

Annual Report 1998

*Qualitative growth
and international expansion
for Hygiene Products and
Packaging*



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SCA in brief

SCA is an integrated paper company that produces absorbent hygiene products, corrugated packaging and graphic papers. Based on customer needs, value-added products are developed for private consumers, institutions, industry and trade.

Western Europe is SCA's main market, concurrent with selective expansion in Central and Eastern Europe as well as Asia and America.

SCA owns 1.8 million hectares of productive forest land and conducts sawmill operations. Wood fiber, which is harvested from the Swedish forest holdings, is an important raw material for the Group and contributes to SCA's high degree of integration. SCA is also Europe's largest collector and user of recovered paper. SCA uses equal quantities of recycled and fresh wood fibers in its production.

At the beginning of 1999, the number of employees amounted to slightly more than 32,000 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 US.



1998

SCA's cash flow from operations remained strong, totaling SEK 4,275 M. Accordingly, cash flow goals were achieved for the year.

Hygiene operations continues expansion, with strengthened positions in Europe and South America.

SCA Packaging increased profitability of European operations and acquired packaging companies in Great Britain, Denmark and the Czech Republic.

Higher demand for all paper grades improved operating profit for Graphic Paper by 109%.

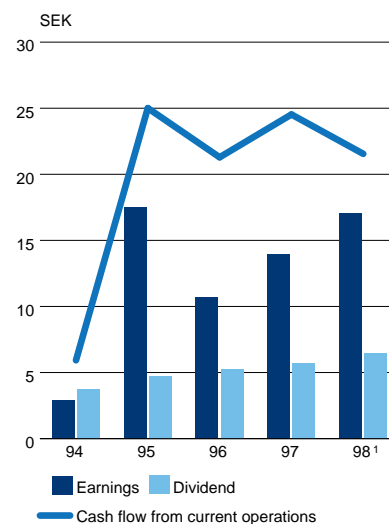
KEY RATIOS

	1998	1997
Net sales, SEK M	61,273	58,595
Earnings after financial items, SEK M	5,169	4,457
Earnings per share after tax, SEK	17.07	13.98
Cash flow from current operations, per share, SEK	21.57	24.54
Dividend, SEK	6.50 ¹	5.75
Strategic investments, incl. acquisitions, SEK M	5,041	4,414
Shareholders' equity, SEK M	28,404	24,653
Return on shareholders' equity, %	13	12
Debt/equity ratio, multiple	0.72	0.73
Average number of employees	32,082	33,399

¹ Board proposal

See page 73 for definitions.

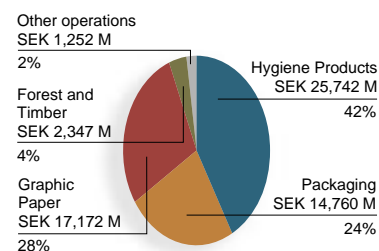
Earnings, dividend and cash flow per share



The Group's earnings capacity remains stable.

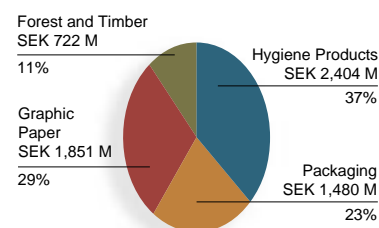
¹ Proposed dividend.

Net sales by business area 1998 (excluding intra-Group deliveries)



The Hygiene Products, Packaging and Graphic Paper business areas, jointly account for 94% of the Group's net sales.

Operating profit by business area 1998



Combined, the Hygiene Products, Packaging and Graphic Paper business areas account for 89% of the Group's operating profit.

President's letter

INCREASED PROFITABILITY AND EXPANSION

For SCA, 1998 was a year of both consolidation and expanded operations.

The merger during the year of the Group's hygiene products operations in a single business area and the measures taken to improve profitability in the corrugated board business were significant steps toward greater competitiveness. We also experienced a high rate of expansion in the Hygiene Products and Packaging business areas both through acquisitions and direct investments. Meanwhile, the rationalization of the Graphic Paper and industrial forestry operations continued. Product development has been assigned an increasingly prominent role in all sectors of operations, which has helped to strengthen the Group's market positions.

International growth was dampened by the financial crises. But the impact on SCA's operations has been limited up to now. Our product portfolio provides effective protection against the fluctuations that have occurred, primarily in the raw materials market.

The Group's net sales in 1998 amounted to SEK 61,273 M and income after financial items was SEK 5,169 M. The trend of earnings was distinctly positive in Packaging and Graphic Paper – notably in the case of publication papers. Hygiene Products met its yield targets despite pressure on prices in European markets.

The growth in volume for the Group as a whole amounted to 8 percent. Growth in the Hygiene Products sector amounted to a full 11 percent. The Group's operating surplus increased by 10 percent, exceeding the target figure of a 16-percent margin. The cash flow from operations amounted to SEK 4,275 M, clearly exceeding the long-term goal of SEK 3,200 M. Expansion investments amounted to SEK 5,041 M.

SCA share

The SCA share performed much better than the Stockholm Stock Exchange's Forest Index in 1998.

The long-term trend is shown in the chart on page 4, where the annual effective return on an investment in the SCA share since 1980 (based on the average share prices for the year) is shown for each year. As the chart shows, the return between 1997 and 1998 was 15 percent. The average return for the entire period was 15 percent and the return for the most recent five-year period 17 percent. Thus, SCA has created value for its shareholders well within the range anticipated in our objectives.

Increased profitability and expansion

Our strategy for the Hygiene Products and Packaging business areas is to increase the profitability of existing operations and to expand through acquisitions. Accordingly, active participa-

tion in the on-going consolidation of our industry in Europe, and expansion in such new markets as Central and Eastern Europe, Asia and Latin America have the highest priority.

A new, integrated operation was created in the hygiene sector through the merger of SCA Hygiene Paper and SCA Mölnlycke. The new organization gives us better opportunities to deal with the competition in Europe since we are better able to utilize the effects of synergies in production, distribution, product development and marketing. The network of strategic facilities that is being built up in the production field in Europe, in which each mill is concentrating its production on specific products – thereby making it possible to significantly improve efficiency – constitutes an important project. In Mannheim, we began installation during the year of a completely new production line for high-grade tissue to be sold in retail outlets under private labels. Production is scheduled to start during the summer of 1999.

The incontinence-care business continues to show strong growth in volume. Among other developments, SCA's positions in France and Finland were strengthened through acquisitions. Pant diapers for use in incontinence-care were launched in Europe. Products for light incontinence were introduced in the Italian and Spanish markets. We also began to sell incontinence products under our Tena brand in Mexico and a number of other Latin American countries.

The Svetogorsk tissue mill in Russia was acquired and SCA's holding in Productos Familia, the Colombian tissue company, was increased to 50 percent. The financial problems that have affected these regions are slowing the pace of SCA's operations in the short-term perspective but few observers question the strong potential growth in consumption over a somewhat longer term. Our operations in these regions are still limited. 2 percent of our total sales and 4 percent of our capital are in Russian, Asian and Latin American markets.

SCA's packaging sector has been actively engaged in a program to boost profitability in its present business. Briefly stated, the program is based on efforts throughout the business area to maximize sales margins by focusing on market segments with more sophisticated customer requirements, rather than by attempting to maximize volumes. In Germany, which is SCA's largest market for packaging, the action program is being carried out at the same time that costs are being reduced sharply, in part through cutbacks in personnel.

Meanwhile, SCA Packaging strengthened its positions in both Western and Central Europe through acquisitions that increased the business area's sales by SEK 900 M (or 6 percent). Just before the end of the year an agreement was reached with



*Sverker Martin-Löf,
President and Chief Executive Officer*

Rexam Plc covering the acquisition of the latter's packaging operations in the corrugated board field. This will strengthen SCA's already leading position in the Great Britain, increasing its share of that market from 13 to 21 percent, at the same time that attractive new segments are being opened up. The acquisition is in line with the strategy of participating actively in consolidation of the industry and increasing the Group's present total share of the market in Europe to at least 20 percent.

The work in SCA's forest products sector, which includes the Graphic Paper and Forest and Timber units, was focused on continuing fine-tuning measures. With very limited capital expenditures, SCA is implementing improvement and rationalization programs that have resulted in a substantial increase in earnings in the fine-paper segment, in recapturing the Group's position as the leading producer of SC paper, in continuing fine-tuning of LWC paper production, and in sharp improvements in operations of our sawmills in Munksund, Tunadal and Lugnvik.

Importance of raw materials

The proximity to high-grade raw materials – our own forest holdings – is a critical factor in all of SCA's operations. The Hygiene Products, Packaging and Graphic Paper business areas are extremely dependent on cost-effective production of both pulp and paper products. The nearby forest raw material is an important element in our cost situation and our emphasis on quality. The chart on the next page shows that income generated in the Swedish forest products sector is of major importance in determining the level of Group earnings. The consistent level of earnings in forest products operations are striking, while earnings in the paper and pulp operations vary sharply from year to year. However, the semifinished products from the latter operations are processed in the hygiene and packaging business areas.

SCA's employees – key to success

SCA's strategic focus imposes heavy demands on skilled and involved employees in all Group operations. Growth in value in the company is ultimately being created by all the employees, who should be able to share that growth. In 1998 all employees in ten countries were offered an opportunity to subscribe for convertible debentures and attached warrants as a way of becoming part-owners of SCA. Fortytwo percent of the employees – 12,000 persons – subscribed. I consider this to be a high percentage in a company like SCA which, as a result of acquisitions, is continuously acquiring a large number of employees who initially do not often know the company so well.

A new incentive system that is linked to SCA's cash-flow requirements and growth in value was offered to approximately 60 executives. The system is based on long-term growth in value of SCA shares relative to those of comparable companies, and on SCA's internal cash-flow objectives (see Note 28). We plan to develop this type of value-based bonus system to include all employees at all levels, which I believe will stimulate all of us in our daily work.

SCA – a part of Europe

Sweden and Swedish industry and commerce need a Swedish connection with the European Monetary Union. This is an important prerequisite for our continuing investments at home.

The greater part of SCA's operations and employees are in "EMU countries." For a company whose operations cover nearly all of Europe, but which is based in Sweden, Swedish membership in the EMU is highly desirable to facilitate trading in our shares and to create equal conditions for investors in different countries.

Environment

The environmental program is a priority, fully integrated part of SCA's operations. This is because our business concept places strong emphasis on the closed-cycle principle, which is natural since more than 90 percent of the company's products consist of renewable and recyclable materials. Environmental considerations are always involved at an early stage of decisions pertaining to development of new products or production processes.

SCA is working actively to obtain environmental certification of Group operations. Forestry operations were certified via the Forest Stewardship Council and ISO 14001. Before the end of the year 2000, all of the pulp and paper mills will be environmentally certified in accordance with the European and international ISO 14001 and EMAS standards.

Year 2000 problem

Ensuring that our data processing systems will function in the year 2000 has been a priority concern for some time. Our production facilities are highly modern and thus contain, in addition to EDP systems, a number of computer systems that control processes. Using systematic methods and checking programs, as well as independent audits, all systems are being aligned with the aim of ensuring that they will function during the shift to the new millennium.

Cash flow and dividend growth

Our operations are always keyed to the objective of giving our shareholders a competitive return on their investment. The strategy for creating growth in value is based on being able to use the cash flow from operations for dividends and for profitable strategic investments. These investments in turn create a growing cash flow that strengthens the base for consistent growth in dividends.

In conjunction with the Board's strategy review of the Group, the Board concluded that the current Group structure and earnings capacity supports a somewhat higher dividend level in 1998 in relation to reported shareholders' equity. The Board has proposed an increase in the dividend for 1998 of 13 percent.

Since the company was listed on the Stockholm Stock Exchange in 1950, SCA's dividend has been raised continuously or kept unchanged. Growth in the dividend during the most recent five-year period, including the dividend proposed for 1998, has amounted to 14 percent. The dividend today is equal to approximately 4.9 percent of the shareholders' equity's book value.

Outlook for 1999

Development in 1999 is difficult to assess, but the relative stability of economic growth in Europe and the US provides some cause for optimism.

Volume growth for SCA products in 1998 was strong while price pressure in virtually all areas occurred. Competitive pricing was also noted for both raw materials and finished products. Raw materials, however, were also affected by surplus supply caused by the financial crises in Asia and Latin America, while price pressure on finished products was caused by low inflation and competition in Europe.

Prices for hygiene products at year-end 1998 were 1–3 percent lower than average prices for the year. Pulp prices also declined, which compensated for most effects of lower prices for

finished products during the fourth quarter. Internal programs to improve productivity will be intensified in 1999 and are expected to gradually improve margins by 2 percentage points over the next two years. Demand is expected to remain strong, and determined efforts will be made to restore higher prices.

In the Packaging business area, the prices for corrugated board were relatively stable toward year-end but at the beginning of 1999 volumes were weaker and prices were under pressure. Prices at the beginning of 1999 were 2 percent lower than the average in 1998. Prices for both kraftliner and testliner declined toward year-end and, in the beginning of 1999, were about 5 percent below average prices in 1998. An increase of 15 percent in the price of kraftliner has been announced by North American producers. Conditions for a price increase in Europe during the second quarter are considered good.

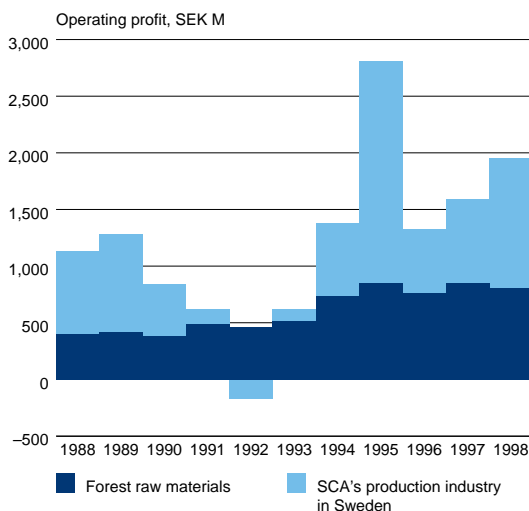
Within the Graphic Paper business area, price uncertainty prevails. The price situation for SC paper is projected to remain stable, while newsprint and LWC are facing price pressure. The price of LWC paper in the beginning of 1999 was about 3 percent below the average price in 1998. Demand for coated fine papers in sheets is strong, but prices in the beginning of 1999 were about 5 percent below average prices in 1998. Pulp prices appear to have hit bottom.

A number of strategic acquisitions and expansion investments were carried out in 1998. These investments will generate increased cash flow. Accordingly, the cash flow goal for 1999 was adjusted upward to SEK 7.0 billion (operating cash flow) and SEK 3.8 billion (cash flow from current operations). This is also described in "Business control and financial goals" on page 6.

Stockholm, 19 February 1999

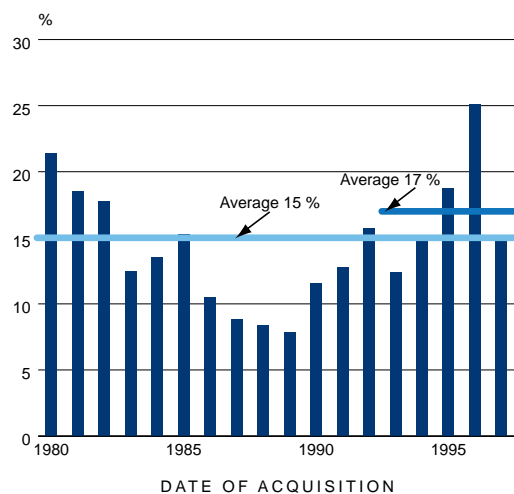
Sverker Martin-Löf
President and Chief Executive Officer

Importance of forest raw material to SCA's competitiveness (Sweden)



The forest operations are of major importance for SCA's cost situation and quality orientation. The stable earnings level of the forest operations over time also offset the more varying earnings of the Swedish industry, primarily within Packaging and Graphic Paper.

Effective return on the SCA share based on time held and average share prices



The diagram illustrates the annual effective return, through 1998, based on the date of acquisition of the SCA share. For example, if the SCA share was purchased in 1996, the effective return through 1998 amounted to 25%. Effective return is defined as the share's appreciation in value and the annual dividend being continually reinvested in SCA shares.

The horizontal lines show that the average over the entire period is 15% and 17% for the past five years.

Business concept

SCA's business concept is to offer the market high-quality hygiene products, corrugated packaging and graphic papers.

SCA's customers are private consumers (sales through retail outlets), institutions, industry and the retail trade. Based on SCA's knowledge about customer needs and the properties of paper materials, products are developed and adapted to meet needs in terms of moisture absorption (hygiene products), strength (packaging) and quality printing surfaces (graphic paper and packaging).

SCA's products and services shall provide institutions and companies with enhanced product quality, reliability, productivity and profitability, while also enhancing the quality of life for end-users.

