| 2000           | 637           |
| 2001           | 2,665         |
| 2002 and later | 11,208        |
| <b>Total</b>   | <b>21,358</b> |

**Note 15 Deferred tax liabilities**

|                      | SEK M        |
|----------------------|--------------|
| Balance, Jan. 1      | 4,072        |
| Deferred tax charges | 659          |
| Other changes        | -21          |
| <b>Total</b>         | <b>4,710</b> |

Other changes include translation differences and deferred tax liabilities in divested companies.

**Note 16 Other long-term liabilities**

| SEK M  | Group        |              | Parent Company |            |
|--|--------------|--------------|----------------|------------|
|  | 1996         | 1995         | 1996           | 1995       |
| PRI Pensions                                     | 1,041        | 1,048        | 28             | 25         |
| Other pensions                                   | 2,112        | 1,749        | 98             | 76         |
| <b>Pension provisions</b>                        | <b>3,153</b> | <b>2,797</b> | <b>126</b>     | <b>101</b> |
| Other non-interest bearing long-term liabilities | 1,267        | 1,315        | 12             | -          |
| <b>Total</b>                                     | <b>4,420</b> | <b>4,112</b> | <b>138</b>     | <b>101</b> |

Estimated interest on pension provisions is reported as an operating expense. The interest rate on PRI pensions was 6.0% (6.2).

**Note 17 Convertible loans**

| SEK M  | 1996      | 1995      |
|--|-----------|-----------|
| 1990 GBP 10,516,384 at 10%   | 36        | 39        |
| Subordinated bond loan convertible into SCA Series B shares between October 1, 1990 and July 31, 2000. The loan may be called at any time during term, in which case repayment will be made in the nominal amount, plus accrued interest. The conversion rate at December 31, 1996 was SEK 159.10. |           |           |
| <b>Total loans issued by the Parent Company</b>  | <b>36</b> | <b>39</b> |
| Bond loan issued by SCA Group Holding B.V.   |           |           |
| 1989 ECU 101 M at 4.25%  | 2         | 3         |
| Subordinated bond loan convertible into SCA Series B shares between April 25, 1989 and January 10, 2004. The conversion rate at December 31, 1996 was SEK 130.00.  |           |           |
| <b>Total loans issued by the Group</b>   | <b>38</b> | <b>42</b> |

Conversion of the 1990 GBP loan means that a maximum of 228,654 Series B shares will be issued. The amount of the loan decreased in 1996 through a repayment that did not involve conversion of debentures into shares.

Conversion of the outstanding portion of the 1989 ECU loan means that a maximum of 14,026 shares will be issued. In SCA's opinion, the conversion right will not be exercised.



## Note 18 Untaxed reserves in the Parent Company

Untaxed reserves in the Parent Company include an SEK 633 M (791) allocation to tax equalization reserves and SEK 125 M (131) in accumulated depreciation in excess of plan.

## Note 19 Shareholders' equity

### Group

| SEK M   | Share capital | Legal reserve | Equity portion in untaxed reserves | Other re-stricted reserves | Un-restricted reserves | Total         |
|---|---------------|---------------|------------------------------------|----------------------------|------------------------|---------------|
| Balance, Jan. 1   | 1,974         | 2,569         | 5,718                              | 2,286                      | 9,477                  | <b>22,024</b> |
| Translation difference, etc.                                      |               | 17            | 4                                  | 612                        | -874                   | <b>-241</b>   |
| Transfer between restricted and unrestricted shareholders' equity |               | -29           | 33                                 | -173                       | 169                    | <b>0</b>      |
| Equity in associated companies                                    |               |               |                                    | 13                         | -13                    | <b>0</b>      |
| Dividend paid   |               |               |                                    |                            | -994                   | <b>-994</b>   |
| Net earnings for the year   |               |               |                                    |                            | 2,117                  | <b>2,117</b>  |
| Balance, Dec. 31  | 1,974         | 2,557         | 5,755                              | 2,738                      | 9,882                  | <b>22,906</b> |

The Legal reserve, Equity portion in untaxed reserves and Other restricted reserves amount in total to SEK 11,050 M (10,573) and are reported in the balance sheet as Restricted reserves.

### Parent Company

Shareholders' equity in the Parent Company amounts to SEK 18,799 M (18,749), as specified below.

| SEK M                     | Share capital | Legal reserve | Write-up-reserve | Distrib-utable equity | Total  |
|---------------------------|---------------|---------------|------------------|-----------------------|--------|
| Balance, January 1        | 1,974         | 2,265         | 806              | 13,704                | 18,749 |
| Dividend                  |               |               |                  | -938                  | -938   |
| Net earnings for the year |               |               |                  | 988                   | 988    |
| Balance, Dec. 31          | 1,974         | 2,265         | 806              | 13,754                | 18,799 |

SCA's share capital consists of 197,399,935 shares with a par value of SEK 10 each. For additional information on SCA shares, see pages 46-47.

## Note 20 Contingent liabilities and other commitments

| SEK M                            | Group      |      | Parent Company |        |
|----------------------------------|------------|------|----------------|--------|
|                                  | 1996       | 1995 | 1996           | 1995   |
| Discounted bills                 | <b>516</b> | 559  | -              | -      |
| Guarantees for employees         | <b>32</b>  | 24   | <b>2</b>       | 2      |
| associated companies             | <b>38</b>  | 31   | -              | -      |
| customers and other subsidiaries | <b>91</b>  | 154  | <b>2</b>       | 7      |
|                                  | -          | -    | <b>15,874</b>  | 17,726 |
| Other contingent liabilities     | <b>95</b>  | 94   | <b>36</b>      | 35     |
| <b>Total</b>                     | <b>772</b> | 862  | <b>15,914</b>  | 17,770 |

Owners of 20% of the shares in SCA Laarkirchen Holding AG are entitled during the year 2000 to sell their share to SCA for a price of approximately SEK 480 M.

As stated in the Board of Directors' report (page 29), SCA entered into a lease-out/lease-in transaction during 1996 with American banks as counterparties. The current value of the leasing amount which SCA has undertaken to pay amounts to about SEK 4 billion. This amount,

in accordance with the agreements, is partly deposited in accounts in banks with at least a AA rating, and partly in U.S. securities with a AAA rating. SCA carries the credit risk against the depositary banks, but this is considered, as a result of the structure of the agreements, to be insignificant. Should the rating of a depositary bank decline in the future, SCA has the possibility to transfer the deposit to another bank with a better rating. Moreover, SCA is liable to take such action if the depositary bank's rating falls below A. The counterparties have accepted that the deposited funds are applied for the leasing undertakings. The advance payments and deposits are netted in the balance sheet. Should SCA as the result of extraordinary events (of a force majeure nature) elect not to fulfill, or cannot fulfill the leasing contracts, SCA is liable to compensate the counterparties for economic losses which may be incurred as a result. Compensation varies during the lifetime and can amount to a maximum of about 20% of the leasing amounts paid in advance. The agreements were composed and examined by legal experts in Sweden and the U.S. and are considered to follow the standard practice for lease-out/lease-in transactions.

The three ships which are included in SCA's new distribution system are owned and financed by three bank-controlled companies. The vessels are operated by Gorthon Lines AB under three bare-boat charters and are placed at the disposal SCA Transforest by Gorthon Lines AB under three time charters. In the event that Gorthon Lines AB does not fulfill its obligations to the owners, SCA Transforest is committed to assume the bare-boat charters on behalf of Gorthon Lines AB or acquire the vessels.

Companies in the Group in raising certain credits, at the request of the lender, provided letters of comfort and other, similar support letters. To the extent that similar documents are not reported as contingent liabilities, the assessment was made that said documents cannot serve as a basis for payment obligations. In addition, in some loan agreements, a negative clause was included, with the consequence that the borrower cannot, without the approval of the lender, pledge collateral for other commitments during the credit period.

In the sale of companies and operations SCA provides the customary seller guarantees.

## Note 21 Assets pledged to secure indebtedness

| SEK M   | Group        |       | Parent Company |      |
|---|--------------|-------|----------------|------|
|   | 1996         | 1995  | 1996           | 1995 |
| Real estate mortgages                                 | <b>1,698</b> | 2,269 | <b>481</b>     | 471  |
| Real estate mortgages for the benefit of subsidiaries | -            | 68    | -              | 68   |
| Chattel mortgages                                     | <b>78</b>    | 85    | -              | -    |
| Other   | <b>126</b>   | 125   | -              | -    |
| <b>Total</b>  | <b>1,902</b> | 2,547 | <b>481</b>     | 539  |

The above assets have been pledged as security for debt amounting to SEK 1,121 M (1,293).

## Note 22 Tax assessment values

Tax assessment values relate to assets in Sweden:

| SEK M                   | Group         |        | Parent Company |       |
|-------------------------|---------------|--------|----------------|-------|
|                         | 1996          | 1995   | 1996           | 1995  |
| Buildings               | <b>3,707</b>  | 4,383  | <b>14</b>      | 17    |
| Land and other property | <b>9,841</b>  | 7,416  | <b>9,105</b>   | 6,767 |
| <b>Total</b>            | <b>13,548</b> | 11,799 | <b>9,119</b>   | 6,784 |

## Note 23 Gross debt distributed by currency

Taking into account currency swaps and other derivatives for hedging of assets outside Sweden, SCA's gross debt is distributed among the following currencies:

| Currency     | Gross debt<br>SEK M |
|--------------|---------------------|
| DEM          | 7,502               |
| GBP          | 7,441               |
| NLG          | 4,417               |
| ATS          | 3,171               |
| FRF          | 2,080               |
| BEF          | 1,176               |
| ITL          | 1,162               |
| USD          | 851                 |
| SEK          | -7,180              |
| Other        | 776                 |
| <b>Total</b> | <b>21,396</b>       |

#### **Note 24 Number of employees and wages, salaries and remunerations**

The number of employees (average) decreased to 34,106 (34,859). In Sweden, the average number of employees was 7,674 (7,694).

| <i>SCA Group total</i>                            | <b>1996</b>   | 1995   |
|---|---------------|--------|
| Average number of employees                       | <b>34,106</b> | 34,859 |
| of whom, women %                                  | <b>22</b>     | 22     |
| Wages, salaries and remunerations, SEK M          | <b>9,047</b>  | 9,686  |
| Board of Directors and executive management       | <b>14</b>     | 10     |
| of which, Parent Company                          | <b>14</b>     | 9      |
| Statutory and contractual payroll expenses, SEK M | <b>2,632</b>  | 2,733  |

#### *Distribution between Sweden and outside Sweden*

| <b>Sweden</b>                                     |              |       |
|---|--------------|-------|
| Average number of employees                       | <b>7,674</b> | 7,694 |
| of whom, women %                                  | <b>23</b>    | 22    |
| Number of municipalities                          | <b>26</b>    | 28    |
| Wages, salaries and remunerations, SEK M          | <b>2,003</b> | 1,797 |
| Statutory and contractual payroll expenses, SEK M | <b>868</b>   | 754   |

#### **of which, Parent Company**

|  |           |    |
|--|-----------|----|
| Average number of employees              | <b>46</b> | 44 |
| Number of municipalities                 | <b>1</b>  | 1  |
| Wages, salaries and remunerations, SEK M | <b>28</b> | 21 |

#### **of which, subsidiaries in Sweden**

|  |              |       |
|--|--------------|-------|
| Average number of employees              | <b>7,628</b> | 7,650 |
| Number of municipalities                 | <b>26</b>    | 28    |
| Wages, salaries and remunerations, SEK M | <b>1,975</b> | 1,776 |

#### **Outside Sweden**

|   |               |        |
|---|---------------|--------|
| Average number of employees                       | <b>26,432</b> | 27,165 |
| of whom, women %                                  | <b>22</b>     | 22     |
| Number of countries                               | <b>23</b>     | 23     |
| Wages, salaries and remunerations, SEK M          | <b>7,044</b>  | 7,889  |
| Statutory and contractual payroll expenses, SEK M | <b>1,764</b>  | 1,979  |

The complete statutory specifications of personnel, wages, salaries and remunerations are included in the Annual Report submitted to the National Swedish Patent and Registration Office.

This specification is available from SCA, Corporate Communications, Box 7827, SE-103 97 Stockholm, Sweden.

#### **Note 25 Executive management conditions of employment**

The Chairman of the Board of Directors, who previously held the position of Chief Executive Officer (CEO), received a consideration during 1996 of SEK 4,368,079 (3,845,199) in accordance with his contract valid until May 1997. The CEO received SEK 4,788,125 (4,139,179) in the same year. In addition, both are provided car benefits (fuel excluded) and housing benefits and receive a Board fee from PWA of SEK 35,688 (31,139). The chairman of the Board, as a member of the Board of PWA, received a bonus of SEK 176,631. In the case of the CEO, there is a bonus agreement which is linked to the

Group's return on capital employed and which can result in a maximum bonus amounting to 30% of base salary. Returns in 1996 resulted in a bonus corresponding to 12% (30) of base salary.

The pension agreements for the Chairman of the Board, who reaches the age of 65 in 1997, and the CEO are formulated so that old age pensions (including general pension benefits) are paid from the age of 65 at 70% of salaries at retirement. This is contingent upon employment being sustained during at least 20 years from the date the pertinent executive reached 40 years of age. At termination at the request of Company, the pension age may be reduced to not lower than 55. Upon termination of employment at own request between the ages of 55 and 60, a paid-up policy is received for pension payments from age 60. In the case of the CEO, the Company also paid out SEK 104,562 (103,694) in 1996 pertaining to supplementary pension commitments.

Moreover, the agreements with the Chairman of the Board and CEO stipulate that, in the event of termination of employment after age 55, they are entitled to be transferred to a position as expert advisor. Pension benefits are not paid while serving in the position of expert advisor.

The agreements with the Chairman of the Board and CEO stipulate a period of notice of termination of five years if such notice is given prior to age 60. This notice period, which is mutual and accordingly also applies upon termination at the request of the employee, is reduced to two years after age 60. The agreements do not contain any stipulations with regard to severance pay.

In the case of other senior executives in the Group there is a pension plan which, in the normal case, grants the executive the right at age 65 to receive a pension (including general pension benefits) at up to 70% of the salary. Normally, full pension requires the executive having been employed in the Group for 20 years. Upon termination of employment prior to reaching retirement age, a paid-up policy is received for pension payments from age 65, under the condition that the executive, after reaching the age of 40, has been employed in the Group for at least three years.

#### **Note 26 Board of Directors and work methods**

SCA's Board of Directors comprises seven members elected at the Annual General Meeting and three members, with three deputy members, elected by employees. The Board members elected at the Annual General Meeting include persons closely associated with SCA's principal owners, AB Industrivärden and AB Custos and persons independent of these owners. The President is also included in the Board of Directors. Other staff members in the Company participate in the Board meetings to make presentations or in an administrative capacity.

During the 1996 fiscal year, the Board held 7 (8) meetings. The work of the Board of Directors follows an annual report plan, designed to ensure that the Board's need to be informed is met, and is affected in other respects by the specific work assignments established by the Board regarding a division of work between the Board and the President.

Since the spring of 1994, the Board appoints internally a special committee whose task is to prepare a proposal regarding the composition of SCA's Board of Directors. For the period up to the 1997 Annual General Meeting, this nomination committee comprises Bo Rydin, Chairman, Tom Hedelius, Clas Reuterskiöld and Lars H. Thunell.

There is also a salary committee which deals with matters related to employment and pension terms of senior executives and other management personnel. For the period up to and including the close of the 1997 Annual General Meeting, this committee comprises Bo Rydin, Chairman, Clas Reuterskiöld and Lars H. Thunell. The Board of Directors has addressed the issue of appointing a special auditing committee, but decided that control matters brought to the attention of the Board should be dealt with by the entire Board. In order, in this respect, to ensure that the Board's information requirements are fulfilled, the company's senior auditor reports personally to the Board each year regarding his observations from the examination of the accounts and his assessment of the company's internal controls.

# PROPOSED DISPOSITION OF EARNINGS

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As shown in the consolidated Balance Sheet, distributable shareholders' equity amounts to SEK 9,882 M.

Distributable shareholders' equity at the Parent Company:

|   |                |
|---|----------------|
| retained earnings                                     | 12,766,244,732 |
| net earnings for the year                             | 987,653,946    |
| SEK   | 13,753,898,678 |
| The Board of Directors and the President recommend:   |                |
| to the shareholders, a dividend of SEK 5.25 per share | 1,036,349,659  |
| retained earnings to be carried forward               | 12,717,549,019 |
| SEK   | 13,753,898,678 |

Stockholm, March 1997

  
Bo Rydin  
Chairman

  
Tom Hedelius  
President

  
Gerhard Gustavsson

  
Bruno Lundgren

  
Erik Penser

  
Lars Ramqvist

  
Clas Reuterskiöld

  
Alf Söderlund

  
Lars H. Thunell

  
Sverker Martin-Löf  
President

## AUDITORS' REPORT

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We have examined the Annual Report, the consolidated financial statements, the accounting records and the administration by the Board of Directors and the President for 1996. Our examination has been conducted in accordance with generally accepted auditing practice and standards.

### The Parent Company

The financial statements have been prepared in conformity with the Swedish Companies Act.

We recommend that the Annual General Meeting  
adopt the Statement of Earnings and Balance Sheet

approve the disposition of earnings as proposed by the Board of Directors and

discharge the members of the Board of Directors and the President from liability for  
their administration of the company during 1996.

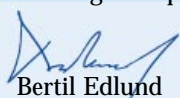
### The Group

The consolidated financial statements have been prepared in conformity with the Swedish Companies Act.

We recommend that the Annual General Meeting adopt the consolidated Statement of Earnings and consolidated Balance Sheet.