The business concept is focused strongly on minimizing the consumption of natural resources. More than 90% of the company's products consists of renewable and recyclable materials. SCA uses equal quantities of recycled fibers and fresh wood fibers in production.

Objectives

SCA shall further secure its leading position on the European market and maximize profitability based on the integrated industrial operations and structure. The company will continue to expand operations in Eastern and Central Europe and develop market positions in Asia and America in such rapid-

growth areas as tissue, incontinence and feminine hygiene products and packaging.

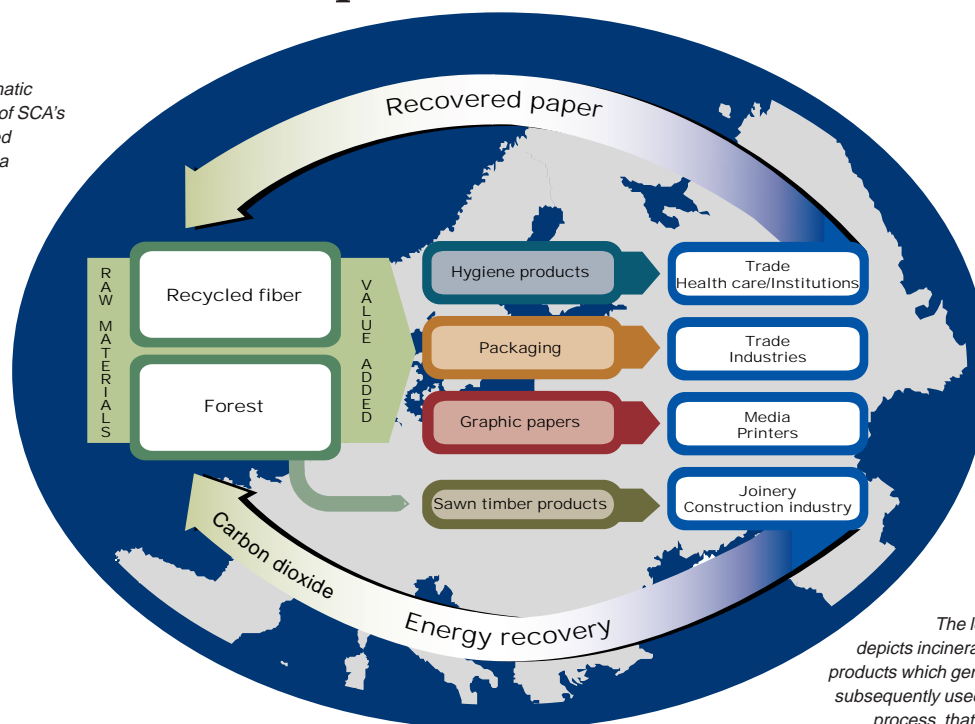
Strategy

SCA's strategy is to pursue active product development, which is aligned with customer needs, to increase its range of high value-added products to secure a leading market position, particularly within the hygiene products and packaging operations. This strategy lays the foundation for satisfactory and sustained profitability. Demands on SCA's profitability (also see "Business control and financial objectives," page 6), combined with its business concept, form the base of the Group's business strategy.

A key element in this strategy is SCA's integrated industrial structure which creates competitive advantages such as high product quality and low production costs. The structure provides valuable synergies, for example, optimal utilization of such raw materials as fresh wood fiber and recycled fiber, coordinated purchasing of raw materials and energy, joint transport solutions and sales channels, the concentration of resources in R&D and a holistic view with regard to the environment and other issues.

The SCA closed loop

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.



The lower arrow, energy recovery, depicts incineration of used wood and paper products which generates carbon dioxide that is subsequently used in the tree's photosynthesis process, that is, the regrowth of the forest.

Business control and financial goals*

The Group objective is to provide SCA's shareholders with good growth in value and a high level of dividends.

To meet this objective, SCA has developed calculation methods based on cash flows, by means of which the earnings capacity and long-term profitability of the business can be evaluated continuously.

The objective is to give SCA's shareholders a return on investment that is competitive within the forest products industry. Up to now, the return on market value of SCA's shares has been set at between 13% and 15% per year over an economic cycle. This objective requires that the Company maintains a stable and increasing cash flow – high earning capacity – and that it be financially stable. The level for the capital return requirement varies, however, depending on the long-term trend of nominal risk-free interest rates and the Company's risk profile.

Nominal interest rates have dropped parallel with declining inflation. As a result, the stock market's yield requirements have also been adjusted. To adapt more effectively to varying levels of nominal interest rates, the goal for a return on the market value of SCA's shares is now expressed as the sum of the long-term risk-free interest rate (at year-end 1998 about 4%) and a risk premium of 6%. The level of risk premium is adapted to the Company-specific risk, calculated in beta values (see SCA share data, page 9). If, over an extended period, SCA's beta value deviates significantly from the market average (that is, if it deviates significantly from 1.0), the risk premium should be changed to a corresponding degree.

During 1999, SCA will introduce an incentive program that reflects the Group's ambition to provide a good return on SCA shares. The program will be fully activated only if the return on

SCA's shares exceeds the trend for comparable companies. (See Note 28).

Business control

SCA uses a method based on cash flow to control the Group's business operations. In accordance with this method, Cash Value Added (CVA), each business unit is assigned an annual cash flow requirement based on the present value of strategic investments, the economic life and the return that each unit should generate. Comparable requirements are imposed on new strategic investments in acquisitions of companies and property, plant and equipment. Under this method, for example, a specific investment will not be made if it does not meet the requirements. To achieve value-added growth for the shareholders, SCA is channeling the expansion of its business toward areas that are believed to offer the greatest surplus, Cash Value Added.

In practice this means that SCA is making increased resources available to the Hygiene Products and Packaging business areas to enable them to expand and make acquisitions. Growth in demand for these products in Europe and other parts of the world is expected to be favorable during the years ahead.

Key ratios and financial goals

Key ratios are reported excluding nonrecurring items through 1995.

The cash flow measurement is reported from the date of the PWA acquisition (1995).

	Result					Average result	Goal/Req.	
	1994	1995	1996	1997	1998	5 yrs	1998	1999
Cash flow								
Operating cash flow (SEK billion)		6.6	5.8	6.5	7.0	6.5 ¹	6.4	7.0
Cash flow from current operations (SEK billion)		4.9	4.2	4.9	4.3	4.6 ¹	3.2	3.8
Rates of return								
Capital employed (%)	10	15	11	12	14	12	13 ²	12 ²
Shareholders' equity (%)	7	16	10	12	13	12	12 ²	11 ²
Financial measurements³								
Debt/equity ratio (multiple)	0.6	0.8	0.8	0.9	0.8	0.8	0.7	0.7
Market-adjusted debt/equity ratio (multiple)	0.5	0.8	0.7	0.6	0.7	0.7	–	–
Debt payment capacity (%)	32	31	30	33	32	32	35	35

¹ Average value pertains to 1995–98.

² Requirement adjusted to current interest and inflation levels.

³ Net debt includes pension liabilities.

* See page 73 for definitions of key ratios.

SCA's Graphic Paper and Forest and Timber business areas are "well invested" today and occupy adequately advanced positions in Europe. Accordingly, the cash surpluses from these sectors of the Group will for a time be used for strategic investments to expand the hygiene products and packaging operations.

Cash flow and dividend

Prior to 1999, SCA raised its target for long-term operating cash flow from SEK 6.4 billion to SEK 7.0 billion. Of the increase amounting to SEK 660 M, SEK 575 M is attributable to strategic investments made in 1998 that are designed to increase the operating cash flow. The remaining SEK 85 M consists of compensation for anticipated inflation. After deduction for financial items and tax expenses, the goal for cash flow from current operations is SEK 3.8 billion.

The cash flow from current operations can be used for dividends and strategic investments. If, over the long term, the cash flow from current operations exceeds the amount that can be applied to make profitable strategic investments, the dividend portion will be increased. SCA's long-term ambition for its cash flow is to have nominal growth of slightly less than 10% per year.

Risk profile

The risk profile consists of operating risk and financial risk. Operating risk, which consists of variations in SCA's earning capacity, is being reduced through the ongoing rebalancing toward a higher percentage of operations that are less sensitive to fluctuations in the economy. Financial risk may be expressed as the ratio between net debt and the value of shareholders'

equity, for example. The level of net debt is established taking into account that SCA's total risk profile should provide financial freedom of action and a favorable negotiating position for purposes of borrowing.

SCA's net debt, including pension obligations, should amount to approximately 0.7 times reported shareholders' equity. However, the market value of shareholders' equity (capitalization value) is higher than book value, which from a shareholder's perspective, results in a lower debt/equity ratio.

As part of SCA's focus on cash flow, the interest-coverage ratio will no longer be used as a supplementary measurement of financial risk. Instead, debt payment capacity (cash earnings relative to net debt) will be used to express SCA's ability to repay loans. The objective is that cash earnings should amount to at least 35% of net debt. This would mean that it should be possible to amortize net debt over a period of three years (assuming that no investments are made.)

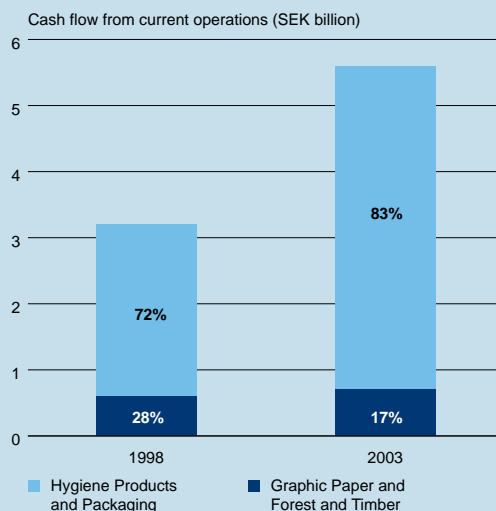
Both of these objectives are measured over an economic cycle and should be permitted to vary somewhat – in connection with major acquisitions, for example. The variation should be in the range of 0.7 to 1.0 times the debt/equity ratio and should amount to between 30% and 35% of the Group's ability to repay debt.

Yield requirements

With the target debt/equity ratio and present levels of interest rates and taxes, the calculated yield requirement for 1998 on shareholders' equity amounts to at least 12%, with a corresponding requirement of a 13% return on capital employed. The requirement for 1999 is 11% on equity and 12% on capital employed. SCA intends to exceed these levels.

SCA's plan for rebalancing the Group

Strategic investments within Hygiene Products and Packaging are expected to generate increased cash flow in the future. The goal is from 1998 when SCA's five-year plan for cash flow from current operations was determined.



As a result of the strategic investments within Hygiene Products and Packaging, these business areas grow faster than Graphic Paper and Forest and Timber in the years ahead. In addition to future cash flows for the Group, the strategic investments result in a distinct rebalancing toward a greater share of hygiene products and packaging operations within the SCA Group.

SCA share

The effective return on the SCA share during 1998 amounted to 2%. Comparing the average prices in 1997 with 1998, the SCA share price rose 15%.

Public trading in SCA shares

Trading in SCA shares is concentrated on the exchanges in Stockholm (A and B shares) and London (B shares). In addition, there is a Level 1 ADR (American Depositary Receipt) program in the US, which was established in 1995. In addition to the indexes directly linked to the Stockholm and London exchanges, SCA is included in other indexes, such as the Dow Jones Global Indexes, FTSE Eurotop 300 and Morgan Stanley Company Index Europe (MSCI-Europe).

In 1998, volume traded in SCA shares on the Stockholm Stock exchange was about 76 million shares (69), corresponding to a value of SEK 15 billion. The number of shares traded corresponded to 39% (35) of the total number of shares at year-end. The trading volume on the SEAQ International in London was 36 million shares (36) based on available statistics. The number of shares traded corresponded to about 18% (18) of the total number of shares outstanding at year-end.

Share trend in 1998

The price of the SCA B share fell 1% in 1998, which was better than the Affärsvärlden Forest Index for the Stockholm Stock Exchange (-16%) but lower than the Affärsvärlden General Index, which rose by 11%. The FTSE-100 London stock exchange index rose by 15%. The last-paid price at year-end 1998 on the Stockholm Stock Exchange was SEK 177, corresponding to a market capitalization of about SEK 35 billion virtually unchanged since 1997.

The SCA share rose sharply during the first four months and then fell in conjunction with general decline on stock exchanges worldwide. The price recovered somewhat during December.

The lowest price for the B share was SEK 145 on 10 August 1998, and the highest price was recorded on 17 April at SEK 237, corresponding to a market capitalization of about SEK 47 billion. Historically, this was an all-time high for the SCA share.

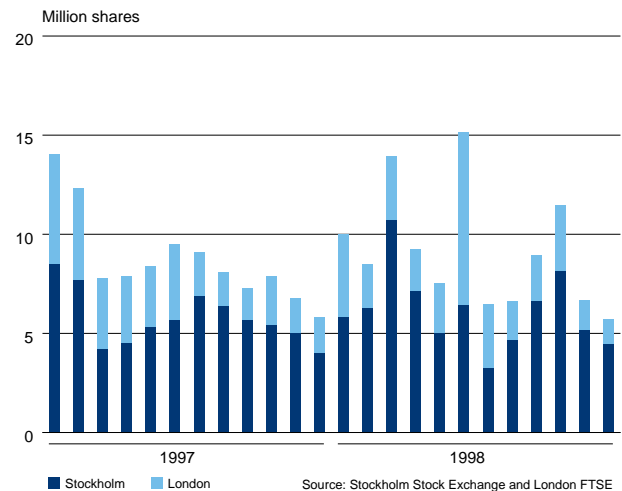
Net export of SCA shares amounted to SEK 1,114 M, compared with net exports of SEK 202 M in 1997 (pertains to Jan.–Nov. in both years). Foreign ownership represented 24% of shareholders' equity, an increase of 4 percentage points compared with 1997. Foreign ownership interests in SCA have more than doubled over the past five years.

International stock market review					
Change in 1998, %			Change in 1998, %		
Market	Index		Paper/Forest index		
Stockholm	Affärsvärlden	+11	Affärsvärlden Index	-16	
Helsinki	HEX-Index	+68	HEX-Forest Index	+17	
London	FTSE-100	+15	FT Packaging Paper	-31	
New York	S&P 500 Composite	+27	S&P Paper Forest	0	

ADR program in the US

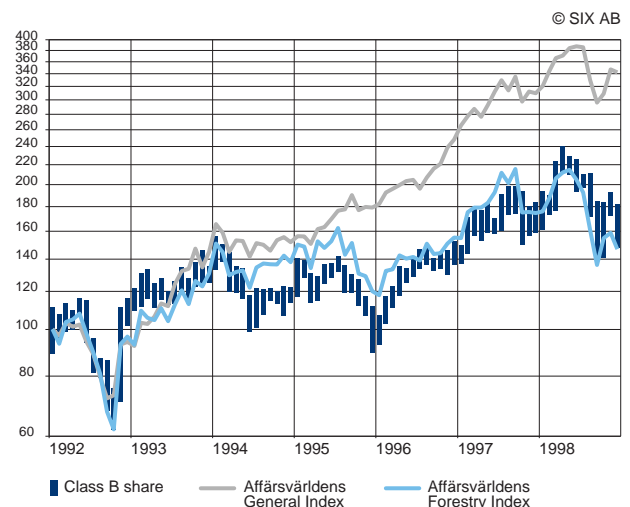
In order to make the SCA share more readily available to American investors, SCA established a Level 1 ADR Program in the US in December, 1995. This means that B shares are available as depositary receipts in the US without any formal stock exchange registration. These receipts, which are listed in US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

Share trading



The average turnover in 1998 was 9 million shares per month.

Price trend



SCA's B declined 1% during 1998. On 17 April, SCA's B share was quoted to SEK 237, the all-time-high for the share.

Data per share

All earnings figures include nonrecurring items.

SEK per share unless otherwise noted	1998	1997	1996	1995	1994
Earnings per share after full tax:					
After full conversion	17.07	13.98	10.71	17.55	2.94
Before full conversion	17.12	13.98	10.71	17.55	2.86
Quotation for Class B shares:					
Average quotation	190.00	169.20	127.70	125.20	123.80
Year-end quotation	177.00	178.50	138.50	103.00	116.50
Cash flow from current operations ¹	21.57	24.54	21.30	25.02	5.94
Dividend	6.50 ²	5.75	5.25	4.75	3.75
Dividend growth rate, % ³	14	13	11	9	6
Direct return, %	3.7	3.2	3.8	4.6	3.2
P/E ratio ⁴	10	13	13	6	40
Price/EBIT ⁵	9	10	11	6	19
Beta value ⁶	0.94	0.93	0.95	1.19	1.15
Pay-out ratio before dilution, %	38 ²	41	49	27	131
Shareholders' equity	144	125	116	112	101
Net worth	204	181	165	153	135
Shareholders' equity after full conversion and new subscription	143	125	116	111	99
Net worth after full conversion and new subscription	204	181	165	153	134
Number of registered shares, 31 December (in million)	197.4	197.4	197.4	197.4	194.0
Number of shares after full conversion (in million)	198.9	197.6	197.6	197.6	197.7

1) See definitions of key financial ratios on page 73.