Stockholm, March 5, 1997

Öhrlings Coopers & Lybrand AB

  
Bertil Edlund

Authorized Public Accountant

# QUARTERLY DATA

## Group

| SEK M                                     | 1996         |              |            |              | 1995         |              |              |              |
|---|--------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|
|   | IV           | III          | II         | I            | IV           | III          | II           | I            |
| Net sales                                 | 13,694       | 13,496       | 13,482     | 14,732       | 15,042       | 16,297       | 17,228       | 16,750       |
| Operating surplus                         | 2,238        | 1,975        | 1,759      | 2,152        | 2,497        | 2,568        | 2,655        | 2,739        |
| Depreciation according to plan            | -962         | -853         | -864       | -896         | -833         | -907         | -924         | -917         |
| Share in earnings of associated companies | 21           | -1           | 3          | 9            | 168          | 104          | 117          | 83           |
| <b>Operating profit</b>                   | <b>1,297</b> | <b>1,121</b> | <b>898</b> | <b>1,265</b> | <b>1,832</b> | <b>1,765</b> | <b>1,848</b> | <b>1,905</b> |
| <i>Operating margin</i>                   | 9%           | 8%           | 7%         | 9%           | 12%          | 11%          | 11%          | 11%          |
| Net financial items                       | -265         | -253         | -239       | -251         | -413         | -403         | -419         | -384         |
| <b>Earnings after net financial items</b> | <b>1,032</b> | <b>868</b>   | <b>659</b> | <b>1,014</b> | <b>1,419</b> | <b>1,362</b> | <b>1,429</b> | <b>1,521</b> |

## Business Areas

### Net sales

| SEK M  | 1996          |               |               |               | 1995          |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  | IV            | III           | II            | I             | IV            | III           | II            | I             |
| Hygiene Products                                   | 6,240         | 5,861         | 5,841         | 6,189         | 5,804         | 6,265         | 6,453         | 5,969         |
| <i>Fluff and clinical products</i>                 | 3,161         | 3,164         | 3,131         | 3,208         | 2,822         | 3,163         | 3,273         | 3,104         |
| <i>Tissue</i>                                      | 3,079         | 2,697         | 2,710         | 2,981         | 2,982         | 3,102         | 3,180         | 2,865         |
| Packaging  | 3,277         | 3,288         | 3,359         | 3,773         | 3,827         | 4,434         | 4,711         | 4,637         |
| <i>Corrugated board incl. raw materials</i>        | 2,439         | 2,454         | 2,640         | 2,886         | 2,975         | 3,122         | 3,264         | 3,080         |
| <i>Liner products - external deliveries</i>        | 838           | 834           | 719           | 887           | 852           | 1,312         | 1,447         | 1,557         |
| Graphic Paper                                      | 3,967         | 3,965         | 3,726         | 4,214         | 4,267         | 4,429         | 4,877         | 4,586         |
| <i>Wood-containing printing papers</i>             | 1,426         | 1,730         | 1,517         | 1,517         | 1,514         | 1,535         | 1,567         | 1,428         |
| <i>Fine papers, paper merchanting, market pulp</i> | 2,541         | 2,235         | 2,209         | 2,697         | 2,753         | 2,894         | 3,310         | 3,158         |
| SCA Forest and Timber                              | 1,057         | 866           | 1,003         | 1,022         | 1,216         | 836           | 1,040         | 1,153         |
| Other operations                                   | 372           | 417           | 383           | 404           | 386           | 201           | 106           | 237           |
| Divested units                                     | 0             | 346           | 347           | 368           | 531           | 681           | 785           | 898           |
| Intra-Group deliveries                             | -1,219        | -1,247        | -1,177        | -1,238        | -989          | -549          | -744          | -730          |
| <b>Total</b>                                       | <b>13,694</b> | <b>13,496</b> | <b>13,482</b> | <b>14,732</b> | <b>15,042</b> | <b>16,297</b> | <b>17,228</b> | <b>16,750</b> |

### Earnings

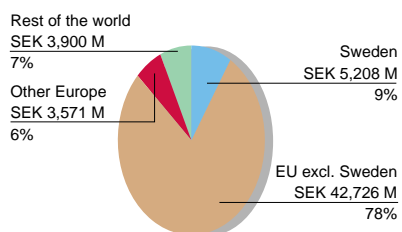
| SEK M  | 1996         |              |            |              | 1995         |              |              |              |
|--|--------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|
|  | IV           | III          | II         | I            | IV           | III          | II           | I            |
| Hygiene Products                                   | 673          | 623          | 508        | 519          | 470          | 303          | 261          | 332          |
| <i>Fluff and clinical products</i>                 | 210          | 216          | 120        | 114          | 45           | 87           | 62           | 143          |
| <i>Tissue</i>                                      | 463          | 407          | 388        | 405          | 425          | 216          | 199          | 189          |
| Packaging  | 165          | 159          | 197        | 418          | 369          | 584          | 756          | 661          |
| <i>Corrugated board incl. raw materials</i>        | 150          | 157          | 190        | 333          | 277          | 367          | 460          | 396          |
| <i>Liner products - external deliveries</i>        | 15           | 2            | 7          | 85           | 92           | 217          | 296          | 265          |
| Graphic Paper                                      | 127          | 71           | 90         | 222          | 617          | 625          | 605          | 498          |
| <i>Wood-containing printing papers</i>             | 150          | 261          | 304        | 275          | 305          | 308          | 269          | 165          |
| <i>Fine papers, paper merchanting, market pulp</i> | -23          | -190         | -214       | -53          | 312          | 317          | 336          | 333          |
| SCA Forest and Timber                              | 189          | 116          | 164        | 138          | 256          | 179          | 228          | 214          |
| Other operations                                   | 214          | 204          | -4         | 22           | 164          | 102          | 53           | 276          |
| Divested units                                     | -            | 19           | 17         | 18           | 27           | 49           | 23           | -1           |
| Goodwill depreciation                              | -71          | -71          | -74        | -72          | -71          | -77          | -78          | -75          |
| <b>Operating profit</b>                            | <b>1,297</b> | <b>1,121</b> | <b>898</b> | <b>1,265</b> | <b>1,832</b> | <b>1,765</b> | <b>1,848</b> | <b>1,905</b> |
| Net financial items                                | -265         | -253         | -239       | -251         | -413         | -402         | -420         | -384         |
| <b>Earnings after net financial items</b>          | <b>1,032</b> | <b>868</b>   | <b>659</b> | <b>1,014</b> | <b>1,419</b> | <b>1,363</b> | <b>1,428</b> | <b>1,521</b> |



# GROUP BY COUNTRY

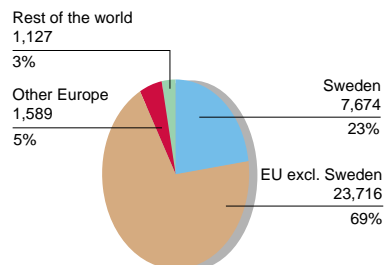
|                                | Net sales     |            |        |      | Average no. of employees |        | Salaries     |       |
|--------------------------------|---------------|------------|--------|------|--------------------------|--------|--------------|-------|
|                                | SEK M         | %          | SEK M  | %    |                          |        | SEK M        | SEK M |
|                                | 1996          | 1996       | 1995   | 1995 | 1996                     | 1995   | 1996         | 1995  |
| <b>Sweden</b>                  | <b>5,208</b>  | <b>9</b>   | 5,955  | 9    | <b>7,674</b>             | 7,694  | <b>2,003</b> | 1,797 |
| <b>EU, excl. Sweden</b>        |               |            |        |      |                          |        |              |       |
| Germany                        | 11,811        | 21         | 15,092 | 23   | 7,110                    | 7,990  | 2,355        | 3,047 |
| Great Britain                  | 8,294         | 15         | 9,246  | 14   | 4,173                    | 4,129  | 902          | 910   |
| France                         | 6,941         | 12         | 8,042  | 12   | 3,208                    | 3,431  | 734          | 816   |
| The Netherlands                | 4,171         | 8          | 5,392  | 8    | 2,946                    | 2,750  | 797          | 860   |
| Belgium                        | 2,573         | 5          | 2,919  | 5    | 1,501                    | 1,603  | 398          | 463   |
| Italy                          | 2,562         | 5          | 3,987  | 6    | 949                      | 917    | 225          | 230   |
| Austria                        | 1,938         | 3          | 2,329  | 4    | 2,636                    | 2,635  | 899          | 865   |
| Denmark                        | 1,414         | 3          | 1,415  | 2    | 143                      | 124    | 67           | 57    |
| Spain                          | 921           | 2          | 1,189  | 2    | 318                      | 350    | 77           | 88    |
| Ireland                        | 680           | 1          | 592    | 1    | 161                      | 177    | 21           | 23    |
| Finland                        | 670           | 1          | 757    | 1    | 277                      | 284    | 56           | 63    |
| Greece                         | 451           | 1          | 479    | 1    | 255                      | 259    | 34           | 34    |
| Portugal                       | 262           | 1          | 255    | 0    | 39                       | 38     | 8            | 8     |
| Luxembourg                     | 38            | 0          | 38     | 0    | -                        | -      | -            | -     |
| <b>Total EU, excl. Sweden</b>  | <b>42,726</b> | <b>78</b>  | 51,732 | 79   | <b>23,716</b>            | 24,687 | <b>6,573</b> | 7,463 |
| <b>Rest of Europe</b>          |               |            |        |      |                          |        |              |       |
| Norway                         | 1,253         | 2          | 1,537  | 2    | 493                      | 489    | 145          | 134   |
| Switzerland                    | 709           | 1          | 766    | 1    | 49                       | 46     | 23           | 23    |
| Poland                         | 463           | 1          | 487    | 1    | 287                      | 213    | 17           | 13    |
| Hungary                        | 330           | 1          | 312    | 1    | 361                      | 418    | 23           | 23    |
| Czech Republic                 | 132           | 0          | 145    | 0    | 63                       | 49     | 4            | 4     |
| Slovakia                       | 112           | 0          | 161    | 0    | 336                      | 259    | 9            | 7     |
| Iceland                        | 16            | 0          | 29     | 0    | -                        | -      | -            | -     |
| Turkey                         | 11            | 0          | 33     | 0    | -                        | -      | -            | -     |
| Cyprus                         | 7             | 0          | 11     | 0    | -                        | -      | -            | -     |
| Other                          | 538           | 1          | 282    | 1    | -                        | -      | -            | -     |
| <b>Total rest of Europe</b>    | <b>3,571</b>  | <b>6</b>   | 3,763  | 6    | <b>1,589</b>             | 1,474  | <b>221</b>   | 204   |
| <b>Rest of the world</b>       |               |            |        |      |                          |        |              |       |
| U.S.                           | 1,515         | 3          | 1,993  | 3    | 631                      | 606    | 202          | 188   |
| Canada                         | 351           | 1          | 289    | 1    | 110                      | 27     | 31           | 17    |
| Japan                          | 210           | 0          | 207    | 0    | 11                       | 9      | 5            | 6     |
| Other                          | 1,824         | 3          | 1,378  | 2    | 375                      | 362    | 12           | 11    |
| <b>Total rest of the world</b> | <b>3,900</b>  | <b>7</b>   | 3,867  | 6    | <b>1,127</b>             | 1,004  | <b>250</b>   | 222   |
| <b>SCA GROUP</b>               | <b>55,405</b> | <b>100</b> | 65,317 | 100  | <b>34,106</b>            | 34,859 | <b>9,047</b> | 9,686 |

**Net sales by region, 1996**



Markets outside Sweden account for slightly more than 90% of total net sales.

**Employees by region, 1996**



The average total number of employees was 34,106. The proportion in countries other than Sweden was 77%.

# SCA SHARE

*In 1996, the SCA share price rose by 34% on the Stockholm Stock Exchange. There was considerable interest outside Sweden in the SCA share, which was reflected in increased foreign ownership.*

## Public trading in the SCA share

Trading in SCA shares is concentrated on the exchanges in Stockholm (A and B shares) and London (B shares). In addition, in the U.S. there is a Level 1 ADR (American Depositary Receipt) program, which was established in 1995.

In 1996, the volume of trading of the SCA share on the Stockholm Stock Exchange was about 79 million shares (88), corresponding to a total value of SEK 10 billion. The volume of trading was somewhat lower than a year earlier. The number of shares traded corresponded to 40% (45) of the total number of shares at year-end. The trading volume on the SEAQ International in London was 39 million shares (44). The number of shares traded corresponded to 20% (22) of the total number of shares outstanding at year-end.

## Share trend in 1996

The price of the SCA B share rose 34%, compared with the Affärsvärlden General Index for the Stockholm Stock Exchange which increased by 38%, but the trend for the SCA share was better than

the Affärsvärlden Forest Index, which increased by 31%. The FTSE 100 London Stock Exchange index rose by 12%. The last paid price at year-end was SEK 138.50, corresponding to a market capitalization of SEK 27.2 billion, compared with SEK 20.3 billion for 1995.

The SCA share rose sharply in the first half of the year, but interest weakened in the third quarter and the price declined somewhat, but again rebounded upward in the last few months of the year.

The lowest price for the B share was SEK 95 on January 17, 1996 and the highest price (SEK 153) was recorded on December 3. This corresponds to a market capitalization of SEK 30.2 billion. The SCA share price increased by 20% to SEK 166 between January 1 and February 13, 1997.

Net export of SCA shares was SEK 668 M, compared with net imports of SEK 285 M in 1995. Foreign ownership represented 16% of shareholders' equity, an increase of four percentage points compared with 1995.

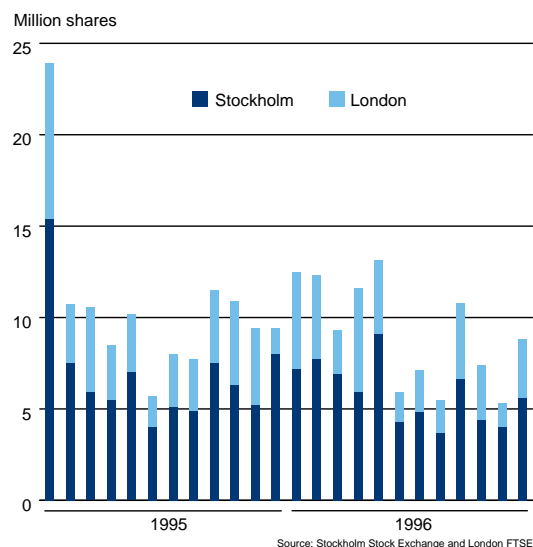
## ADR program in the U.S.

In order to make the SCA share more readily accessible to American investors, SCA established a Level 1 ADR Program in the U.S. in December 1995. This means that B shares are available as depositary receipts in the U.S. without any formal stock exchange registration. These receipts, which are listed in U.S. dollars, are regarded as U.S. securities. One ADR corresponds to one share. The custody bank is the Bank of New York.

## Beta

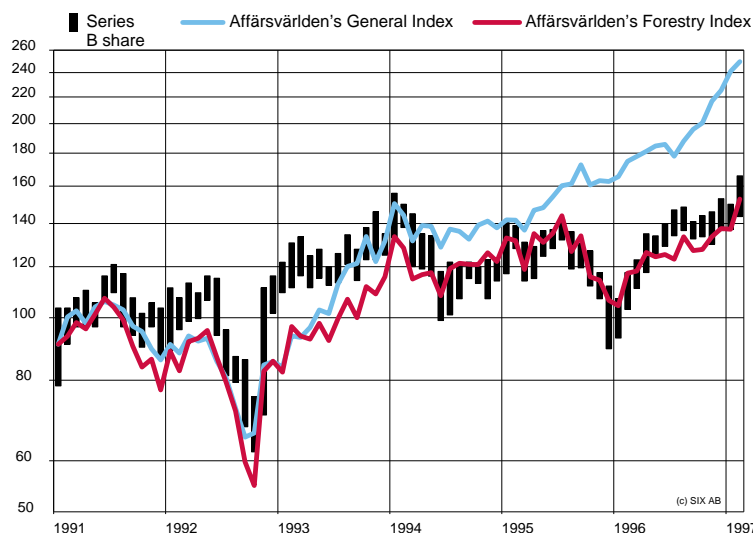
Beta is a measure of the sensitivity of a share price change to changes in the market as a whole. The beta for the SCA share was 0.95 (1.19), according to the Stockholm Stock Exchange's measurement over a rolling 48-month period. This means that the SCA share varied 5% less than the Stockholm Stock Exchange average, measured in terms of a value-weighted index. The clarifying value was 0.52 (0.68), which means that 52% of the change in price of the SCA share is attributable to the total market trend.

Share trading



Trading in SCA shares was heavy at the beginning of the year.

Price trend



The SCA Series B share rose 34% during 1996. Between January 1 and February 13, 1997, the share gained 20% to SEK 166.

## Issues etc. 1990–1996

Since 1990, the share capital and number of shares, has increased through stock dividends and new issues, conversions and splits as follows:

| SEK M (except no. of shares)  | No. of shares | Increase in share capital | Cash Payment |
|---|---------------|---------------------------|--------------|
| 1990 Conversion of debentures and new subscriptions through Series 1 warrants | 1,008,284     | 10.1                      | 5.9          |
| 1991 Conversion of debentures and new subscriptions through Series 1 warrants | 371,118       | 3.7                       | 10.5         |
| 1992 Conversion of debentures and new subscriptions through Series 1 warrants | 777,453       | 7.8                       | 19.6         |
| 1993 Conversion of debentures and new subscriptions through Series 1 warrants | 4,030,286     | 40.3                      | 119.1        |
| New issue 1:10  | 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                      | –            |
| 1996 –  | –             | –                         | –            |

Conversion of debentures pertained to a 1987 loan, 9.5% at SEK 350 M, which fell due for payment in 1995. Subscriptions of Series 1 warrants pertained to a 1983 debenture loan, 7%, SEK 266 M, with detachable warrants. The subscription right expired in 1993.

## SCA's share capital

December 31, 1996

|          | Voting rights | Shares      | Par value SEK M |
|----------|---------------|-------------|-----------------|
| Series A | 10            | 62,145,880  | 621.5           |
| Series B | 1             | 135,254,055 | 1,352.5         |
| Total    |               | 197,399,935 | 1,974.0         |

Upon full exercise of convertible debentures outstanding at December 31, 1996, excluding debentures issued by SCA Group Holding B.V., the number of Series B shares would increase to a maximum of 135,482,709.

## Per-share data

| SEK unless otherwise noted                                      | 1996              | 1995   | 1994   | 1993   | 1992   |
|---|-------------------|--------|--------|--------|--------|
| Earnings per share after full tax:                              |                   |        |        |        |        |
| After full conversion   | 10:71             | 17:55  | 2:94   | 5:82   | 33:23  |
| Before full conversion  | 10:71             | 17:55  | 2:86   | 5:52   | 34:82  |
| Quotation for Series B shares:                                  |                   |        |        |        |        |
| Average quotation   | 131:00            | 122:70 | 120:30 | 127:70 | 100:30 |
| Year-end quotation  | 138:50            | 103:00 | 116:50 | 135:00 | 115:00 |
| Cash flow from operations <sup>1</sup>                          | 21:30             | 25:02  | 5:94   | 6:64   | 7:40   |
| Dividend  | 5:25 <sup>2</sup> | 4:75   | 3:75   | 3:40   | 3:10   |
| Dividend growth rate, % <sup>3</sup>                            | 11                | 9      | 6      | 8      | 10     |
| Direct return, %  | 3.8               | 4.6    | 3.2    | 2.5    | 2.7    |
| P/E ratio <sup>4</sup>  | 13                | 6      | 40     | 23     | 3      |
| Price/EBIT <sup>5</sup>   | 11                | 6      | 19     | 18     | 4      |
| Pay-out ratio before dilution, %                                | 49 <sup>2</sup>   | 27     | 131    | 62     | 9      |
| Shareholders' equity  | 116               | 112    | 101    | 103    | 103    |
| Net worth   | 165               | 153    | 135    | 129    | 120    |
| Shareholders' equity after full conversion and new subscription | 116               | 111    | 99     | 101    | 97     |
| Net worth after full conversion and new subscription            | 165               | 153    | 134    | 129    | 117    |
| Number of shares registered,                                    |                   |        |        |        |        |
| December 31 (in million)  | 197.4             | 197.4  | 194.0  | 194.0  | 178.0  |
| Number of shares after full conversion (in million)             | 197.6             | 197.6  | 197.7  | 197.7  | 187.6  |

- 1) See Definitions of key financial ratios on cover flap.
- 2) Board proposal.
- 3) Five-year moving total.
- 4) Year-end quotation divided by earnings per share after tax and full conversion.
- 5) Market value plus net debt and minority interest divided by operating profit (EBIT=earnings before interest and taxes).