2) Board proposal.

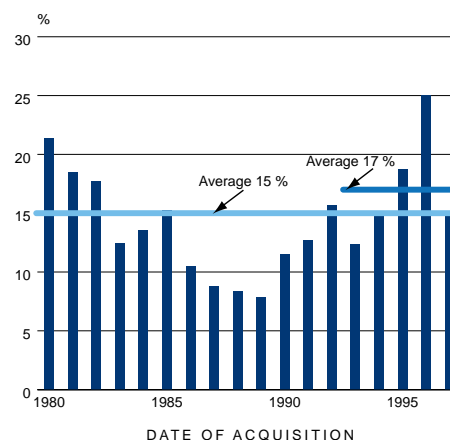
3) Five-year rolling total.

4) Year-end quotation divided by earnings per share after full tax and full conversion.

5) Market value plus net debt and minority interest divided by operating profit (EBIT = earnings before interest and taxes).

6) Change in share price compared with overall market (based on 48-month rolling total).

Effective return on the SCA share based on time held and average share prices



The diagram illustrates the annual effective return, through 1998, based on the date of acquisition of the SCA share. For example, if the SCA share was purchased in 1996, the effective return through 1998 amounted to 25%. Effective return is defined as the share's appreciation in value and the annual dividend being continually reinvested in SCA shares.

The horizontal lines show that the average over the entire period is 15% and 17% for the past five years.

Percent of foreign ownership

1994	1995	1996	1997	1998
11%	12%	16%	20%	24%

During the past five years, foreign ownership in SCA more than doubled.

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 30 November 1998, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights. Approximately 65% (69) of the share capital was owned by Swedish institutions and about 24% (20) by foreign nominees.

	No. of votes	Interest %	No. of shares	Interest %
AB Industrivärden	182,457,000	24.1	18,369,000	9.3
AB Custos	152,035,910	20.1	15,203,591	7.7
SHB*	74,889,600	9.9	10,172,400	5.2
Fjärde AP-Fonden	44,902,478	5.9	14,480,084	7.3
SEB	37,657,040	5.0	7,811,447	4.0
Femte AP-Fonden	29,050,000	3.8	2,950,000	1.5
Nordbanken	17,012,940	2.2	8,592,108	4.4
Skandia	15,521,035	2.1	4,825,525	2.4
SPP	10,802,496	1.4	7,433,238	3.8
AMF	10,012,980	1.3	8,232,357	4.2

* Handelsbankens Pensionsstiftelse, Oktogonen, Handelsbankens Personalstiftelse, Handelsbankens Fonder.

Source: VPC AB

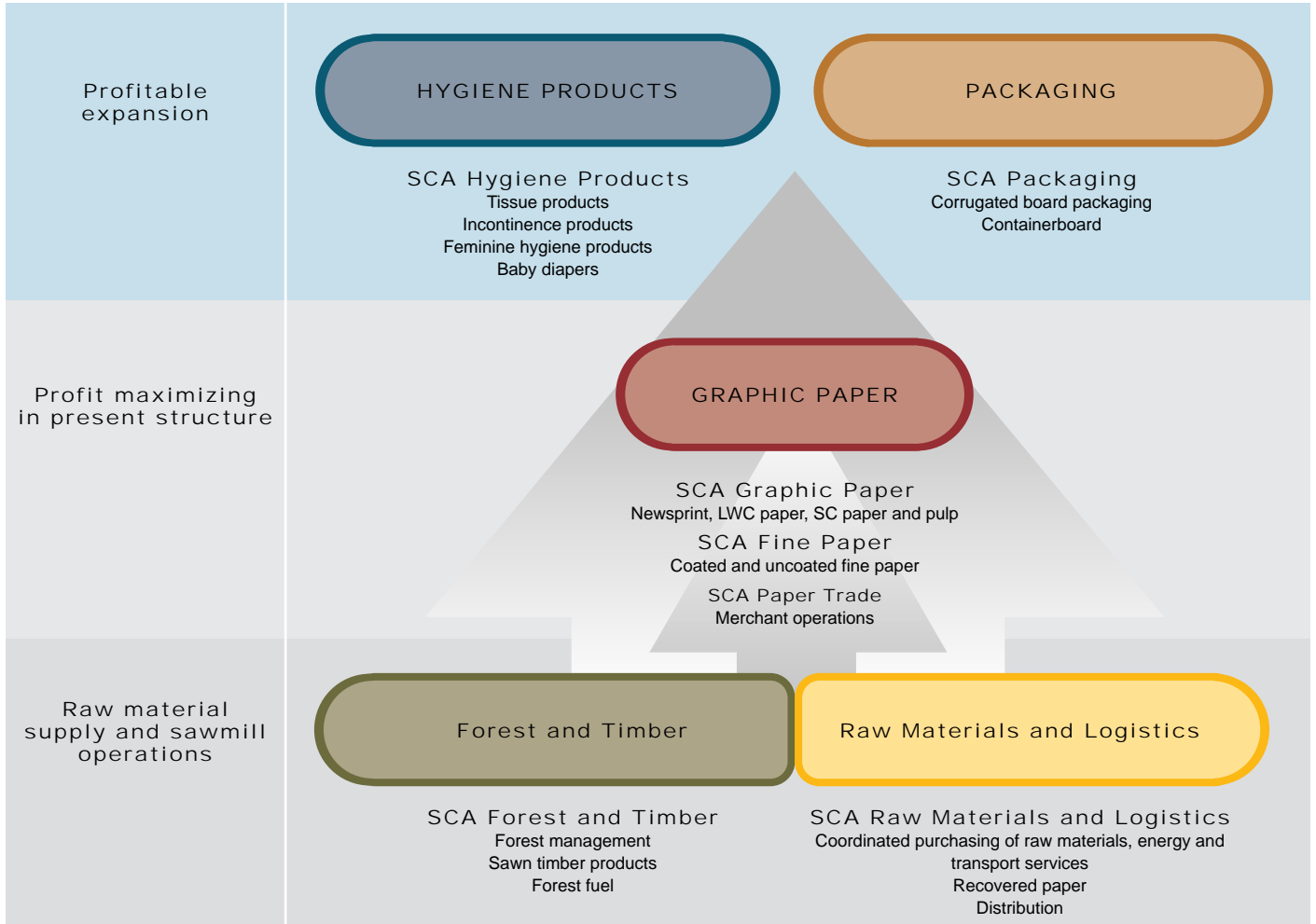
Ownership structure

Shareholding	No. of shares		No. of share-holders		No. of votes	
		%		%		%
1-500	6,627,587	3.4	38,030	75.1	18,713,597	2.5
501-1,000	4,869,740	2.5	6,408	12.7	13,611,548	1.8
1,001-2,000	4,835,429	2.4	3,305	6.5	14,598,827	1.9
2,001-5,000	5,660,781	2.9	1,780	3.5	16,312,029	2.2
5,001-10,000	3,414,044	1.7	467	0.9	8,343,299	1.1
10,001-20,000	3,314,914	1.7	230	0.5	7,083,844	0.9
20,001-50,000	4,768,519	2.4	149	0.3	11,711,902	1.5
50,001-100,000	5,704,820	2.9	83	0.2	10,556,945	1.4
100,001-	158,204,101	80.1	165	0.3	655,780,864	86.7
Total	197,399,935		50,617		756,712,855	

Source: VPC AB

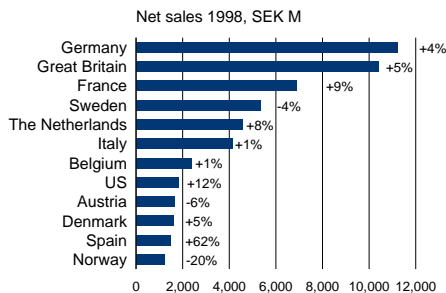
Organization, products and markets

STRATEGY



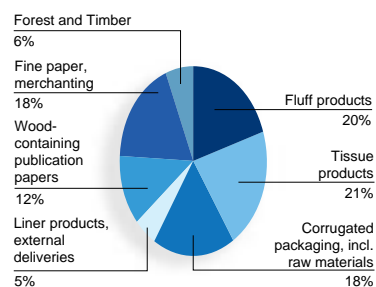
SCA's business concept, strategy and organization are based on vertical integration to capitalize on synergies, from raw materials to end-products, thereby maximizing SCA's earnings in each area of operations and for the Group as a whole.

Group's 12 largest markets



SCA's 12 largest markets in 1998 accounted for 86% of the Group's net sales.
(Percentage indicates change compared with 1997)

Net sales by product group 1998



SCA's hygiene products account for 41% of the Group's net sales.

Operations in brief 1998

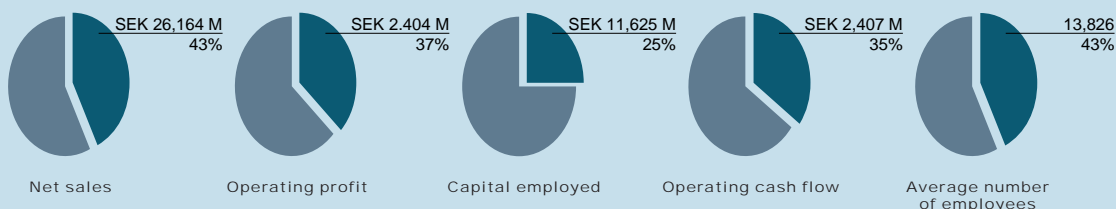
Group total¹

SEK 61,273 M	SEK 6,428 M	SEK 47,401 M	SEK 6,970 M	32,082
Net sales	Operating profit	Average capital employed	Operating cash flow	Average number of employees

HYGIENE PRODUCTS

Pages 12–17

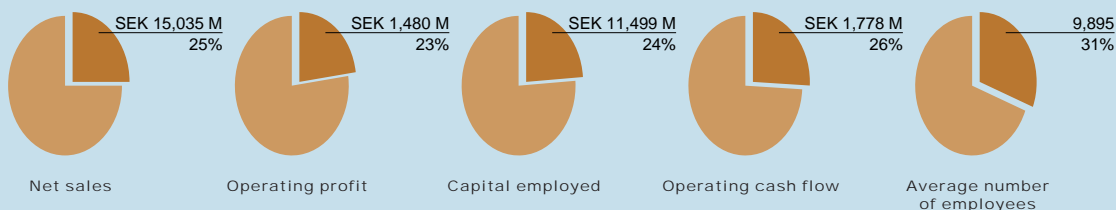
Share of Group total



PACKAGING

Pages 18–23

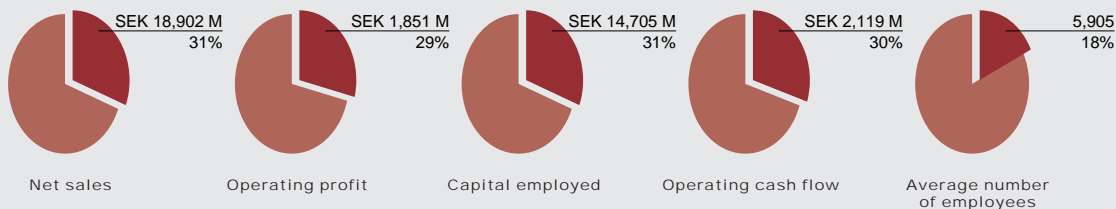
Share of Group total



GRAPHIC PAPER

Pages 24–27

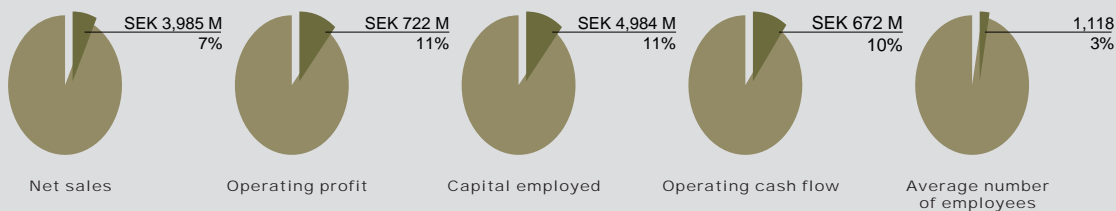
Share of Group total



Forest and Timber

Pages 28–29

Share of Group total



Raw Materials and Logistics

Page 30

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

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

Hygiene Products

GLOBAL EXPANSION

SCA is strengthening its positions in Europe and South America.

The financial uneasiness throughout the world

has created opportunities for acquisitions

with favorable long-term potential.



Key ratios	1998	Group share %	1997
Net sales (SEK M)	26,164	43	24,018
Operating profit (SEK M)	2,404	37	2,567
Operating margin (%)	9		11
Operating cash flow (SEK M)	2,407	35	2,722
Capital employed excl. goodwill (SEK M)	11,625	25	11,317
Return (%)	21		23
Capital expenditures (SEK M)			
– strategic	1,617	72	352
– current	604	29	684
Average no. of employees	13,826	43	14,942

Production capacities shown on page 75.

Net sales and number of employees	Net sales, SEK M		No. of employees 31 Dec. 1998
	1998	1997	
Tissue			
Consumer products	7,683	6,949	} 6,741
AFH products	4,472	4,125	
Incontinence products	6,155	5,679	} 2,219
Baby diapers	3,801	3,595	
Feminine hygiene products	2,760	2,910	} 3,618
Other	1,293	760	
Total	26,164	24,018	14,081

Deliveries, tons	1998	1997	Change
			%
Tissue			
Consumer products	565,400	485,800	16
AFH products	251,900	228,200	10

PRODUCTION FACILITIES

Tissue


Production of tissue paper for consumer and institutional applications in Austria, Belgium, France, Germany, Great Britain, the Netherlands, Philippines, Russia, Spain, Sweden and US as well as joint-venture companies in Colombia and Ecuador.

Incontinence products

Production of incontinence products for adults in Canada, Finland, France, Great Britain, the Netherlands, Sweden and US, as well as joint-venture companies in Australia, Colombia, Japan and Taiwan.

Baby diapers and feminine hygiene products

Production of baby diapers and feminine hygiene products (sanitary pads, panty liners and tampons) in Finland, France, Greece, the Netherlands, Norway, Poland, Slovakia and Sweden, as well as joint-venture companies in Australia, Colombia, Mexico, South Africa and Tunisia.



Tork is a complete system of various products for good hygiene in public rest rooms and commercial kitchens, at work and in public facilities.

The Hygiene Products business area is one of Europe's leading manufacturers of tissue and fluff products for personal hygiene and other applications. The tissue products include kitchen towels and toilet paper, handkerchiefs and napkins. The range also includes tissue for personal hygiene and for wiping and cleaning applications in industry, commercial companies, hotels, restaurants and institutions – known as the Away From Home (AFH) market. The fluff products comprise incontinence products, feminine hygiene products and baby diapers. The business area's customer groups consist of the retail trade (sales to private consumers), the AFH market and the market for incontinence products.

SCA is continuously launching new products as a means of strengthening its competitiveness. To meet market demand, SCA sells products under its own brands as well as under private labels – retailers' brands.

The business area has sales in more than 40 countries, with Europe being its principal market. SCA is a world leader in incontinence products and is Europe's second-largest supplier of tissue.

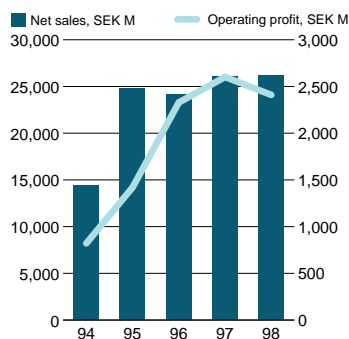
Operating profit for the year declined somewhat to SEK 2,404 M due to declining product prices, increased costs for product launches and research and development. However, net sales rose 9%. Operating cash flow amounted to SEK 2.407 M.

MARKET

The world market for absorbent hygiene products amounts to nearly SEK 400 billion in the production chain, of which Europe accounts for one third.

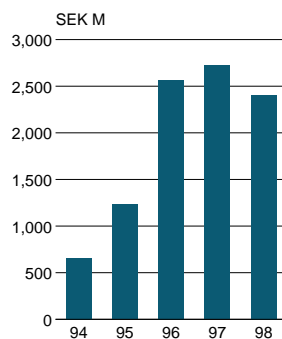
Sales of tissue and fluff products in Europe amount to approximately SEK 65 billion and SEK 55 billion, respectively. The growth for tissue products amounts to approximately 3%

Net sales and operating profit



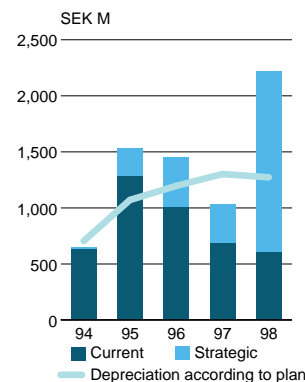
Operating profit declined to SEK 2,404 M.

Operating cash flow



After the acquisition of PWA in 1995, cash flow has reached a stable level.

Capital expenditures



Strategic capital expenditures within the prioritized business area Hygiene Products have risen sharply.

annually. Among the fluff products, there is a strong 10% growth in incontinence products. Sales of baby diapers are rising sharply in Central and Eastern Europe, while demand is increasing only slightly in Western Europe. The same situation applies in the case of feminine hygiene products.

Such American producers of hygiene products as Procter & Gamble and Kimberly-Clark market their products mainly under their own brands. Fort James, like SCA, sells its products under its own brands and under retailers' private labels. (See diagram on page 17). New, higher-quality products are being introduced continuously and constitute an increasingly important competitive weapon.

Up to now the financial uneasiness throughout the world has had a limited impact on sales of hygiene products. Demand in Russia has declined, however, while markets in Asia and South America are relatively unaffected. The growth in sales of hygiene products in these less developed markets is expected to be substantial in the future.

Retail trade

Sales to consumers in Europe of such hygiene products as tissue and feminine hygiene items, as well as baby diapers, are made to a large extent via retailers. Equal amounts of tissue products are sold under the manufacturers' brands and the brands (private labels) of retailers. Private labels account for 20% of the sales of baby diapers and feminine hygiene products. The total retail market is valued at SEK 90 billion. Growth is relatively slow, approximately 2% per year.

A concentration and internationalization is taking place among the retail chains. The chains have a growing interest in selling high-quality hygiene products under private labels.

The retail trade outside Europe and the United States is more fragmented. Brand name products are showing strong growth in these areas.

AFH market

The principal items sold in the AFH market are tissue products used in industrial and commercial companies, hotels and restaurants, health-care institutions and other public establishments. These products are distributed via wholesalers and service companies or directly to individual customers. The market in Europe is valued at approximately SEK 25 billion. The growth amounts to approximately 3% per year.

Hand wiping products, along with toilet paper, are the dominant products. The tissue products for hand wiping are taking market shares from other drying systems such as those employing hot air and textile hand towels.

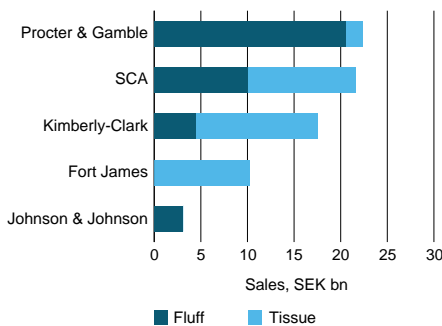
Important competitive advantages include offering customers a complete concept of installation-ready paper products (paper and holder, etc.) along with good service and rapid deliveries.

Market for incontinence products

Incontinence products used in health care and nursing facilities are distributed directly to hospitals and nursing homes, as well as via pharmacies or the retail trade, depending on the health insurance system in the individual country. The products provide protection for light and heavy incontinence.

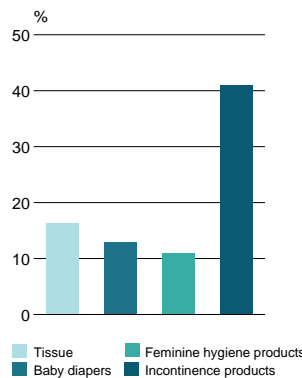
Sales in the markets in Western Europe and North America amount to approximately SEK 10 billion in each region. The growth, on average, amounts to between 8% and 10% per year. Growth in regions of Southeast Asia and South America is higher. In Western Europe, sales of products for light incontinence are being made through more and more channels and the annual growth amounts to 20%. The total potential throughout the world is substantial, since only 20% of all persons who need help are using, or have access to, incontinence products.

Tissue and fluff products
Competitors - Europe



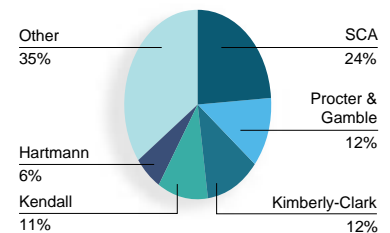
There are a limited number of players in the European fluff and tissue industry.

Tissue and fluff products
SCA's market shares - Europe



SCA strengthened its market position within several product areas in Europe.

Incontinence products
Market shares - the world



SCA has strengthened its position as the world's leading supplier of incontinence products.

SCA'S STRATEGY AND MARKET POSITION

Through organic growth and acquisitions, SCA will strengthen its position as one of Europe's leading manufacturers of hygiene products. Expansion will take place in such markets as Southern Europe, Central and Eastern Europe, as well as in Latin America and Southeast Asia, when favorable opportunities arise for acquisitions and joint ventures. The goal is to increase both sales and cash flow by 12% per year.

Comprehensive and continuous product development, low production costs and the ability to offer the market both SCA brands and private labels are key elements in the Group's strategy. The market for AFH and incontinence products is a priority customer segment.

SCA's average share of the market for hygiene products in Europe in 1998 amounted to approximately 20%. SCA has its strongest positions in northern and central areas of Western Europe.

Up to now, SCA's sales in Asia and Latin America have not been affected to any larger extent by the financial uneasiness throughout the world. Export sales to Russia have declined. However, SCA is still in the build-up phase of operations in these regions and sales there amount to 4% of total turnover.

The rationalization of existing mills is continuing and production is being concentrated to certain strategic mills.

A new tissue machine was built during the year in Mannheim and will be completed during the summer of 1999. Kitchen towel rolls and handkerchiefs will be produced with new converting facilities. Production of tissue was also increased in Poland, where a converting plant was installed.

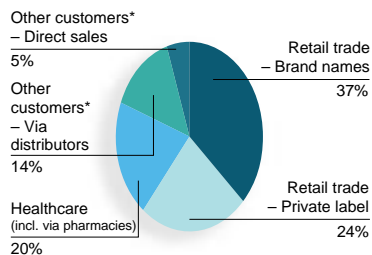
Production capacity was expanded in the Netherlands to meet rising demand for SCA's pant diaper, a product area in which the company is a clear market leader.

A large number of new data systems have been developed to support daily operations. For example, customers can order products directly from SCA via a data connection. SCA has also developed a new data system for following up and evaluating sales campaigns.

Zewa's Softis is Europe's next highest selling paper handkerchief. The tissue is extremely soft and the packaging can be resealed.



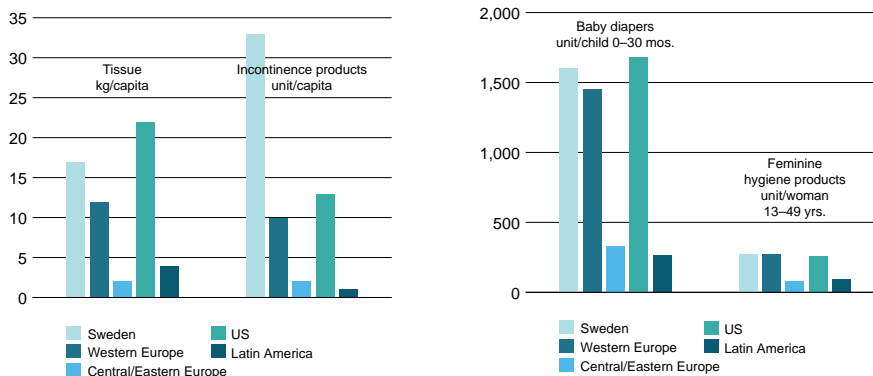
Tissue and fluff products
Sales by customer segment
- Europe



* Industry, hotel and restaurant, service companies, public sector.

Retail trade is the dominant customer segment for SCA's hygiene products in Europe.

Annual per capita consumption of hygiene products



Less developed countries consume feminine hygiene products and tissue products first. As living standards rise, consumption of baby diapers and incontinence products begin.

Acquisitions

A number of acquisitions were made during the year in line with SCA's growth strategy for hygiene products. The financial uneasiness in the regions where SCA is expanding has created favorable opportunities for acquisitions although there is some uncertainty about profitability in the immediate future. Viewing the situation in a longer perspective, SCA still believes that future growth will be strong.

In Russia, SCA acquired all the shares of Svetogorsk Tissue from Tetra-Laval. Svetogorsk Tissue, which is located in the St. Petersburg region, has the most modern tissue machine in Russia, built in 1989. Its production amounts to approximately 20,000 tons per year, equal to about 20% of the Russian market. The acquisition offers possibilities to produce diapers and feminine hygiene products locally.

In Colombia, SCA increased to 50% its stake in the Productos Familia tissue company, which in turn owns the Tecno-papel tissue company in Ecuador. Negotiations regarding the acquisition of 50% of the Brazilian tissue company Melhoramentos Papeis, which was announced in 1998, are as yet not completed.

SCA has also increased its involvement in Asia with the acquisition of Holland Pacific Paper, a Philippine tissue company. The company currently has the capacity to produce 22,000 tons of tissue per year, plus capacity for 8,000 tons of specialty paper that can be converted to tissue production. The market share in the Philippines amounts to 22%.

In Western Europe, SCA acquired three distributors of incontinence products in France whose total sales amount to SEK 140 M. SCA is thereby becoming the market leader in incontinence products in that country. Operations in the incontinence-product field were acquired in Finland.

Retail trade

With a complete line of toilet and household papers, feminine hygiene products, baby diapers, etc., SCA is one of the largest suppliers of hygiene products to the European retail trade. Based on joint-venture companies, SCA also has favorable positions – notably for feminine hygiene products – in more than 20 markets in Latin America, Australia and Africa.

Approximately 60% of SCA's total sales of hygiene products are made via retailers. The products are marketed under SCA's brands and, to a large extent, under retailers' private labels, a segment in which SCA is the largest supplier in Europe.

During the year SCA's "Zewa" and "Edet" tissue brands were coordinated with a common packaging design and quality. Toilet paper with two to four layers of tissue with different properties were introduced. A new household roll, "Wipe and Clean," was launched in Great Britain. Improvements were also made in the quality of tissue products sold under private labels. SCA's share of the market increased considerably during the year.

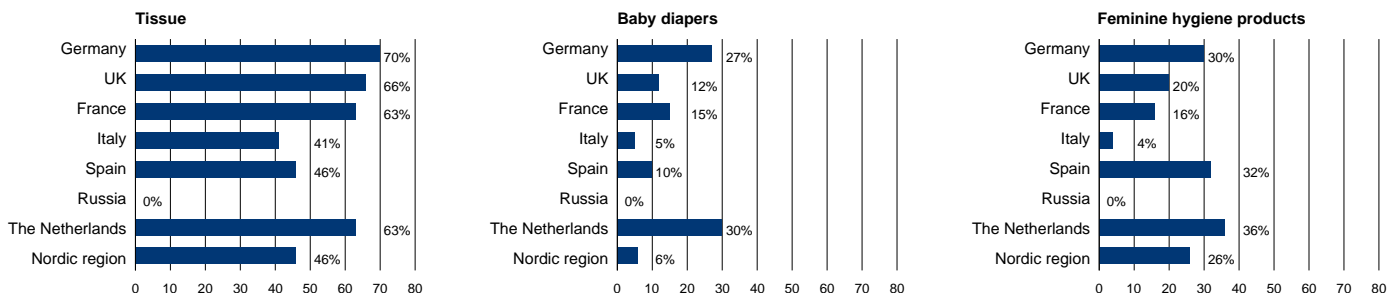
SCA's share of the market for baby diapers also increased as a result of a number of product introductions. The product launches included an improved version of SCA's Libero brand diaper, as well as a new and thinner product sold under private labels.

The feminine hygiene products that are sold under the Libresse, Nana and Nuvenia brands were also enhanced with a new fitting form and design during the year.

AFH market

SCA and Kimberly-Clark are Europe's largest suppliers of tissue products for the AFH market. SCA's sales comprise toilet

Private labels, market shares



The percentage of private label is increasing throughout Europe for all products. Currently, the share of private label is largest in tissue products.

paper, paper hand towels, soap with supplementary systems for holders, as well as facial tissues and napkins, wash cloths and special wiping products for industrial applications. Special efforts are being made in the hotel and restaurant segments, as well as health care, which are showing strong growth.

SCA's full-coverage line of products has been coordinated under the Tork brand, resulting in more cost-effective and improved penetration of the market.

New products with improved absorbing properties were introduced under the Tork brand during the year.

Incontinence products

SCA is the world's leading supplier of incontinence products, which it markets under the Tena brand. The product line comprises all types of products for protection against both light and heavy incontinence. The latter products are sold primarily for use in institutional and home-care programs, while products offering protection against light incontinence are sold through pharmacies and the retail trade.

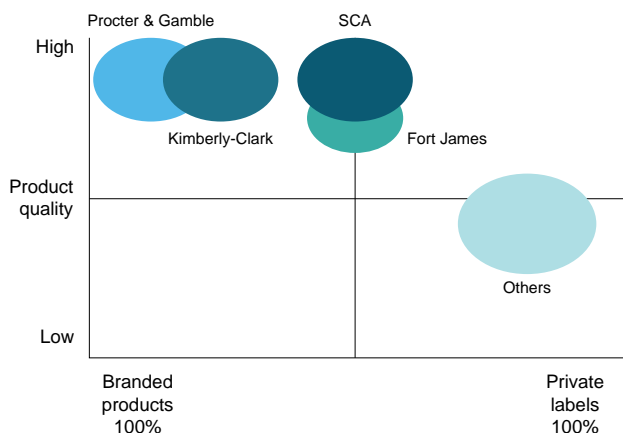
SCA's objective is to exceed growth in the market as a whole through an increased presence in important markets throughout the world and leadership in product development. Tena was launched in a number of Latin American countries in the retail trade segment during the year and in some European countries, including Finland, Belgium, Great Britain, Switzerland and Spain.

In cooperation with Uni-Charm, a Japanese hygiene-products company, SCA introduced the concept of using pant diapers for incontinence products, which was received very favorably by the market. Products providing odor control were introduced for light incontinence problems, a segment that is growing very rapidly.



SCA is the world's leading supplier of incontinence products, sold under the name Tena. The range includes all types of protection, for both light and heavy incontinence.

Branded products or private labels
Hygiene products – Europe



SCA's products sold through retailers are marketed under SCA's brand and private labels. This strategy provides good coverage across the entire retail market.

Packaging

ACQUISITIONS AND INCREASED PROFITABILITY IN EUROPE

SCA increased profitability in its European operations

and acquired packaging companies in Great

Britain, Denmark and the Czech Republic.



Key ratios	1998	Group share %	1997
Net sales (SEK M)	15,035	25	14,282
of which, intra-Group	275		254
Operating profit (SEK M)	1,480	23	1,196
Operating margin (%)	10		8
Operating cash flow (SEK M)	1,778	26	1,502
Capital employed excl. goodwill (SEK M)	11,499	24	10,790
Return (%)	13		11
Capital expenditures (SEK M)			
– strategic	512	23	191
– current	510	25	668
Average no. of employees	9,895	31	9,793

Production capacities shown on page 75.

Net sales and number of employees	Net sales, SEK M		No. of employees 31 Dec. 1998
	1998	1997	
Corrugated board	11,614	10,421	8,066
Containerboard	6,227	6,005	1,815
Other, incl. intra-Group deliveries	–2,806	–2,144*	185
Total	15,035	14,282	10,066

* Includes Cochis, SEK 743 M.

Production and deliveries

Produced volumes	1998	1997	Change %
Corrugated board (m ²)	2,820,500	2,726,700	3
Kraftliner (tons)	666,000	702,000	–5
Testliner (tons)	1,502,000	1,539,000	–2

Deliveries	1998	1997	Change %
Corrugated board (m ²)	2,859,000	2,783,800	3
Kraftliner (tons)	670,000	689,000	–3
Testliner/fluting (tons)	1,493,000	1,476,000	1
of which, intra-Group*	1,448,000	1,461,000	–1

* pertains to kraftliner/testliner

PRODUCTION FACILITIES

Corrugated board

Production of corrugated board packaging in Belgium, Denmark, France, Germany, Great Britain, Hungary, Ireland, Italy, the Netherlands, Poland, Sweden and Switzerland. Minority holdings in plants in the Czech Republic, Portugal, Singapore, Spain and Turkey.

Containerboard

Production of testliner and kraftliner in Sweden (Obbola and Munksund). Production of testliner/fluting in Germany (Aschaffenburg and Witzenhausen), Great Britain (New Hythe), Italy (Lucca and Castelfranco), the Netherlands (De Hoop), Switzerland (Oftringen) and minority holdings in plants in Turkey (Izmir).

Industrial packaging, for example for Mercedes Benz, is one of the fastest growing packaging segments.