## Ten largest shareholders

According to the Värdepapperscentralen VPC AB (Swedish Securities Register Center) official share register for directly-registered and trustee-registered shareholders, as of January 31, 1997 the following companies, foundations and mutual funds were the ten largest registered shareholders on a voting rights basis. Approximately 70% (64) of the share capital was owned by Swedish institutions and about 16% (12) by foreign nominees.

|                          | No. of votes | Interest % | No. of shares | Interest % |
|--------------------------|--------------|------------|---------------|------------|
| AB Industrivärden        | 182,870,000  | 24.2       | 18,782,000    | 9.5        |
| AB Custos                | 151,735,910  | 20.1       | 15,173,591    | 7.7        |
| SHB stiftelser*          | 50,004,500   | 6.6        | 5,045,000     | 2.6        |
| Fjärde AP-Fonden         | 43,029,278   | 5.7        | 12,606,884    | 6.4        |
| S-E-Bankens aktiefonder  | 31,148,016   | 4.1        | 4,414,065     | 2.2        |
| Femte AP-Fonden          | 28,800,000   | 3.8        | 2,880,000     | 1.5        |
| Skandia                  | 18,299,654   | 2.4        | 6,080,264     | 3.1        |
| Trygg-Hansa              | 16,480,987   | 2.2        | 7,300,987     | 3.7        |
| Nordbankens aktiefonder  | 12,040,275   | 1.6        | 9,925,275     | 5.0        |
| SHB Försäkrings-förening | 10,000,000   | 1.3        | 1,000,000     | 0.5        |

\* Handelsbankens Pensionsstiftelse, Oktogonen, Handelsbankens Personalstiftelse.

## Ownership structure

| Shareholding   | No. of shares | %    | No. of shareholders | %    | No. of votes | %    |
|----------------|---------------|------|---------------------|------|--------------|------|
| 1–500          | 7,222,185     | 3.7  | 45,236              | 75.4 | 20,214,978   | 2.7  |
| 501–1,000      | 5,761,936     | 2.9  | 7,589               | 12.6 | 16,057,000   | 2.1  |
| 1,001–2,000    | 5,623,026     | 2.8  | 3,848               | 6.4  | 16,717,677   | 2.2  |
| 2,001–5,000    | 6,524,646     | 3.3  | 2,071               | 3.5  | 18,861,576   | 2.5  |
| 5,001–10,000   | 4,206,424     | 2.1  | 584                 | 1.0  | 10,298,101   | 1.4  |
| 10,001–20,000  | 3,433,242     | 1.7  | 234                 | 0.4  | 6,991,590    | 0.9  |
| 20,001–50,000  | 6,155,428     | 3.1  | 190                 | 0.3  | 14,008,441   | 1.9  |
| 50,001–100,000 | 6,240,312     | 3.2  | 88                  | 0.1  | 13,073,112   | 1.7  |
| 100,001–       | 152,232,736   | 77.1 | 156                 | 0.3  | 640,490,440  | 84.6 |
| Total          | 197,399,935   |      | 59,996              |      | 756,712,855  |      |

# BOARD OF DIRECTORS AND AUDITOR

## BOARD OF DIRECTORS

### Elected by Annual General Meeting

**Bo Rydin**, born 1932, chairman, on the board of SCA since 1972 (deputy director since 1970). Board member of other listed Swedish companies: AB Industrivärden, chairman, Graningeverken, chairman, Svenska Handelsbanken, vice chairman, Skanska AB, vice chairman, SAS Sverige AB (formerly SILA) and Scancem AB (formerly Euroc). Board member of non-Swedish companies: IBM EMEA Board. SCA shares: 61,196.



Bo Rydin

**Tom Hedelius**, born 1939, chairman of Svenska Handelsbanken, on the board of SCA since 1985. Board member of other listed Swedish companies: Bergman & Beving AB, chairman, AGA AB, vice chairman, Telefonaktiebolaget LM Ericsson, vice chairman, AB Industrivärden, vice chairman, SAS Sverige AB and AB Volvo. SCA shares: 1,663.



Tom Hedelius

**Sverker Martin-Löf**, born 1943, CEO and president of SCA, on the board of SCA since 1986. Board member of other listed Swedish companies: AGA AB, Telefonaktiebolaget LM Ericsson and AB Industrivärden (leaving the board at Industrivärden's Annual General Meeting on April 29, 1997). SCA shares: 7,057. Purchase options corresponding to 30,000 SCA shares.



Sverker Martin-Löf

**Erik Penser**, born 1942, on the board of SCA since 1985. Board member of other listed Swedish companies: Försäkrings AB Atlantica and Trelleborg AB.



Erik Penser

**Lars Ramqvist**, born 1938, CEO and president of Telefonaktiebolaget LM Ericsson, on the board of SCA since 1994. Board member of other listed Swedish companies: Astra AB.



Lars Ramqvist



Clas Reuterskiöld

**Clas Reuterskiöld**, born 1939, CEO and president of AB Industrivärden, on the board of SCA since 1994. Board member of other listed Swedish companies: PLM AB, chairman, AGA AB, Telefonaktiebolaget LM Ericsson and Svenska Handelsbanken. SCA shares: 7,284.



Lars H. Thunell

**Lars H. Thunell**, born 1948, CEO and president of Trygg-Hansa AB, on the board of SCA since 1996. Board member of other listed Swedish companies: AB Custos and Elekta AB.



Gerhard Gustavsson



Bruno Lundgren



Alf Söderlund



Tjell-Åke Hägglund

# SENIOR MANAGEMENT

## Appointed by employees

**Gerhard Gustavsson**, born 1939, process engineer at SCA Hygiene Paper AB, Edet Mill, representing salaried employees, on the board of SCA since 1989.

**Bruno Lundgren**, born 1941, supervisor at SCA Packaging Munksund AB, representing salaried employees, on the board of SCA since 1989.  
SCA shares: 62.

**Alf Söderlund**, born 1943, instrument maker at SCA Graphic Sundsvall AB, Ortvisen paper mill, representing blue collar workers, on the board of SCA since 1985.  
SCA shares: 62.

## Deputies

**Henry Heiniö**, born 1954, operator at SCA Graphic Sundsvall AB, Wifsta fine paper mill, representing blue collar workers, on the board of SCA since 1993.

**Tjell-Åke Hägglund**, born 1944, head of development and technical customer support at SCA Graphic Sundsvall AB, Östrand CTMP mill, representing salaried employees, on the board of SCA since 1985.  
SCA shares: 75.

**Robert Lundberg**, born 1956, repair-man at SCA Packaging Munksund AB, representing blue collar workers, on the board of SCA since 1993.

## Board Secretary

**Michael Bertorp**, born 1949, general counsel, head of corporate staff Secretariat and Legal Affairs.  
SCA shares: 1,917. Purchase options corresponding to 8,000 SCA shares.

## Auditor

**Öhrlings Coopers & Lybrand AB.**  
Senior responsible auditor:  
Authorized Public Accountant  
Bertil Edlund.

Directors' shareholdings as of December 31, 1996. Board of Directors and work methods, see Note 26.



- 1 Sverker Martin-Löf**, born 1943, President and CEO of SCA. Employed since 1977.  
Shares: 7,057. Options: 30,000 shares.
- 2 Åke Rietz**, born 1945, executive vice president and CFO. Employed since 1988.  
Shares: 3,168. Options: 15,000 shares.
- 3 Alf de Ruvo**, born 1938, executive vice president Corporate Research and Technology. Employed since 1983.  
Shares: 800. Options: 8,000 shares.
- 4 Michael Bertorp**, born 1949, senior vice president and general counsel. Employed since 1986.  
Shares: 1,917. Options: 8,000 shares.
- 5 Sten Lindholm**, born 1941, senior vice president Corporate Communications. Employed since 1990.  
Shares: 2,000. Options: 0.
- 6 Kurth Augustson**, born 1944, president of SCA Mölnlycke. Employed since 1996.  
Shares: 1,000. Options: 0.
- 7 Alfred H. Heinzel**, born 1947, president of PWA. Employed since 1988.  
Shares: 0. Options: 0.
- 8 Colin J. Williams**, born 1942, president of SCA Packaging. Employed since 1984.  
Shares: 0. Options: 0.
- 9 Kenneth Eriksson**, born 1944, president of SCA Graphic Paper from December 1, 1996. Employed since 1979.  
Shares: 0. Options: 5,000 shares.
- 10 Jerker Karlsson**, born 1944, president of SCA Forest and Timber. Employed since 1970.  
Shares: 1,027. Options: 3,000 shares.
- 11 Ulf Frölander**, born 1939, president of SCA Graphic Paper until November 30, 1996. President of SCA Raw Materials and Logistics from December 1, 1996. Employed since 1988.  
Shares: 1,006. Options: 10,000 shares.
- 12 Henk O. Bos**, born 1938, president of SCA Recycling. Employed since 1963.  
Shares: 0. Options: 0.