The Packaging business area is one of Europe's leading manufacturers of corrugated board packaging, with a 14% market share. SCA's 143 production mills and plants in 18 countries produce 35 million packaging units daily. Europe is the main market.

SCA offers customized packaging solutions, featuring IT-based design technology and high printability on the packaging as well as local service, close to the customer's facilities. Customers are predominantly food processing companies and producers of industrial products and consumer goods.

SCA Packaging also produces containerboard, in the form of kraftliner, testliner and fluting. Containerboard is based on fresh wood fiber from the Group's own forest resources in Sweden as well as on recycled fiber from SCA's recovered paper collection organization in Europe.

Operating profit for the year rose 20% to SEK 1,480 M, attributable mainly to price hikes, lower raw material costs and productivity improvements. Operating cash flow amounted to SEK 1,778 M.

CORRUGATED BOARD

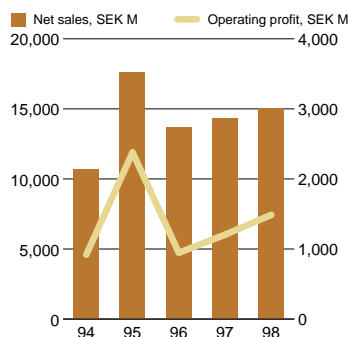
Market

The total market for transport packaging is increasing in Europe and is valued at SEK 200 billion. Demand principally follows economic growth.

Corrugated board is the predominant packaging material, with 60% of the market. Among the various packaging material alternatives, corrugated board is gaining ground over wooden crates while losing some market share to plastic.

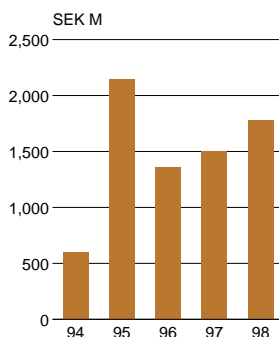
The Western European market is increasingly influenced by major buyers of packaging. The producers of foodstuffs and consumer products are also becoming more global, with increasing presence in Central and Eastern Europe as well as Asia. These customers demand fast and reliable deliveries which requires that packaging be produced regionally, near the customer's own facilities. Based on their size, these major buyers can all exert pressure on prices. Consequently, low production costs are decisive for the profitability of the packaging supplier.

Net sales and operating profit



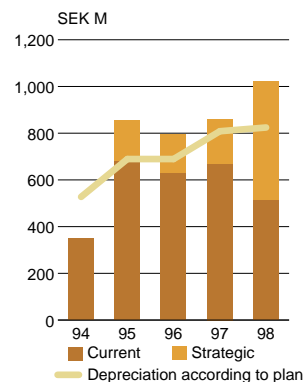
Operating profit rose to SEK 1,480 M.

Operating cash flow



Operating cash flow has risen steadily in recent years.

Capital expenditures



Strategic capital expenditures in the prioritized Packaging business area rose sharply.

Buyers demand customized packaging solutions with high printability for good graphics presentation on the packaging. Among other factors, this is a result of an increasing number of goods being displayed for sale in the actual packaging to minimize handling. Accordingly, corrugated board with a white surface is an important competitive tool.

The packaging industry in Europe comprises more than 400 companies. The ten largest producers account for a relatively small market share compared with other segments in the paper industry. Currently, the industry is undergoing a restructuring and consolidation to increase profitability and keep pace with the customer trend.

A number of mergers and acquisitions were carried out during the year, including the Jefferson Smurfit's purchase of Stone. International Paper acquired Union Camp and KNP BT's corrugated board operations were taken over by financial investors under the name KAPPA. The Swedish company Stora merged with Enso of Finland. Although some of these companies operate mainly in America, the acquisitions contribute

to increased consolidation of the European market. SCA Packaging also consolidated and expanded operations and is one of the few companies that have achieved nearly total pan-European coverage.

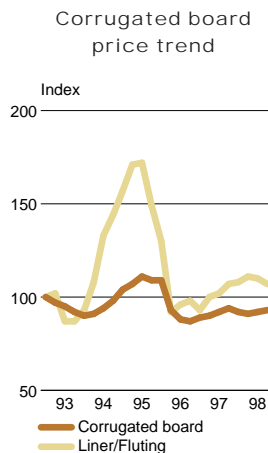
As a result of sustained industrial production in Western Europe, demand for corrugated board increased during the first six months of the year in most European markets. Demand weakened slightly during the second half of the year.

Despite the successive slumps in large parts of Asia and Russia, the Central European market was not affected to any great extent during the year. Sales of transport packagings continued to grow, though at a slower pace. This also applied to China which, to date, has not been hit by the financial crisis that so many anticipated.

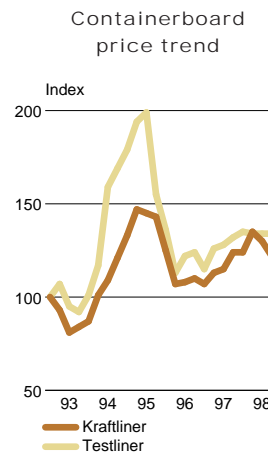
Prices for corrugated board developed differently in European markets in 1998. In total, prices rose in Europe, with the exception of Great Britain, where prices were under pressure during most of the year.



The packaging market for beverages and food products is less cyclically sensitive than other market segments.



Prices for corrugated board were stable during most of the year, despite falling raw material prices.



The price for kraftliner fell sharply in October 1998.

SCA's strategy and market position

SCA Packaging's strategy for higher profitability and growth focuses mainly on good customer service, lower production costs and improved margins. Acquisitions are implemented based on a requirement of rapidly obtaining sustainable profitability and increased market coverage.

Among Europe's large packaging producers, SCA is one of the leading companies in the use of advanced IT systems in production and customer service. SCA's customer service was enhanced in 1998 with the introduction of a new sales and design tool: Midas, which was developed in-house. The system integrates an extensive bank of materials, shapes and resistance data. It is used by SCA sales personnel in contacts with the customer to analyze and reassess all potential types of corrugated board packaging. The solutions obtained are then optimized by the design team to produce customized packaging intended to reduce the customer's total cost in goods handling.

A key element in SCA's customer service is to follow the expansion of its large pan-European customers into Central Europe and Asia. Efforts to offer more flexible and rapid deliveries, for small as well as large orders, include developing new routines in close cooperation with customers. Activities in this area brought SCA in the UK, for the second consecutive year, the double award of "best corrugated supplier" and "best packaging supplier" (all types of packaging) in 1998. SCA was also recognized in Germany, with two Goldene Welle awards for creative packaging design.

In recent years, SCA has undertaken a number of measures to increase profitability in Europe. The productivity of each machine is analyzed and measured against comparable units. The evaluation was carried out in cooperation with Weyerhaeuser, the American forest-industry products company. The performance of SCA's plants was compared with Weyerhaeuser's best in a number of respects. This work has resulted in significant productivity gains and higher profitability. This

cooperation will also include the Japanese packaging company Rengo, beginning in 1999.

Western Europe

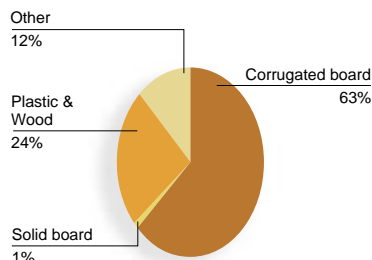
Western Europe is SCA Packaging's home market. The primary goal is to increase the current market share in Western Europe from about 12% to at least 20%. SCA continuously monitors possible acquisitions. Existing facilities with low profitability will be divested.

In Great Britain, SCA acquired the corrugated board operations of the British company Rexam on 1 January 1999 for SEK 2.6 billion. As a result, SCA increased its market share for corrugated board in Great Britain from 13% to 21% and in Europe from 13% to 14%. Rexam Corrugated has annual sales of about SEK 2.7 billion with 29 plants in Great Britain, Spain, France and Belgium. The acquisition complements SCA's operations geographically and in terms of market segments. Rexam specializes on industrial packaging, high-quality printing and microfluting containers as well as heavy-duty applications.

Danapak Papemballage, the third-largest Danish corrugated board company, was acquired in January 1999 for SEK 636 M. Danapak holds a market share of 17% of one of the most consolidated markets in Europe. The company produces about 100 million m² of corrugated board annually, with sales of about SEK 650 M. Danapak's production is focused on high-quality products, including packaging coated to become water- and oil-resistant and packaging with good printing surfaces.

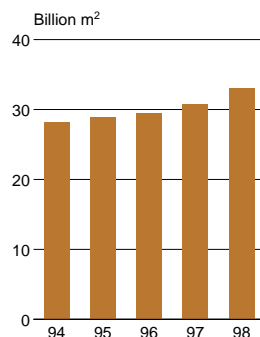
Today, SCA's has a virtually complete network of plants in Western Europe. The earlier acquisitions, in Switzerland (Widmer-Walty), Italy (Cochis) and Spain (Lantero), have been integrated into SCA's organization, including common reporting and IT systems.

Transport packaging
(types of material) in Europe



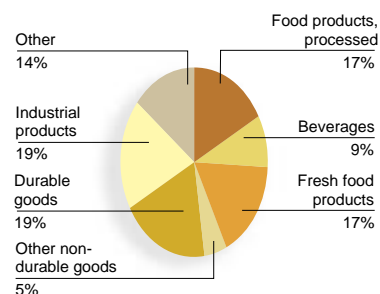
Corrugated board is the predominant packaging material.

Total deliveries of
corrugated board in Europe



Deliveries of corrugated board increased by approximately 5 billion m² in the 1994-1998 period.

Sales of corrugated board
by end-user in Europe



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

Central and Eastern Europe

SCA's Polish and Hungarian packaging units, which started production in 1997, developed favorably according to plan. In order to complete the network of plants covering this region, a 33% interest in the Obalex packaging company was acquired during 1998. Obalex produces corrugated board in the Czech Republic and Slovakia. Since privatization in 1993, Obalex has steadily grown and presently consists of two integrated box plants and six converting plants. Obalex reported sales in 1997 of SEK 240 M. Annual production of 80 million m² of corrugated board account for 20% of the market in the Czech Republic. The Obalex acquisition complements SCA's production in Austria, Poland and Hungary which, combined, represent a key element in SCA's ability to deliver transport packaging products to pan-European customers in the region.

SCA Packaging is continuing to study other potential acquisitions in Central and Eastern Europe in order to further complete its network of plants.

The economic and financial crisis in Russia has not had any significant impact to date on SCA's packaging operations in Central and Eastern Europe.

Asia

The establishment of operations in China, which SCA began in 1996 in a joint-venture with Weyerhaeuser, is progressing. SCA's first packaging plant in China was inaugurated in May 1998. The 35 employees at the plant were trained in Europe and the US. Customers include Carlsberg, Akzo-Nobel, Coca-Cola and Budweiser. Due to floods in the Wuhan region, construction of a second packaging plant has been delayed, but work has resumed and is now continuing according to plan for opening in 1999.

At the beginning of 1999, SCA acquired an 11% holding in the Singapore-based packaging company Central Package Group, with annual sales of about USD 50 M. SCA has the possibility to increase ownership to 51% within five years. The company produces about 50 million m² of corrugated board

each year, with production in China, Singapore, Malaysia, Thailand and Indonesia. Accordingly, it represents an important complement to SCA's existing operations in the region with American Weyerhaeuser.

CONTAINERBOARD

Market

The number of containerboard producers is somewhat less than corrugated board. The five largest companies hold a relatively dominant position on the European market.

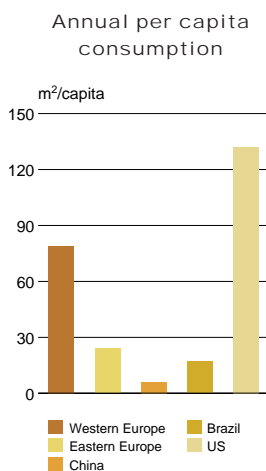
Most companies deliver containerboard to their own packaging production but also sell to external corrugated board producers.

White top liners, which provide for a better printing quality on the finished packaging, is in increasing demand and is an important competitive tool.

The market for containerboard in Europe and North America was affected by the Asian crisis. Demand in Asia declined during the year, but was offset by stronger demand in Europe. Demand was favorable for kraftliner and testliner during the first nine months of the year resulting in rising prices. Demand declined somewhat toward year-end concurrent with a surplus of containerboard in the U.S. creating price pressure on mainly kraftliner in Europe. Demand for testliner was stable during the entire period.

SCA's strategy and market position

SCA Packaging is one of the market leaders in containerboard in Europe, with two kraftliner mills in Sweden and seven testliner mills in Europe. Total capacity is 2.4 million tons annually, with a market share of 12% in 1998. SCA sells containerboard to external customers as well as internally to SCA Packaging's plants. Internal sales are at market prices.



The prosperity and GDP of a country is closely linked to the consumption of corrugated board.



SCA delivers corrugated packaging to Yves Rocher's sales of beauty products which are to some extent sold by mail order.

SCA produced 2,168,000 tons of liner in 1998, of which 1,448,000 tons were used internally. External sales rose during the year as a result of the restructuring of SCA's range of kraft-liner and testliner grades, combined with improved dissemination of information to the customer about the product's technical properties.

During the year, a number of investments were made in SCA's mills.

Production at the Widmer-Walzy paper mill in Switzerland was re-organized to cut costs at the mill. The product range was reduced which increased productivity. The new product line will include white-top liner "Euroliner White." SCA will also invest in production of white-top liner based on recovered paper.

The production line at the New Hythe mill (Aylesford) in southern England was rebuilt and the biological water treatment process is being rebuilt to enhance environmental performance.

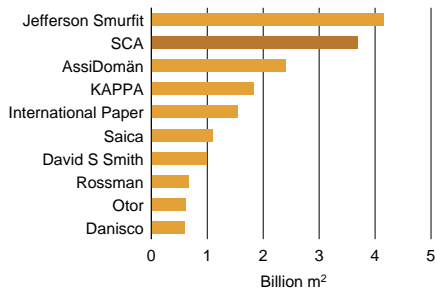
Paper machines in Sweden (Obbola) and Germany (Witzenhausen) were also rebuilt and modernized to increase productivity and product quality.

The Paper Manufacturing System (PMS) computer system was incorporated in all European paper mills and sales offices. PMS increases service levels by creating conditions for guaranteed delivery times and a substantial reduction in lead-times. It permits the customer to reduce inventories and working capital.

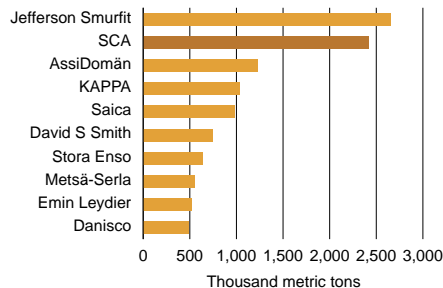


SCA produces a full assortment of white and brown grades of containerboard. Printability is exceptionally good. As a result, bar codes can be printed directly on the paper.

Corrugated board Competitors - Europe



Containerboard Competitors - Europe



Acquisitions and mergers have changed the competitive situation in Europe. Through acquisitions and rationalization, SCA has strong and increasingly profitable operations on the European market.

Graphic Paper

STRONG IMPROVEMENT IN EARNINGS

Firm demand for all grades of paper increased

operating profit for the year by 109%.

Production levels were high.



Key ratios	1998	Group share %	1997
Net sales (SEK M)	18,902	31	16,562
of which, intra-Group	1,114		909
Operating profit (SEK M)	1,851	29	884
Operating margin (%)	10		5
Operating cash flow (SEK M)	2,119	30	1,109
Capital employed excl. goodwill (SEK M)	14,705	31	15,114
Return (%)	13		6
Capital expenditures (SEK M)			
– strategic	–	–	69
– current	768	37	667
Average no. of employees*	5,905	18	6,051

* Excluding Transforest.

Production capacities shown on page 75.

Net sales and number of employees	Net sales, SEK M		No. of employees 31 Dec. 1998
	1998	1997	
SCA Graphic Paper	10,242	8,838	2,445
of which, intra-Group	1,278	1,350	
SCA Fine Paper	5,934	5,426	2,118
of which, intra-Group	1,268	1,214	
SCA Paper Trade	5,272	4,862	1,171
Other	–	–	24
Total	18,902	16,562	5,758

Production and deliveries

Produced volumes, tons	1998	1997	Change %
Newsprint*	524,000	499,000	5
SC paper	320,000	294,000	9
LWC paper	356,000	334,000	7
Fine paper	735,500	804,000	–9

* Including SCA's share from Aylesford Newsprint Ltd (50%).

Deliveries, tons	1998	1997	Change %
Newsprint ¹	530,000	498,000	6
SC paper	318,000	295,000	8
LWC paper	351,000	342,000	3
Fine paper ²	813,600	808,000	1

¹ Including SCA's share from Aylesford Newsprint Ltd (50%).

² Including Tatra.

PRODUCTION FACILITIES

SCA Graphic Paper

Production of LWC and SC papers, newsprint and pulp at four plants in Sweden, Great Britain and Austria.

SCA Fine Paper

Production of coated and uncoated fine papers and pulp at three plants in Sweden, Germany and Austria.

SCA Paper Trade

Merchanting of fine papers in Europe.



SCA Graphic Paper focuses on production of high-quality publication paper grades and prioritizes customers with high demands.

The Graphic Paper business area is a full-range supplier of high-grade, customized publication papers and fine papers, primarily to the European market.

The range of publication papers comprises newsprint, SC and LWC papers. The primary applications areas are daily newspapers, popular and trade journals, catalogues and advertising materials. The production of fine papers comprises coated and uncoated grades, mainly in folio for use in magazines, other printed matter and advertising materials that require high printing quality. The line also includes uncoated fine paper for office applications.

In addition, SCA manufactures pulp that is used mainly to produce publication papers and fine papers and which is also supplied to the Group's other business areas for the production

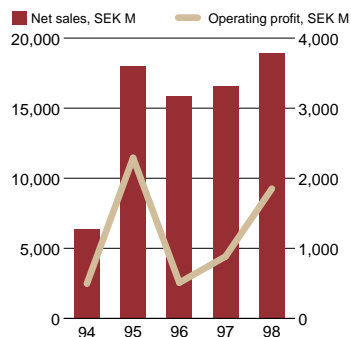
of tissue and fluff products, as well as corrugated board.

Operating profit for the year were significantly better than a year earlier, rising a full 109% to SEK 1,851 M. The earnings improvement is nearly entirely due to increased delivers of wood containing publication papers, lower raw material costs and improved productivity. Operating cash flow rose to SEK 2,119 M.

MARKET

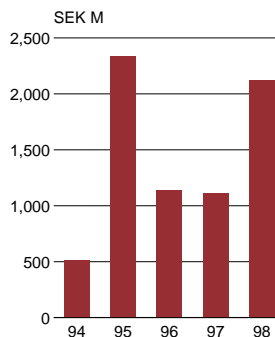
The market for publication papers in Europe is valued at a total of SEK 100 billion. Demand depends on the amount of print advertising and the quantity of books and other printed materials produced by publishers.

Net sales and operating profit



Operating profit rose sharply due to improved profitability of SCA Graphic Paper

Operating cash flow



Operating cash flow rose sharply to SEK 2,119 M.

Demand for publication papers was strong and stable during the year. But demand for LWC paper was slightly weaker than in 1997.

A new LWC machine and a newsprint machine – which are expected to be in operation in the year 2000 – were announced in Europe during the year. The merger of Stora and Enso is creating the world's largest producer of publication papers. Although the trend is toward globalization of ownership of newsprint producers in particular, the market for publication papers is to a large extent regional, with a number of substantial producers in each region.

The market for fine paper in Western Europe amounts to SEK 80 billion annually in the production chain. Demand for coated fine paper – in both sheets and reels – was firm. Demand for uncoated fine paper was largely unchanged from the preceding year, while there was a moderate increase in demand for A4-size paper.

No new capacity was announced in the fine-paper field. However, earlier investments in new capacity by Enso and Sappi reached full capacity during the year, causing pressure on prices for fine paper during the second half of 1998.

SCA'S STRATEGY AND AND MARKET POSITION

SCA Graphic Paper

SCA Graphic Paper is focusing production on high grades of publication papers and is giving priority to customers with high demands. Based on this orientation, and with cost-effective production facilities, the business area's objective is to be one of Europe's three most profitable producers of publication papers.

Development of new products in cooperation with customers has a high priority. A very light LWC paper was developed jointly by the Ortvikén paper mill in Sweden and Time, Inc., the American magazine publisher. Another example is the development of the GraphoGrande SC paper – featuring exceptionally high brightness, for use in more exclusive magazines and catalogues – at the Laakirchen paper mill in Austria.

SCA's large nearby forest holdings give the Group control over the entire production chain; they have made it possible to develop the program involving high-grade LWC paper at the Ortvikén paper mill, which requires raw material that is no more than three weeks old. Improved logistics and fresher wood have also created conditions for improving the quality of pulp and have facilitated the changeover to totally chlorine-free pulp production. Östrand's pulp has been developed to conform with the product mix and product development in the Group's paper mills.

SCA, together with the Swedish Government and other parties, will build a new development center for industrial forestry research and training in Sundsvall, Sweden, where SCA will also transfer its research activities. The links between research, product development and production will thereby be strengthened, which will be of major importance for SCA's continuing programs involving high-grade paper products.

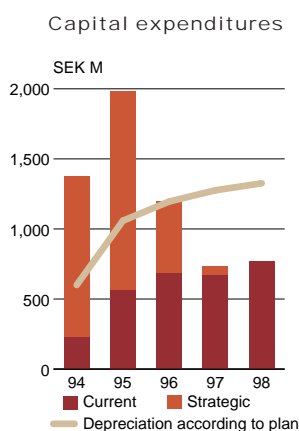
The production of all grades of publication papers in SCA's paper mills in Sweden, Austria and Great Britain set new records. Production at the Östrand pulp mill, Sweden, was also high. Pulp prices varied during the year but were generally low, resulting in unsatisfactory profitability for all producers.

SCA Fine Paper

SCA Fine Paper has centrally located facilities close to the large markets in Western and Central Europe. With a substantial merchant operation that markets fine papers and specialty papers throughout the Continent, SCA Fine Paper occupies a strong position in Western and Central Europe.

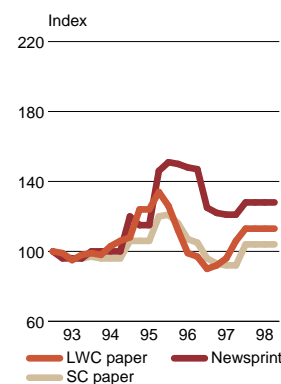
A new coated, extra-bulky grade of paper that is being marketed to the publishing industry was developed during 1998. Another new paper grade was developed for use in printing digitally stored images.

SCA Fine Paper's shares of the market for coated sheets and office papers increased during the year as a result of improved product quality and service to customers and large investments in marketing and sales.



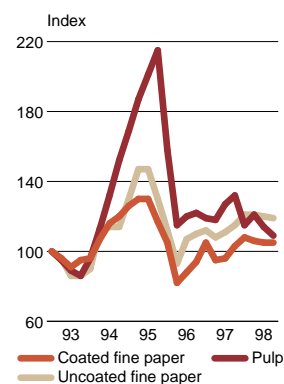
Current capital expenditures within Graphic Paper amounted to SEK 768 M.

Price trends for newsprint, LWC and SC paper



Prices were stable for all paper grades in 1998, but LWC faced certain price pressure toward year-end.

Price trends for fine paper and pulp



Pulp prices fell to the lowest level since mid-1994.

The customer-oriented rationalization and improvement program that was begun in 1996 was completed during 1998. The annual improvement in earnings has amounted, as planned, to approximately DEM 100 M. An independent analysis conducted by the ÅF-IPK consulting company showed that the mill in Stockstadt, Germany was Europe's most cost-effective producer of coated fine papers in folio format.

Another efficiency-improvement program, designed to maintain the business area's leading position in commercial print papers, was started during the year. When fully implemented, the program will increase earnings by another DEM 50 M annually. The program extends through 1999.

Merchant operations – SCA Paper Trade

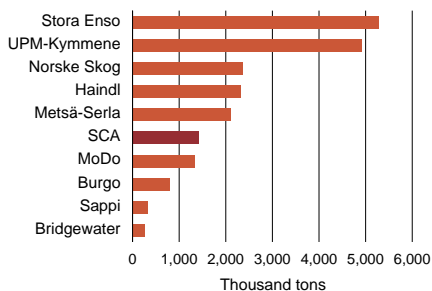
SCA's merchant operations for printing, office and specialty grades of paper were coordinated with the SCA Fine Paper organization during the year. SCA Paper Trade is one of Europe's largest paper merchant groups, with annual sales in 1998 of 560,000 tons. Following the integration with SCA Fine Paper, the Paper Trade group members succeeded in strengthening their market positions considerably in 15 European countries.

During 1998, two merchants in Denmark, a Romanian paper merchant and a new paper merchant in Turkey became members of the group. New operations established earlier in Central Europe developed favorably and sales of wood-free coated sheets increased from 5,000 to 20,000 tons in two years. In view of the anticipated market growth, the goal is to double this volume within the next three years.



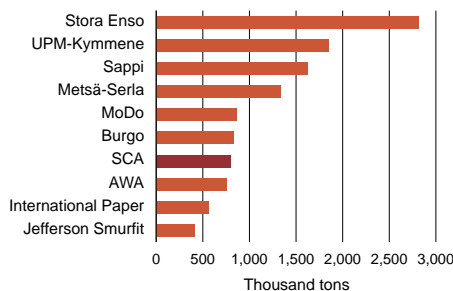
Coated and uncoated fine papers are used for highly illustrative books requiring high print quality to display the photographs and text in the best possible manner.

Publication papers
Competitors – Europe



SCA is a full-range supplier of publication papers on the European market and prioritizes customers with high demands.

Fine papers
Competitors – Europe



SCA is one of the ten largest fine paper producers in Europe, with a focus on high-quality products and increased profitability

Raw materials supply

Strong cash flow for Forest and Timber.

Major savings within Raw Material and Logistics.

FOREST AND TIMBER

Key ratios	1998	Group share %	1997
Net sales (SEK M)	3,985	7	4,158
of which, intra-Group	1,638		1,662
Operating profit (SEK M)	722	11	812
of which, capital gains on sales of forest land	32		8
Operating margin (%)	18		20
Operating cash flow (SEK M)	672	10	791
Capital employed excl. goodwill (SEK M)	4,984	11	4,877
Return (%)	15		17
Capital expenditures (SEK M)			
– strategic	119	5	–
– current	162	8	118
Average no. of employees	1,118	3	1,221

Production capacities shown on page 75.

Net sales and number of employees	Net sales, SEK M		No. of employees 31 Dec. 1998
	1998	1997	
Forestry operations	3,559	3,647	391
of which, intra-Group	782	870	
Sawmill operations	1,414	1,583	472
of which, intra-Group	206	202	
Other	–988	–1,072	73
Total	3,985	4,158	936

Production and deliveries

Sawn timber	1998		1997		Change %
	Produced volume, m ³	Deliveries, m ³	Produced volume, m ³	Deliveries, m ³	
	653,000	672,000	750,300	704,300	–13
					–5

Wood consumption, million m ³ fub	1998	1997
SCA's Swedish forest products mills	5.75	5.83

Fellings, million m ³ fub	1998	1997
On own forest land	3.94	3.78
As a % of wood consumption	69	65

Forest value

(2,3 million hectares, of which 1.8 million hectares are productive forest land)

	1998	1997
Book value (SEK M)	4,582	4,570
Forest land tax assessment value (SEK M)	6,779	10,209
Estimated market value after tax (SEK M)*	16,000	15,100
after tax, per hectare (SEK)	9,100	8,600

* This value is calculated on the basis of average earnings for forest operations (excl. capital gains) in the period 1995–1998 and an assessment for 1999, capitalized at a real rate of interest of 4%. See Note 24, page 61.

PRODUCTION FACILITIES

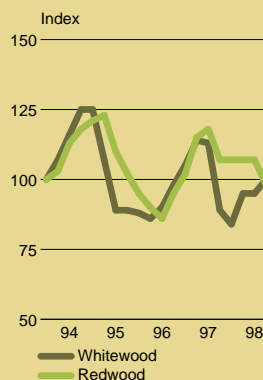
Forestry operations

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

Sawmill operations

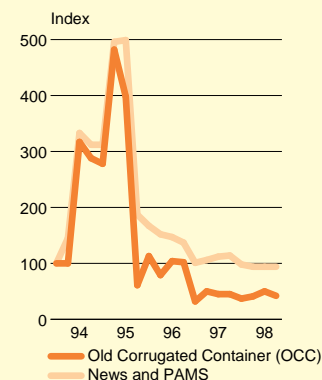
Sawmills at Tunadal (Sundsvall), Lugnvik (Kramfors), Holmsund (Umeå) and Munksund (Piteå). Marketing companies in the Netherlands and Great Britain, as well as a partly owned market company in France.

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



Excess supplies of redwood depressed prices during 1998.

Price trend for recovered paper



Stability in recovered paper prices was maintained during 1998.

RAW MATERIALS AND LOGISTICS

SCA Recycling

(includes SCA Transport UK)

Sales: SEK 1,333 M (1,250) of which intra-Group SEK 923 M (822).

Number of employees: 607 at 31 December 1998.

SCA Transforest

Sales: SEK 1,358 M (1,206).

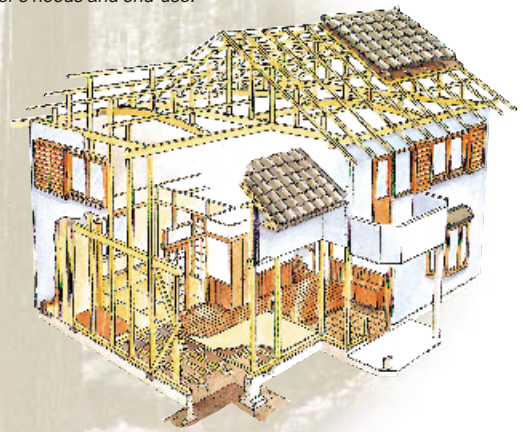
Number of employees: 185 at 31 December 1998.

SCA Transport UK

Sales: SEK 329 M (311).

Number of employees: 262 at 31 December 1998.

Forest and Timber adapts sawn timber products to the customer's needs and end-use.



FOREST AND TIMBER

Forest and Timber generated a continued strong cash flow, mostly based on the holdings of own forest land. The sawmill operations were rationalized and the forestry activities were certified in accordance with the FSC (Forest Stewardship Council).

Forest and Timber manages and develops the Group's forest resources, conducts extensive sawmill operations and is Europe's largest supplier of forest fuel. SCA's plants in Sweden are supplied with fresh wood fiber for production of paper, packaging and hygiene products. Supplies of fresh wood fiber are essential for SCA's development and production of high-quality paper products.

Production by the sawmills is based mainly on timber from SCA's own forests. About 50% of the requirement for the less expensive pulpwood and sawmill chips is purchased on the open market.

The business group's operating profit were 11% lower than in 1997, amounting to SEK 722 M, due to sharp price declines for sawn timber products. Despite this, operating cash flow amounted to SEK 672 M.

Market

The market in Western Europe for sawn timber products amounts to about SEK 90 billion, or 75 million m³ annually. Volume growth in 1998 was 2%. Major customer groups are building products wholesalers and building supplies centers (DIY centers) as well as industry and joineries which demand increased adaptation and product specialization.

Competition is intense from alternative construction materials, such as plastic. However, wood is gaining favor in the construction industry at the expense of steel and concrete.

The price for sawn timber products fell sharply during the year. Saw log prices rose while pulpwood prices fell at the end of the year.

SCA's strategy and market position

Forest and Timber is a cost-efficient producer in forestry and is continuously rationalizing the sawmill operations. Customer orientation is important and sawn timber products are increasingly being adapted to customer specifications, so-called Developed Timber, with regard to such processing as kilning, sorting and length dimensioning for the joinery industry or

processing into consumer products sold by distributors.

Increased sales and profitability will be achieved through further development and adaptation of products as well as marketing efforts in selected customer segments with high quality demands.

Scandinavia and the rest of Western Europe are SCA's main markets for sawn timber products. Supplementary markets include Greece, North Africa and Japan. Deliveries of Developed Timber have increased in Europe and Japan in recent years. Planed and cut-to-size components were introduced in the Norwegian window industry during 1998. Customer-wrapped interior panels were also supplied to building products centers in Europe. This type of value-added product was not affected by the price decline during the year to the same extent as standard wood products.

The sawmills in Tunadal and Lugnvik were heavily rationalized during the year, which will gain full effect in 1999. The investments under way at the Munksund sawmill will increase efficiency and also feature technical solutions aligned with the market's demand for Developed Timber.

Currently, SCA has a strong raw material base with a large harvest potential from its own forests. This raw material base is used mainly to supply SCA's plants in Sweden.

Harvesting of own forests is maintained at a high level, but within the sustainable growth potential and with consideration for the environment and biodiversity. This was confirmed through SCA's forestry operations being certified during 1998 in accordance with the ISO 14001 and FSC standards in the beginning of 1999. The forest fuel operations were also ISO 14001 certified.

Efficiency enhancement measures in forestry operations continued during the year. These included a new forest administration organization which is more aligned with efficient logistics. Combined, these efficiency measures and other rationalization activities reduced costs in the business group by about SEK 35 M.

RAW MATERIALS AND LOGISTICS

Synergistic effects of joint purchasing have reduced costs by approximately SEK 600 million.