Executive Management's conditions of employment, see Note 25.



# CORPORATE ADDRESSES

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## PWA

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# SCA WORLDWIDE



- **Hygiene Products**
- **Packaging**
- **Graphic Paper**
- **SCA Forest and Timber**
- **SCA Raw Materials and Logistics**

# TEN-YEAR COMPARISON

| SEK M   | 1996                      | 1995   | 1994   | 1993   | 1992   | 1991   | 1990   | 1989   | 1988   | 1987   |
|---|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net sales   | <b>55,405</b>             | 65,317 | 33,676 | 33,420 | 32,137 | 32,760 | 31,122 | 24,853 | 20,850 | 15,679 |
| Operating profit <sup>1)</sup>                    | <b>4,581</b>              | 7,350  | 1,810  | 2,172  | 8,608  | 2,605  | 3,338  | 3,137  | 2,817  | 2,457  |
| Hygiene Products                                  | <b>2,323</b>              | 1,366  | 815    | 1,121  | 857    | 688    | 574    | 686    | 671    | 462    |
| Packaging   | <b>939</b>                | 2,370  | 910    | 680    | 462    | 607    | 626    | 573    | 466    | 407    |
| Graphic Paper                                     | <b>510</b>                | 2,345  | 495    | 35     | -313   | 186    | 507    | 806    | 758    | 638    |
| SCA Forest and Timber                             | <b>607</b>                | 877    | 869    | 515    | 375    | 468    | 481    | 495    | 459    | 401    |
| Other operations                                  | <b>436</b>                | 299    | 193    | -11    | 197    | 224    | 191    | 145    | 123    | -36    |
| Divested units                                    | <b>54</b>                 | 98     | 36     | 95     | 701    | 750    | 796    | 420    | 340    | 340    |
| Goodwill depreciation                             | <b>-288</b>               | -301   | -288   | -287   | -248   | -200   | -105   | -      | -      | -      |
| Nonrecurring items <sup>2)</sup>                  | <b>-</b>                  | 296    | -1,220 | 25     | 6,577  | -118   | 268    | 12     | -      | 245    |
| Financial income                                  | <b>319</b>                | 296    | 252    | 217    | 319    | 320    | 469    | 426    | 355    | 283    |
| Financial expenses                                | <b>-1,327</b>             | -1,915 | -1,002 | -1,179 | -1,899 | -1,740 | -1,404 | -839   | -569   | -445   |
| <b>Earnings after net financial items</b>         | <b>3,573</b>              | 5,731  | 1,060  | 1,210  | 7,028  | 1,185  | 2,403  | 2,724  | 2,603  | 2,295  |
| Income taxes                                      | <b>-1,144</b>             | -1,915 | -423   | -79    | -796   | -150   | -838   | -934   | -1,187 | -990   |
| Minority interest                                 | <b>-312</b>               | -352   | -82    | -60    | -32    | -134   | -59    | -56    | -58    | -43    |
| <b>Net earnings for the year <sup>3)</sup></b>    | <b>2,117</b>              | 3,464  | 555    | 1,071  | 6,200  | 901    | 1,506  | 1,734  | 1,358  | 1,262  |
| <b>Balance sheet</b>                              |                           |        |        |        |        |        |        |        |        |        |
| Cash and short-term investments                   | <b>2,862</b>              | 3,229  | 2,820  | 2,684  | 2,191  | 1,478  | 3,274  | 3,739  | 4,057  | 3,717  |
| Other financial assets                            | <b>1,072</b>              | 1,644  | 166    | 175    | 2,520  | 247    | -      | -      | -      | -      |
| Inventories and receivables                       | <b>15,461</b>             | 16,435 | 10,606 | 10,409 | 10,775 | 11,022 | 12,252 | 9,398  | 7,779  | 5,345  |
| Properties and plant                              | <b>48,599</b>             | 46,822 | 31,336 | 30,983 | 30,613 | 30,820 | 32,903 | 17,951 | 15,731 | 11,441 |
| <b>Total assets</b>                               | <b>67,994</b>             | 68,130 | 44,928 | 44,251 | 46,099 | 43,567 | 48,429 | 31,088 | 27,567 | 20,503 |
| Operating liabilities                             | <b>11,231</b>             | 11,990 | 8,105  | 7,050  | 7,764  | 6,818  | 8,060  | 5,384  | 4,583  | 3,567  |
| Other noninterest-bearing liabilities             | <b>9,130</b>              | 8,184  | 2,821  | 2,649  | 3,734  | 5,636  | 6,615  | 5,355  | 6,806  | 4,497  |
| Interest-bearing debt                             | <b>21,396</b>             | 22,439 | 13,559 | 13,673 | 15,510 | 19,281 | 21,818 | 9,249  | 8,049  | 4,358  |
| Minority interest                                 | <b>3,331</b>              | 3,493  | 853    | 916    | 807    | 688    | 586    | 567    | 328    | 94     |
| Shareholders' equity                              | <b>22,906</b>             | 22,024 | 19,590 | 19,963 | 18,284 | 11,144 | 11,350 | 10,533 | 7,801  | 7,987  |
| <b>Total liabilities and shareholders' equity</b> | <b>67,994</b>             | 68,130 | 44,928 | 44,251 | 46,099 | 43,567 | 48,429 | 31,088 | 27,567 | 20,503 |
| Capital employed <sup>4)</sup>                    | <b>43,311</b>             | 47,408 | 31,780 | 31,459 | 29,581 | 30,918 | 24,217 | 14,585 | 10,733 | 9,002  |
| Net debt  | <b>17,462</b>             | 17,566 | 10,573 | 10,814 | 10,799 | 17,556 | 18,407 | 5,475  | 3,751  | 551    |
| Operating cash flow                               | <b>6,194</b>              | 6,650  | 2,422  | 2,689  | 2,930  | 2,329  |        |        |        |        |
| Cash flow from operations                         | <b>4,210</b>              | 4,943  | 1,174  | 1,313  | 1,388  | 633    |        |        |        |        |
| Cash flow before dividend                         | <b>2,006</b>              | -3,673 | 504    | 2,285  | 5,278  | 1,738  |        |        |        |        |
| <b>Key ratios <sup>5)</sup></b>                   |                           |        |        |        |        |        |        |        |        |        |
| Equity/assets, %                                  | <b>39</b>                 | 37     | 46     | 47     | 41     | 28     | 25     | 36     | 29     | 39     |
| Equity/assets incl. surplus values, %             | <b>46</b>                 | 44     | 52     | 53     | 45     | 46     | 43     | 57     | 53     | 63     |
| Interest coverage rate, multiple                  | <b>4.5</b>                | 4.5    | 2.4    | 2.3    | 5.5    | 1.8    | 3.6    | 7.6    | 13.2   | 15.2   |
| Debt/equity ratio, multiple                       | <b>0.67</b>               | 0.69   | 0.52   | 0.52   | 0.57   | 1.44   | 1.54   | 0.49   | 0.46   | 0.07   |
| Return on capital employed, %                     | <b>11</b>                 | 16     | 6      | 7      | 29     | 8      | 14     | 22     | 26     | 27     |
| Return on shareholders' equity, %                 | <b>10</b>                 | 17     | 3      | 6      | 47     | 8      | 14     | 19     | 17     | 18     |
| Operating margin, %                               | <b>8</b>                  | 11     | 5      | 6      | 27     | 8      | 11     | 13     | 14     | 16     |
| Net margin, %                                     | <b>4</b>                  | 5      | 2      | 3      | 19     | 3      | 5      | 7      | 7      | 8      |
| Capital turnover rate, multiple                   | <b>1.28</b>               | 1.38   | 1.06   | 1.06   | 1.09   | 1.06   | 1.29   | 1.70   | 1.94   | 1.74   |
| Earnings per share, SEK                           | <b>10.71</b>              | 17.55  | 2.94   | 5.82   | 33.23  | 4.97   | 8.12   | 9.27   | 7.38   | 7.17   |
| Dividend, SEK per share                           | <b>5.25 <sup>6)</sup></b> | 4.75   | 3.75   | 3.40   | 3.10   | 3.10   | 3.10   | 2.81   | 2.34   | 1.94   |
| Current capital expenditures                      | <b>2,489</b>              | 2,927  | 1,377  | 1,479  | 1,461  | 1,495  | 2,518  | 2,021  | 1,422  | 1,095  |
| Strategic capital expenditures                    | <b>1,126</b>              | 1,849  | 1,599  | 74     | 316    | 462    | 2,108  | 694    | 149    | 54     |
| Acquisitions                                      | <b>1,558</b>              | 7,698  | 821    | 520    | 383    | 1,928  | 6,899  | 934    | 2,346  | 561    |

<sup>1)</sup> Operating profit has been distributed (pro forma) in the 1987–1989 period.

<sup>2)</sup> Not reported separately for 1996.

<sup>3)</sup> Earnings in Sweden have been charged with 28% deferred tax in the years 1994–1996, 30% deferred tax in the years 1989–1993 and with 50% deferred tax in earlier years.