Raw Materials and Logistics is responsible for exploiting and developing synergies between the Hygiene Products, Packaging and Graphic Paper business areas.

Since its inception in 1997, the goal of the Raw Materials and Logistics organization has been to reduce costs by SEK 1.2 billion during a four-year period. After the first two years, cost savings total approximately SEK 600 M, of which SEK 500 M pertains to 1998.

Raw Materials and Logistics supervises several project groups from different business areas which cooperate via coordinated internal networks. These groups exploit synergies resulting from purchasing cooperation and reduce the costs of purchasing materials, services and equipment. Awareness of materials used by the Group increases, which helps ensure that products and services purchased are of the proper quality.

A key aspect of the organization's strategy is to develop close cooperation or partnerships with selected suppliers. By working with a limited number of suppliers, SCA will develop and improve products and services purchased by the Group.

In addition to lower costs, coordinated shipments yield positive environmental effects through reducing the total number of transports.

Raw materials

SCA's annual purchases of pulp, recovered paper, chemicals and other materials are valued at approximately SEK 15 billion.

SCA is one of Europe's largest consumers of recycled fiber and also uses a large proportion of fresh wood fiber in its production. It is also the largest player in the European market for recovered paper. In addition, SCA's net purchases of pulp on the open market are in the range of 600,000 tons annually. During the year, SCA reduced the number of pulp suppliers it deals with, which lowered overall costs.

SCA Recycling supplies the Group with recycled fiber via wholly owned collection operations and direct purchases. As recycled-fiber supplier to the Group's various operations, SCA Recycling is one of the few companies that recovers a very broad range of recovered paper for production of hygiene products, packaging and printing paper.

The company is represented in eight European countries. In

1998, it handled 3.1 million tons of paper for recycling, corresponding to 9% of the European recovered-paper market. As a result of its strong market position, SCA can trade within and between different markets, which is a great advantage. SCA Recycling also plays an important role in the Group's closed-loop philosophy, a cornerstone of the SCA business concept and the marketing of its products.

Energy

SCA is a major purchaser of energy in the European market, consuming 15 TWh annually. That amount is equivalent to the electricity produced by two nuclear reactors and the total natural-gas consumption in Sweden in one year. By means of co-generation and other techniques, SCA also produces enough energy of its own to meet 50% of its total requirement (see further under "Environment," page 40).

SCA takes advantage of the deregulation of the European electricity and natural-gas market. SCA's agreements regarding energy delivery are being renegotiated in several European countries. Nearly all purchasing of electricity for SCA plants in Sweden has been renegotiated and the prices indexed to a Nordic electricity exchange. In 1999, SCA's overall energy costs are expected to decrease by an additional SEK 150 M compared with 1998.

Transports

SCA's land and sea freight operations transport 15 million tons of products annually. SCA Transforest is mainly responsible for handling these extensive transports between Scandinavia and Europe.

Coordination of transport requirements have reduced costs considerably while improving punctuality and service. Earlier agreements with suppliers have been renegotiated and better planning has reduced the number of transports with less than a full load.

These measures have succeeded in reducing the environmental impact of the company's transports. As of 1998, SCA also uses oil with low sulfur content in all ships. Measurements of the environmental impact of the transports show that sulfur dioxide emissions declined by slightly less than 70%.

SCA's degree of self-sufficiency

Total wood consumption	Felling own forest	Degree of self-sufficiency	Total recycled fiber consumption	Own collection	Degree of self-sufficiency
8.3 million m ³	3.9 million m ³	47%	2.9 million tons ²	2.3 million tons ²	80% ²
Of which, Sweden ¹ : 5.8 million m ³	3.9 million m ³	68%			

¹ Net consumption, less own sawmill chips.

² Incl. Aylesford.

Integration of pulp (million tons)

	Total	Short-fiber	Long-fiber
Consumption	1.4	0.6	0.8
Production	0.9	0.3	0.6
Net ³	0.5	0.3	0.2

³ Excl. sales of market pulp.

Human resources

PERSONNEL PROGRAM FOR VALUE CREATION

SCA's employees create the conditions to enhance SCA's profitability and are given the possibility to benefit from the Group's value appreciation.

SCA's personnel policy

SCA's personnel policy is being integrated as a key component of SCA strategies. The main objective is to satisfy the Group's need for increased employee know-how, expertise and involvement. A significant factor in these efforts is to create incentives and understanding for SCA's profitability requirements, so that all employees can support and contribute to SCA's growth in value.

Part-ownership program and bonus system

SCA's financial objectives require the Group to have a stable and increasing cash flow, that is, a high earnings capacity. This controls the direction of operations and decisions on strategic investments. The aim is to enhance SCA's growth in value.

Value creation is generated ultimately by SCA's employees, who should also benefit from increased profitability. Accordingly, all employees in ten countries were given the opportunity during 1998 to invest in combined convertibles/warrants programs, thus becoming limited-risk part-owners of SCA. Of those who received the offer, 42%, or 12,000 employees, subscribed. In countries like Sweden and Germany participation exceeded 50%. In total, convertibles/warrants were subscribed for approximately SEK 296 M.

A new incentive system linked to SCA's cash flow requirement and value growth was also introduced for some 60 senior executives at Group and business area levels. The system is based on the development of the effective return on the SCA share within different time periods in relation to competing companies and SCA's internal cash flow objectives. If a bonus is awarded, it is paid in shares and cash (see Note 28). SCA plans to develop value-based incentive systems for employees on all levels.

Increased know-how and information

Achieving increased value growth means that employees must be well-informed and possess the know-how required to make decisions contributing to the fulfillment of SCA's financial objectives. Consequently, SCA has produced a simulation model which shows, in a logical and educational manner, how

various measures and decisions influence the profitability of individual operations and of the Group as a whole. The aim is that this model will be used as an educational business game throughout SCA's organization, including SCA's European and national works councils.

An important element of personnel policy is also to stimulate and develop methods for transferring good ideas, experience and know-how between SCA's various operations. The goal is to develop an organization in which "learning from one another" is the natural way of increasing satisfaction, expertise and efficiency at work. To facilitate this process, the internal networks within the Group are to be improved and modern information technology is to be used to a greater degree to enhance capitalization on the synergies existing within the Group.

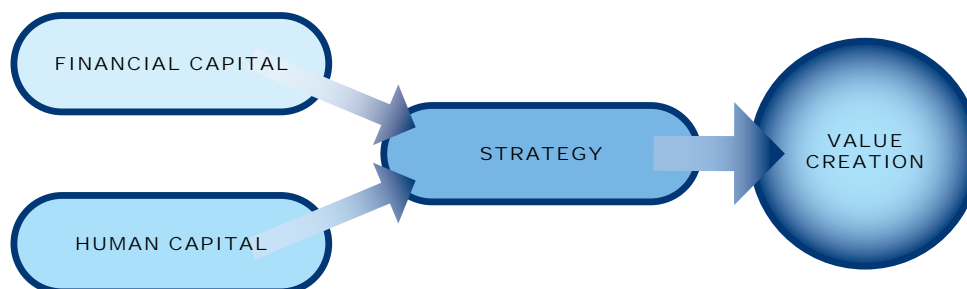
During the year, the internal information system has also been developed, with new in-house newsletters for all business areas. The newsletters, which are published in several European languages, are yet another component in the effort to improve the transfer of know-how and increase the sense of belonging within the Group.

Organization development

SCA has a high level of ambition with regard to providing career development opportunities for its employees. Accordingly, SCA develops programs which link individual motivation to personal development and SCA's growing need for increased expertise and knowledge.

All business groups conduct trainee programs to integrate new employees into the Group as effectively as possible. Currently, nearly 100 persons are participating in various programs.

SCA's executive development programs are divided into two categories; those intended to support the development of younger managers and programs aimed at general leadership skills. Certain programs are designed specifically for dealing with processes of change related to customer orientation, strategic management and group cooperation. See Note 26 for additional information about SCA's personnel.



Well-informed personnel with the proper training and knowledge are one of the most important conditions for SCA's value-creating strategy.

Research and development

CUSTOMER-ORIENTED RESEARCH

SCA continually develops new products to meet customers' demands. The company's development work also focuses on reducing production costs and minimizing environmental impact.

SCA's research concentrates on creating added value by offering the customer a better product, increasing recovery of materials and energy in production, and increasing the proportion of recyclable material in SCA's products. This focus is a logical consequence of SCA's business concept, which focuses on long-term favorable profitability and a closed-loop philosophy.

To maintain a high degree of recycling, natural by-products of pulp manufacturing are collected and incinerated, which in turn generates energy that is redirected back into production. Moreover, production processes are continually adjusted to increase the proportion of renewable resources such as recycled paper.

SCA's research is customer-oriented. Through market research and direct contact with customers, SCA develops new improved products that increase the company's competitiveness. This work is often conducted by project groups working close to the customer to identify preferences and requirements or communicate SCA's own improvement suggestions. The ideas are then evaluated in a technical and commercial perspective to assess their feasibility.

These aims and procedures depend on efficient, market-oriented research. For this reason, the organization is project-oriented and based on delegation, assigning responsibility to carry out development work to all Group functions. The operations are spread over four research centers: Sundsvall and

Gothenburg in Sweden, Aylesford in southern England and Mannheim in Germany. SCA employs about 700 persons in research and development operations.

SCA's research and development operations in Sundsvall will be reinforced substantially by the planned new university for research in the forest industry, to which SCA will relocate its research center. This will create close links between primary research, applied research, product development and production.

New products

SCA maintains a high level of innovation to continually strengthen the company's competitiveness. On average, SCA applies for 60 to 80 patents a year for a new product or production process – that is, more than one patent application a week. Apart from such applications, SCA launches several product innovations. In the pulp and paper field it is more common that new production techniques are developed which provide for improved products or lower production costs. A good example of this is the new low-energy TMP technology.

Number of patent applications

	1994	1995	1996	1997	1998
	85	67	66	75	77

The new Efficapt sanitary pad – a joint project of SCA business areas

Diapers are often constructed using so-called super-absorbents to increase their absorption capacity. In sanitary pads, however, the possibilities for using these substances are limited.

The development project began when it was discovered that a type of pulp manufactured at the Östrand pulp plant in Sweden could absorb blood unusually well. Consequently, in 1993, Östrand – a unit of SCA Graphic Paper – and SCA Hygiene Products launched a joint project to develop a new absorbent material based on paper pulp.

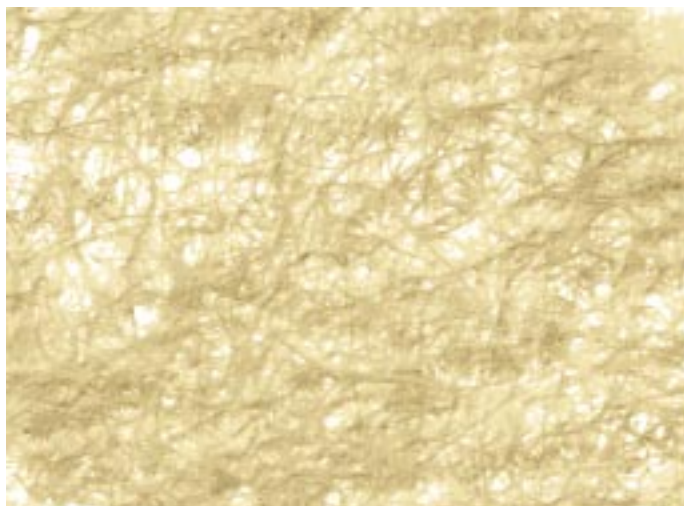
Two years of intensive effort, where the material was developed further to meet all absorption, comfort and softness

standards, as well as environmental requirements, etc., placed on sanitary pads, resulted in a prototype of the Libresse Invisible pad with Efficapt, as the unique new absorbent material was called. The new product was based entirely on renewable raw materials. The key in the development process was to find just the right fiber distribution that would cause fluids to be properly distributed in the pad.

Following a final phase of investments in new machinery for serial production of the sanitary pad, the new product was ready to be launched in spring 1997.

Each year, the Hygiene Products business area launches several new tissue products, incontinence products, feminine hygiene products and baby diapers. The new TAD technique has been used in the production of a fuller, softer tissue with enhanced absorption capacity. During the year, a new tissue machine based on TAD technology was constructed in Mannheim, Germany, and it will be ready in summer 1999.

The packaging operations base essentially their entire operations on the total adaptation of every packaging type to customer requirements. In containerboard production, the paper machine at the mill in Obbola, Sweden, has been rebuilt to produce a new, lighter paper with layered coating which features the same strength as in previous grades.



Tissue produced on a TAD machine (fluff drying with hot air) gains a more open structure, resulting in improved absorption and softness, compared with conventional tissue.

Graphic Paper often conducts development projects together with larger customers. An LWC paper with very low surface weight was developed jointly by the Ortviken paper mill in Sweden and the American magazine publisher Time, Inc. Another example is the development of the SC paper, GraphoGrande, at the Laakirchen paper mill in Austria, with extra brightness, for exclusive magazines and catalogues.

There is also considerable innovation in the forest operations, where sawn timber products are uniquely processed within the Developed Timber concept, and several new techniques and procedures are used in forest management and nature conservation.

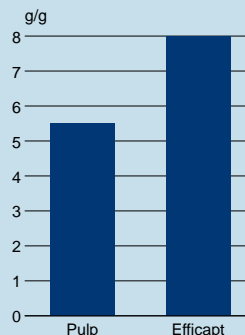


Tissue produced conventionally has a relatively compressed and thin structure. (The illustrations are magnified five times.)



The Libresse panty line with Efficapt features a distribution of fibers which spreads the fluid effectively. The product is based entirely on recyclable materials.

Absorption capacity



The compressed fiber material Efficapt expands sharply in contact with liquids while the fibers simultaneously distribute the liquid in the material. This gives Efficapt exceptional absorption capacity.

Information Technology – IT

CUSTOMER ORIENTATION AND Y2K FOCUS

SCA is developing new IT solutions that will improve service to both Group customers and the capital market.

An extensive program will ensure that SCA's systems will be Y2K compliant.

Share trading via the SCA website

The SCA website (www.sca.se) contains information on Group operations including links to most business areas. The Group's financial reports are available here, provided by an extensive Investor Relations service for shareholders and other elements of the capital market. Interim reports and other financial data can be obtained in electronic or printed form. Student graduate projects as well as vacant positions, are also posted on the SCA website. More than three million "hits" were recorded on the website during 1998.

Trading in the SCA share via the Internet and the SCA website was launched in 1998. The trading is administrated by asset manager Nordnet, for a commission of only 0.08 percent, or minimum of SEK 60. The trading setup via the SCA website is probably the first of its kind in the world.

IT security

The Internet and the SCA intranet are becoming increasingly integrated in the Group's operations. An enormous amount of information is exchanged daily, externally and internally. Therefore, SCA prioritizes high IT security. During the year, IT security at hundreds of Group units has been inspected and

personnel have been trained. A new and more detailed security policy was established, with a focus on security in the SCA computer network. The Group has also joined the European Security Forum, which develops new and better methods to enhance IT security.

Customer service by IT

Recently, SCA has invested increasingly more resources in improving its marketing and customer service by means of modern IT systems.

SCA has developed systems that improve the Company's cooperation with distributors and customers: Efficient Consumer Response systems. These systems enhance the efficiency of both goods distribution and handling of the company's own product range. It also allows SCA to follow up and evaluate product launches and other marketing activities.

Moreover, IT and multimedia (Midas, see page 21) systems are used in the design of corrugated cardboard packaging, to enable SCA and the customer to jointly design the final product directly on screen and reduce the cost of the customer's goods handling.

SCA Packaging's new IT-based sales and design program, Midas, was developed internally within SCA. This system makes it possible to develop a packaging that is totally adapted to the customer's needs and specifications.

Recommended shapes



THE YEAR 2000

The Group's operations are being protected against Y2K problems through a systematic approach and follow-up routines. SCA computer systems are considered to be adapted and protected in preparation for the new millennium.

An external audit, focusing on embedded systems, was conducted with the help of the authorized company, SIS SAQ.

Y2K issues have been analyzed within SCA and work is being carried out in project groups within each business area. Their work is monitored by a follow-up team at the Group-staff level.

The Y2K program in 1998

The SCA Y2K program follows a method involving surveying, analysis, prioritizing and an action program. Measures have been subdivided into actions involving IT systems, imbedded systems in production processes and supplier relationships. The first systems to be analyzed within the projects were the administrative IT systems, such as PC and mainframe software, and the accounts systems, and the Y2K programs are

now either completed or almost complete. During the latter part of the year, efforts were concentrated on imbedded systems in SCA's production plants.

Most of the program items will be completed before mid-1999.

Just as SCA prepares its own systems and product deliveries to its customers, it demands corresponding behavior from its suppliers.