<sup>4)</sup> The calculation of average return on capital employed and of shareholders' equity is based on five measurements during 1993–1996, four measurements in 1991 and 1992 and two measurements in earlier years.

<sup>5)</sup> Key ratios are defined on cover flap.

<sup>6)</sup> Board proposal.

# GLOSSARY

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## Hygiene Products

**Fluff** – Pulp based on wood fiber, used to absorb fluid. Used in incontinence and feminine hygiene products, diapers, etc.

**Tissue** – Crêped soft paper which is the basis for hygiene products such as napkins, toilet paper and kitchen rolls, and toweling products for institutions, hotels, etc.

## Packaging

**Box plant** – See integrated packaging plant.

**Sheet plant** – See converting plant.

**Sheet feeder** – See corrugated board plant.

**Fluting** – The rippled middle layer in corrugated board, produced from semi-chemical pulp or recycled fiber.

**Integrated packaging plant (also called box plant)** – Produces corrugated board and converts it into finished packaging (boxes and trays) with color-printed text and graphics.

**Converting plant (also called sheet plant)** – Produces finished packaging from corrugated board sheets supplied by an integrated box plant or a sheet feeder.

**Liner** – The surface layer of corrugated board. Available in various grades, such as kraftliner (based on fresh wood fiber) and testliner (based on recycled fiber).

**Corrugated board** – Two outer layers of paper with an intermediate layer of fluting/folded paper (see liner and fluting).

**Corrugated board plant (also called sheet feeder)** – Only produces corrugated board in sheet form which is then converted into finished packaging at another plant.

**Containerboard** – Paper specially manufactured for the production of corrugated board.

## Graphic Paper

**Coating** – A surface treatment applied to paper or corrugated board packaging. Provides a smooth surface with good printing characteristics.

**Coated fine paper** – Paper based on chemical pulp, with a surface which enhances the printing quality.

**Uncoated fine paper** – Paper normally used for copying and typing in A4 cut-sheet format. The paper is based on chemical pulp.

**LWC paper** – Light Weight Coated paper is a coated supercalendered paper with a high mechanical pulp content. Used for periodicals and advertising materials with high color-printing requirements.

**Mechanical pulp** – Debarked logs which are ground or chipped and then refined to separate the wood fibers, which form pulp.

**Norscan** – Pulp producers in the Nordic countries and North America.

**SC paper** – Super Calendered printing paper with a high gloss surface and with a high content of mechanical and/or deinked pulp. Mainly used for periodicals and advertising materials.

**Chlorine-free pulp** – Pulp which is bleached without using chlorine in any form.

**Kraft pulp** – Chemical pulp produced by cooking wood chips in a solution of sodium hydroxide and sodium sulfide.

**Sulfite pulp** – Chemical pulp produced by cooking wood chips in an aqueous solution of sulfur dioxide and sulfite.

**Newsprint** – Paper for newspapers produced from mechanical pulp based on fresh wood fiber or recycled fiber.

## SCA Forest and Timber

**Pulpwood** – The part of the tree used for the production of pulp.

**Sawn timber** – Wood sawn into various dimensions/sizes: planks, joists, etc.

**Saw logs** – The part of the tree delivered to a sawmill. Normally the best part of the tree.

**m<sup>3</sup> fub** – Cubic meters under bark. The real volume of wood in a tree less the bark, expressed in cubic meters.

## SCA Raw Materials and Logistics

**News and Pams** – Newspaper, magazine and brochure recovered paper.

**Old Corrugated Container (OCC)** – Used corrugated board collected for recycling.

**Recycled fiber** – Fiber based on recovered paper.

**Recycled paper** – Paper based on recycled fiber; recovered paper.

**Wood fiber** – Wood fiber from felled trees (virgin fiber) or from used paper or corrugated board products (recycled fiber).

## Research and Development

**Deinking** – Removal of printing ink from recycled paper.

**TMP** – Thermo Mechanical Pulp, produced by processing preheated chips.

## Environmental management

**Selective cutting** – Forestry cultivation method which involves the felling of individual trees in the forest.

**Shelterwood regeneration** – Forestry cultivation method which involves leaving some mature trees unharvested to protect new plants.

**Impediment** – Forest land with low productivity.

**m<sup>3</sup>sk** – Forest cubic meter.

**MW** – Megawatt: unit of measurement (electricity or heat).

**TJ** – Terajoule, unit of energy measurement (fuel or heat). 1 TJ is equivalent to approximately 25 m<sup>3</sup> of oil.

**GWh** – Gigawatt hour: unit of energy measurement (electricity and heat). 1 GWh = 1 million kWh.

**TWh** – Terawatt hour: unit of energy measurement (electricity and heat). 1 TWh = 1 billion kWh.

**RMS** – SCA's system for resource management.

**EMAS** – The EU system for environmental management and auditing of forestry.

# DEFINITIONS AND KEY RATIOS

Calculation of key ratios are based mainly on the recommendations issued by the Swedish Society of Financial Analysts. Compared with 1995, the financial key ratios operating cash flow and cash flow from operations have been added. The financial key ratio cash earnings has been removed. Average are calculated based on five measurements.

## CAPITAL DEFINITIONS

### Capital employed

The Group's and business group's capital employed is calculated as an average of assets according to the balance sheet, excluding interest-bearing assets reduced by current operating and tax liabilities, pension provisions and other non-interest-bearing liabilities.

Goodwill is included in the Group's capital employed as a Groupwide asset. Accordingly, capital employed for the business groups is reported excluding goodwill.

### Shareholders' equity

The shareholders' equity reported in the consolidated balance sheet consists of taxed shareholders' equity increased by the equity portion of the Group's untaxed reserves.

Deferred tax liability in untaxed reserves has been calculated at a 28-percent rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden.

### Surplus value in forest lands and listed shares

The surplus value in forest lands and listed shares represents the difference between the market value and the book value of the Group's holdings. Surplus value is charged with deferred taxes.

### Net worth

Net worth is the sum of consolidated shareholders' equity and the surplus value in forest lands and listed shares.

### Net debt

Net debt is the sum of consolidated interest-bearing liabilities, less liquid funds and interest-bearing short-term and long-term receivables and capital investment shares.

## FINANCIAL MEASUREMENTS

### Equity/assets ratio

The equity/assets ratio corresponds to shareholders' equity plus minority interest expressed as a percentage of total assets. Equity/assets ratio is also calculated with shareholders' equity, including surplus value in forest lands and listed shares.

### Debt/equity ratio

The debt/equity ratio is expressed as net debt in relation to shareholders' equity, including minority interest.

### Interest coverage rate

Interest coverage rate is calculated in conformity with the net method according to which operating profit is divided by net financial items.

### Operating cash flow

Operating cash flow includes the total of operating surplus,

change in working capital and pension liabilities, with deduction for current capital expenditures in property and plant and restructuring costs.

### Cash flow from operations

Cash flow from operations comprises operating cash flow less net financial items and tax payments and taking into account other financial cash flow.

### Strategic and current capital expenditures

Strategic capital expenditures are defined as major expansion investments and competitiveness enhancing investments in transitions to new technologies.

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

## MARGINS, ETC.

### Operating margin

Operating profit as a percentage of net sales.

### Net margin

Net earnings for the year as a percentage of net sales.

### Capital turnover

Net sales divided by average capital employed.

## RATES OF RETURN

### Return on capital employed

Return on capital employed is calculated for the Group and business groups as operating profit as a percentage of average capital employed.

### Return on shareholders' equity

Return on shareholders' equity is calculated for the Group as net earnings for the year as a percentage of average shareholders' equity.

## OTHER MEASUREMENTS

### Net worth per share

SCA calculates net worth per share based both on the total number of shares outstanding and the number of shares after full dilution.

### Earnings per share in SEK

Earnings per share is calculated after tax and full dilution as shown below:

|  | 1996         | 1995         |
|--|--------------|--------------|
| Net earnings for the year, SEK M                           | 2,117        | 3,464        |
| After-tax interest expenses<br>on convertible loans, SEK M | 3            | 6            |
| <b>Total, SEK M</b>  | <b>2,120</b> | <b>3,470</b> |
| Number of shares after full dilution<br>millions, average  | 197.6        | 197.6        |
| Earnings per share<br>after taxes and full dilution, SEK   | 10.71        | 17.55        |



# PRODUCTION CAPACITIES

Capacities are shown in 1,000 tons unless specified otherwise.

|                       | Mill                  | Country       | Tissue     | Corrugated board | Kraftliner | Testliner/Fluting | Newsprint  | SC paper   | LWC paper  | Uncoated fine paper | Coated fine paper | Market pulp <sup>3</sup> | CTMP pulp <sup>4</sup> | Total pulp and paper | Sawn timber (m <sup>3</sup> ) | Recovered paper <sup>5</sup> |  |
|-----------------------|-----------------------|---------------|------------|------------------|------------|-------------------|------------|------------|------------|---------------------|-------------------|--------------------------|------------------------|----------------------|-------------------------------|------------------------------|--|
| Hygiene Products      | Lilla Edet            | SWE           | 75         |                  |            |                   |            |            |            |                     |                   |                          |                        | 75                   |                               |                              |  |
|                       | Nättraby              | SWE           | 31         |                  |            |                   |            |            |            |                     |                   |                          |                        | 31                   |                               |                              |  |
|                       | Tillburg              | NL            | 32         |                  |            |                   |            |            |            |                     |                   |                          |                        | 32                   |                               |                              |  |
|                       | Friesland             | NL            | 25         |                  |            |                   |            |            |            |                     |                   |                          |                        | 25                   |                               |                              |  |
|                       | Croisset <sup>1</sup> | FRA           | 30         |                  |            |                   |            |            |            |                     |                   |                          |                        | 30                   |                               |                              |  |
|                       | Stembert              | BEL           | 56         |                  |            |                   |            |            |            |                     |                   |                          |                        | 56                   |                               |                              |  |
|                       | Le Theil              | FRA           | 50         |                  |            |                   |            |            |            |                     |                   |                          |                        | 50                   |                               |                              |  |
|                       | Roanne                | FRA           | 27         |                  |            |                   |            |            |            |                     |                   |                          |                        | 27                   |                               |                              |  |
|                       | Mannheim <sup>2</sup> | GER           | 250        |                  |            |                   |            |            |            |                     |                   |                          |                        | 250                  |                               |                              |  |
|                       | Mainz-Kostheim        | GER           | 94         |                  |            |                   |            |            |            |                     |                   |                          |                        | 94                   |                               |                              |  |
|                       | Ortmann               | AUT           | 105        |                  |            |                   |            |            |            |                     |                   |                          |                        | 105                  |                               |                              |  |
| Prudhoe               | UK                    | 80            |            |                  |            |                   |            |            |            |                     |                   |                          | 80                     |                      |                               |                              |  |
| Packaging             |                       | SWE           |            | 106              |            |                   |            |            |            |                     |                   |                          |                        | 106                  |                               |                              |  |
|                       |                       | UK            |            | 360              |            |                   |            |            |            |                     |                   |                          |                        | 360                  |                               |                              |  |
|                       |                       | FRA           |            | 136              |            |                   |            |            |            |                     |                   |                          |                        | 136                  |                               |                              |  |
|                       |                       | BeNeLux       |            | 273              |            |                   |            |            |            |                     |                   |                          |                        | 273                  |                               |                              |  |
|                       |                       | ITA           |            | 389              |            |                   |            |            |            |                     |                   |                          |                        | 389                  |                               |                              |  |
|                       |                       | TUR           |            | 47               |            |                   |            |            |            |                     |                   |                          |                        | 47                   |                               |                              |  |
|                       |                       | GER           |            | 418              |            |                   |            |            |            |                     |                   |                          |                        | 418                  |                               |                              |  |
|                       |                       | SCH           |            | 43               |            |                   |            |            |            |                     |                   |                          |                        | 43                   |                               |                              |  |
|                       |                       | Munksund      | SWE        |                  |            | 336               |            |            |            |                     |                   |                          |                        |                      | 336                           |                              |  |
|                       |                       | Obbola        | SWE        |                  |            | 306               | 70         |            |            |                     |                   |                          |                        |                      | 376                           |                              |  |
|                       |                       | Porcari       | ITA        |                  |            |                   | 310        |            |            |                     |                   |                          |                        |                      | 310                           |                              |  |
|                       |                       | Aylesford     | UK         |                  |            |                   | 225        |            |            |                     |                   |                          |                        |                      | 225                           |                              |  |
|                       |                       | Eerbeek       | NL         |                  |            |                   | 286        |            |            |                     |                   |                          |                        |                      | 286                           |                              |  |
|                       |                       | Selkasan      | TUR        |                  |            |                   | 58         |            |            |                     |                   |                          |                        |                      | 58                            |                              |  |
|                       |                       | Aschaffenburg | GER        |                  |            |                   | 265        |            |            |                     |                   |                          |                        |                      | 265                           |                              |  |
|                       | Witzenhausen          | GER           |            |                  |            | 270               |            |            |            |                     |                   |                          |                        | 270                  |                               |                              |  |
|                       | Redenfelden           | GER           |            |                  |            | 91                |            |            |            |                     |                   |                          |                        | 91                   |                               |                              |  |
|                       | Oftringen             | SCH           |            |                  |            | 54                |            |            |            |                     |                   |                          |                        | 54                   |                               |                              |  |
| Graphic Paper         | Ortviken              | SWE           |            |                  |            |                   | 335        |            | 410        |                     |                   |                          |                        | 745                  |                               |                              |  |
|                       | Wifsta                | SWE           |            |                  |            |                   |            |            |            | 140                 |                   |                          |                        | 140                  |                               |                              |  |
|                       | Östrand               | SWE           |            |                  |            |                   |            |            |            |                     |                   | 285                      | 80                     | 365                  |                               |                              |  |
|                       | Aylesford             | UK            |            |                  |            |                   | 370        |            |            |                     |                   |                          |                        | 370                  |                               |                              |  |
|                       | Laakirchen            | AUT           |            |                  |            |                   |            | 315        |            |                     |                   |                          |                        | 315                  |                               |                              |  |
|                       | Stockstadt            | GER           |            |                  |            |                   |            |            |            | 165                 | 180               | 55                       |                        | 400                  |                               |                              |  |
| Hallein               | AUT                   |               |            |                  |            |                   |            |            | 30         | 210                 | 50                |                          | 290                    |                      |                               |                              |  |
| SCA Forest and Timber | Tunadal               | SWE           |            |                  |            |                   |            |            |            |                     |                   |                          |                        |                      | 285                           |                              |  |
|                       | Lugnvik               | SWE           |            |                  |            |                   |            |            |            |                     |                   |                          |                        | 150                  |                               |                              |  |
|                       | Holmsund              | SWE           |            |                  |            |                   |            |            |            |                     |                   |                          |                        | 150                  |                               |                              |  |
|                       | Munksund              | SWE           |            |                  |            |                   |            |            |            |                     |                   |                          |                        | 145                  |                               |                              |  |
| SCA Recycling         |                       | AUT           |            |                  |            |                   |            |            |            |                     |                   |                          |                        |                      |                               | 226                          |  |
|                       |                       | FRA           |            |                  |            |                   |            |            |            |                     |                   |                          |                        |                      |                               | 54                           |  |
|                       |                       | GER           |            |                  |            |                   |            |            |            |                     |                   |                          |                        |                      |                               | 726                          |  |
|                       |                       | ITA           |            |                  |            |                   |            |            |            |                     |                   |                          |                        |                      |                               | 54                           |  |
|                       |                       | SWE           |            |                  |            |                   |            |            |            |                     |                   |                          |                        |                      |                               | 316                          |  |
|                       |                       | NL            |            |                  |            |                   |            |            |            |                     |                   |                          |                        |                      |                               | 402                          |  |
|                       |                       | TUR           |            |                  |            |                   |            |            |            |                     |                   |                          |                        |                      |                               | 53                           |  |
|                       | UK                    |               |            |                  |            |                   |            |            |            |                     |                   |                          |                        |                      | 740                           |                              |  |
| <b>Total</b>          |                       |               | <b>855</b> | <b>1,772</b>     | <b>642</b> | <b>1,629</b>      | <b>705</b> | <b>315</b> | <b>410</b> | <b>335</b>          | <b>390</b>        | <b>390</b>               | <b>80</b>              | <b>7,523</b>         | <b>730</b>                    | <b>2,571</b>                 |  |

<sup>1</sup> Including non-woven

<sup>2</sup> Including packaging paper

<sup>3</sup> Market pulp calculated as dry tonnage (BDMT)

<sup>4</sup> Consumed by Mölnlycke

<sup>5</sup> Controlled and traded

# ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders is being held on Monday, April 28, 1997 at 4:00 p.m. in the Congress Hall of Svenska Mässan, Mässans gata 7, Göteborg, Sweden.

## **Right to participate in the meeting**

To participate in the Meeting, shareholders must *be* on the SCA list of shareholders not later than Friday, April 18, 1997 *and* notify SCA of their intention to participate, not later than 4:00 p.m. on Wednesday, April 23, 1997.

## **Registration on shareholders' list**

The SCA list of shareholders is maintained by the Swedish Central Securities Depository (VPC). Stock may be registered either in the shareholder's name or in the name of a trustee.

To participate in the Meeting, shareholders whose stock has been registered in the names of trustees must arrange for their shares to be re-registered in their own names at VPC not later than Friday, April 18, 1997.

Trustees will help with the re-registration, usually for a modest fee.

## **Notice of intention to participate**

Notice can be given

- by telephone: +46-8 788 51 39,
- or by mail to:  
Svenska Cellulosa Aktiebolaget SCA  
Legal Affairs  
Box 7827  
SE-103 97 Stockholm, Sweden.

In providing such notice, a shareholder should state:

- the shareholder's name
- social security/organization number
- address and telephone number

## **Company tours**

As a shareholder in SCA, you are also welcome to visit:

- **Lilla Edet paper mill**  
Departure, 11:00 a.m. Coffee and sandwiches.  
*or*
- **SCA Mölnlycke's head office and Technical Centre**  
Departure 1:00 p.m.

Busses depart from the parking lot, Svenska Mässan Congress, Mässans gata 7, and are scheduled to return between 2:30 p.m. and 3:00 p.m.

Notice of intent to participate in the tours is the same as for the Annual General Meeting.

## **Payment of dividend**

Friday, May 2, 1997 is proposed as the record date for entitlement to dividends. Payment is expected to be made through VPC on Monday, May 12, 1997.

## **Nominating Committee for SCA's Board of Directors**

The Committee presents proposals on the composition of SCA's Board of Directors. Members: Bo Rydin (Chairman), Tom Hedelius, Clas Reuterskiöld and Lars H. Thunell. Address: SCA, Box 7827, SE-103 97 Stockholm, Sweden.



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