Risks associated with the new millennium

Since SCA's products do not contain any date-related information, they will not create any problems linked to the millennium shift. However, despite extensive checks and action programs, disturbances could occur in production, which could only result in minor effects, possibly delivery delays.

Consequently, prior to the year 2000, SCA will temporarily increase its stores of both finished products and raw materials. Deliveries may also be dispatched from alternative SCA production units. Extra personnel and consultants will be on hand to provide support in case of an operations disruption.



Environment

CERTIFIED ENVIRONMENTAL ACTIVITIES

SCA's forest management is certified through FSC. Prior to the end of the year 2000, all pulp and paper mills will be certified in accordance with the European and international standards ISO 14001 and EMAS.

SCA applies the closed-loop philosophy to its operations and is one of the world's leading users of recycled fibers. However, the production of large volumes of products results in emissions and consumes energy. For SCA, it is important to reduce the emission of substances which may affect the environment and to reduce energy consumption as much as possible.

SCA's total emissions to water and the air and in the form of solid waste are shown in the table below.

SCA considers it a crucial task to satisfy the demands which customers and the international community have with respect to the effects on the environment linked to the Group's production processes and products. SCA plays an active role in the technical development of more environmentally friendly products and processes in various segments of its operations.

An important aspect of environmental commitment is providing open and comprehensive information regarding the Group's operations and measures to reduce impact on the environment. This environmental section of the annual report is supplemented by a separate environmental report for the Group, which is scheduled to be published before summer 1999.

The amount of SCA environmental information on the Internet increased dramatically during the year. In 1998, nearly 500 environmental questions were answered via the environmental section of SCA's website. Moreover, news covering SCA's environmental work is presented on the Internet. In addition, SCA receives a large number of visitors every year, who are shown the environmental aspects of forestry management first hand and the inside of SCA's plants.

Every year, SCA makes comprehensive investments to protect the environment and to reduce energy consumption. During the last five years, SCA has invested a total of SEK 2,500 M to reduce the Group's emissions into the water and the air. Examples of this type of investment are SEK 50 M for a biological waste treatment plant at the mill in Obbola, Sweden and SEK 95 M for measures to increase process and wastewater treatment at the Hallein paper mill in Austria.

SCA PRODUCTS

Renewable materials such as wood, wood fiber and recyclable fiber comprise 93% of SCA products. The remainder consists of oil-based and inorganic material.

SCA Graphic Paper and SCA Fine Paper use a small percentage of inorganic material in the form of clay and marble as filler material and coating pigments to satisfy customer demands for high paper product quality. The oil-based materials are mainly used in high-absorption fluff products to enhance quality and functionality. The use of these materials reduces product weight and volume, thereby facilitating smaller packaging sizes and more efficient transport.

CERTIFICATION OF OPERATIONS

SCA's environmental efforts are a fundamental criteria for customers choosing the Group's products. It is therefore important that SCA's environmental endeavors are verified by a third, independent and credible party, which is also able to indicate areas where improvements can be made.

For these reasons, SCA has environmentally certified all

Discharges from SCA's plants		1998
1,000 tons		
Discharges to air		
NO _x as NO ₂		6.3
SO ₂		3.9
CO ₂ fossil		2,520
CO ₂ biogenous		2,899
Discharges to water		
COD		57.2
AOX		0.019
Landfill		
Solid waste		501

Byproducts from various energy forms not included. Vehicle transports excluded.

Environmental policy and strategy

SCA's environmental policy:

- SCA shall assume responsibility for the environment.
- All decisions must include environmental considerations.
- 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 improvement and review.

- SCA shall meet customer expectations of environmentally sound products and actively disseminate information aimed at stimulating demand for these products.

SCA's environmental policy and closed-loop concept play a central role in SCA's environmental strategy. The aim is to reduce the utilization of nonrenewable and nonrecoverable resources in SCA's production and distribution, both in terms of material and energy.

In 1998, SCA's environmental efforts were based on the following strategic objectives:

- To increase recovery activities within SCA and thus further strengthen its position as a closed-loop company.
- To maintain the biological diversity of the Group's forests.
- To consolidate the credibility of the Group's environmental policy by continued implementation of certified environmental management systems.
- To strengthen SCA's environmental organization and to increase environmental information.

forestry operations via ISO 14001 (international standard for environmental management systems) and management of its own forest holdings via FSC (Forest Stewardship Council) and production processes via ISO 14001 or EMAS (the European Union's system for eco-management and environmental audits). Having operations certified according to these standards means that they are well-documented and that policies, guidelines and instructions are applied to practical work consistently.

There are currently nine SCA plants certified in accordance with ISO 14001 and seven in accordance with EMAS. SCA will continue the introduction of certified environmental management systems at all its pulp and paper mills. A further ten units will be certified during 1999.

FORESTRY

SCA owns 2.3 million hectares of forest land, of which 1.8 million hectares are managed. The forests are situated in northern Sweden. These are vital for the supply of wood raw materials to SCA operations and guarantee a stable supply of wood raw materials with unique qualities.

Harvesting in the Group's own forests corresponds to two-thirds of the wood consumption in SCA's Swedish industries, representing a high degree of self-sufficiency. The forests have developed favorably and the total inventory of standing timber continues to increase.

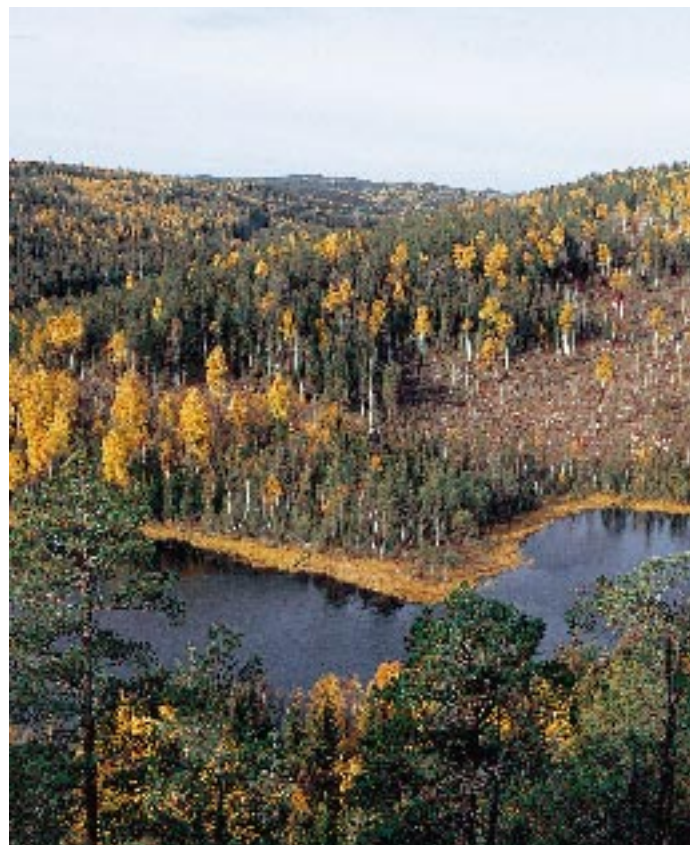
Certification

SCA's forestry operations were certified in accordance with ISO 14001 and FSC. The FSC certificate was received in January 1999. ISO takes into account all aspects of environmental work, stipulating the need for continuous improvements. Important factors are nature conservation, long-term sustainable forestry production and the usage and choice of fuel and lubricants in felling operations and transportation.

FSC has produced international principles and criteria for sustainable forest management which take into account ecological, social and economic aspects. Sweden is the first country in the world to set a national standard through a unique agreement between the forest industry, environmental organizations, trade unions and the Sami people. The FSC standard states that specific objectives should be fulfilled before opera-

tions may be certified. SCA has decided to work in accordance with the Swedish FSC standard and to monitor its application using ISO 14001. This method has proved successful, since it was possible to implement FSC certification without the need to make any significant changes in SCA's environmental efforts. Of the total area of FSC-certified forests in the world, SCA accounts for 15%.

Both ISO and FSC certification were carried out by independent organizations.



A felled area of today is far from clear. Border zones towards peatbogs and lakes are left and roughly one tree of twenty is left standing, to the benefit of insects and woodpeckers.

Evaluation of 1998 objectives

Objective: To develop RMS (Resource Management System) into a common management tool for the Group's environmental work.

Result: A Group-wide reporting system is now in use within SCA.

Objective: To increase knowledge of SCA's environmental efforts through improved communications with various interests in society.

Result: SCA has decided to publish a separate environmental report for the Group. During 1998, nearly 500 questions on environmental issues were answered via the environmental section on SCA's Internet website. In addition, various news is presented on the Internet covering SCA's environmental endeavors.

Objective: Further develop SCA's monitoring system for the control of chemicals.

Result: Today, chemical management is supervised through an electronic network, the SCA product safety network.

New objectives for 1999

- All of SCA's pulp and paper mills will be certified in accordance with ISO 14001 and/or EMAS before the end of the year 2000. During 1999, at least ten units will implement certified environmental management systems.
- Increase reuse of waste materials from SCA's plants.
- Further develop communications channels to increase awareness about SCA's environmental commitment.

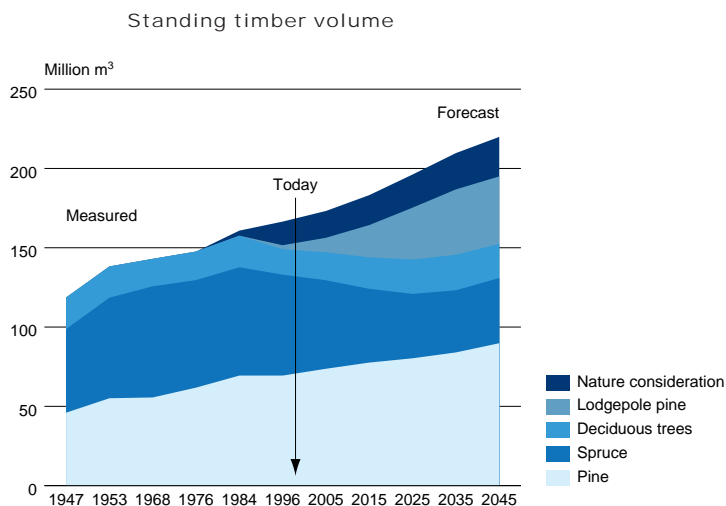
Nature conservation

SCA's nature conservation program focuses equally on long-term, sustainable forest production and preservation of biological diversity. The management of forests is extremely long-term and is evaluated in repeated inventories. These inventories are used to calculate the future level of harvesting for a period of more than 100 years. Within the framework of this plan, decisions are made concerning felling for the next ten years, which in turn are broken down into annual and quarterly plans.

SCA carries out Ecological Landscape Plans (ELP) for large areas of connected land to ensure biodiversity is sustained. Forest inventories are supplemented by surveys of areas with high levels of nature values. Areas that today have high nature values and those which may develop these qualities in the future are entirely exempted from harvesting. In the remainder of the forest areas, SCA pursues comprehensive nature conservation in its forestry operations. SCA invests SEK 75–80 M in nature conservation measures within forestry operations each year.

Information technology (IT) system is becoming increasingly important for detailed nature conservation work in forestry. Maps of ELP areas are now stored in the GIS (Geographic Information System) computer system, designed specially for fixed information. Alternatives for felling operations and nature conservation measures can thus be analyzed to produce a functional and cost-effective balance between production and nature conservation.

In 1999, GIS will be linked to portable field computers which will be used for the joint planning of felling operations, nature conservation and future silviculture measures in each area earmarked for harvesting. Measures for nature conservation are marked by the planners during the working process on a map that has been loaded into the field computers. Everything is done to a high level of precision with the help of the field computer's link to the GPS system – a satellite-based system which provides position information. During the summer months in 1998, the field computer equipment was tested in all forest management districts with positive results.



Standing timber volume in SCA's forests have increased by 40% during the past 50 years. Based on the current forest management strategies and in spite of large forest areas being exempted from felling due to nature conservation, the increase in standing timber volume is expected to continue.

PAPER RECYCLING

SCA is active in efforts to reduce the amount of waste in Europe and to recycle valuable materials. For example, corrugated containers are used for the production of new packaging material; newspapers and magazines are collected and recycled into newsprint and magazine paper; and paper from offices and printers are to a large extent recycled into new hygiene products.

SCA is Europe's largest user of recovered fibers. SCA Hygiene Products uses recovered paper in the production of tissue at plants in Sweden, the Netherlands, Germany, Austria and Great Britain. Recovered paper is also used in the SCA Graphic Paper business area at the Austrian mill in Laakirchen and at Aylesford Newsprint in Great Britain. SCA Packaging's containerboard comprises 79% recycled fiber.

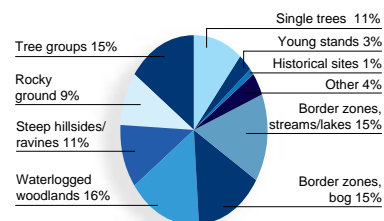
SCA Raw Materials and Logistics is responsible for the collection and sorting of used paper products. In 1998, the consumption of recovered fibers within SCA was 3 million tons. Through collection operations, the Group fulfills its responsibility as a producer and SCA continues to work actively to achieve a sustainable closed-loop society.

The system for the collection of used newspapers, corrugated board packaging and other paper products varies greatly between the different countries in Europe.

In the area of packaging, the EU issued a directive in 1994 to minimize the adverse environmental impact of packaging, increase recovery of packaging and to reduce trade barriers. The packaging directive was adopted by all member countries, but the development of common rules and laws for the member countries is progressing slowly and the national directives still vary.

SCA's packaging operations, which to a very large extent are based on recovered paper, exceed the various national objectives for recycling. In addition, SCA has one of Europe's largest operations for the recovery of corrugated board packaging.

Environmental consideration in final felling operations, 1998



Within the felled areas, 4.2% (4.0 in 1997) of the timber volume is left for nature conservation purposes. Samples show that 72% of the fellings during 1997 (88% in 1996) were graded as good or excellent. In the most recent survey the demand for nature consideration was increased. As a result the data from 1997 and 1996 are not comparable.

TRANSPORT

Each year, large quantities of raw materials are transported to SCA's production plants, just as finished products are delivered to SCA's customers. Raw materials are transported over relatively short distances, while the delivery of finished products are often shipped over longer distances. The majority of SCA transportation is procured from external suppliers.

In selecting a mode of transportation, an assessment is carried out to determine which form of transport is best from an environmental viewpoint. Important factors include the transport distance, type of fuel, the management of loading and unloading of the products and the possibility of taking on a return load. SCA has carried out a survey of the effects of transport on the environment using its internal system for resource management, RMS (Resource Management System).

SCA Raw Materials and Logistics has overall responsibility for improving the efficiency of the Group's transport operations, which has led to a series of measures to improve environmental care. Among other improvements, the number of empty journeys by trucks has declined. SCA is the first paper company to decide to equip all its vessels with catalytic converters for treatment of exhaust emissions. This measure results in a reduction of nitrous-oxide emissions by 90%, corresponding to 1,400 tons annually. SCA's vessels also use low sulfur oil which means that sulfur dioxide emissions have declined by 70% or 1,100 tons annually.

Distribution of SCA's transports (tonkm)
Raw materials and products

Ship	Truck	Rail
70%	22%	8%

Shipments by sea account for most of SCA's transports.

SCA'S ENVIRONMENTAL COUNCIL

SCA's environmental policy and strategy are based partly on all managers in the Group having an established total view of the environment. Employees must feel a sense of responsibility to detect and correct adverse effects on the environment and to eliminate environmental risks.

SCA's Environmental Council, which manages and coordinates environmental issues throughout SCA, consists of all the Group's business area managers, or another management representative, information officers and technical experts. SCA's Executive Vice President, Corporate Research and Technology, is Chairman of the Council. Each business area has its own Environmental Council which manages the daily work. Collectively, these organizations form a well-functioning network for the Group's environmental endeavors.

FUTURE COSTS FOR ENVIRONMENTAL DAMAGE

SCA has inventoried its major industrial operations to determine if there is a need for clean-up measures at sites where the company has disproved of waste products in the past. The inventory disclosed that there is currently no reason to calculate on anything more than limited future costs. SCA also conducts comprehensive studies focused on the environmental impact related to acquired property, plant and equipment.



ENERGY

The closed-loop concept is also a hallmark of SCA's energy utilization. Production based on timber and wood fiber yields various natural byproducts which are increasingly used as bio-fuel, instead of being transported to waste disposal. This has led to a reduction in the need for fossil fuel and less transport to landfills, which means a reduction in carbon dioxide and acidifying exhaust emissions.

The accompanying energy diagram shows that SCA is a large consumer of electricity and fuel. However, in relation to volume of production, energy consumption has declined in recent years.

Biofuels account for 42% of the fuels used by SCA. These only contain carbon which once was absorbed by plants from the carbon dioxide in the air and, accordingly, do not make a net contribution to the greenhouse effect.

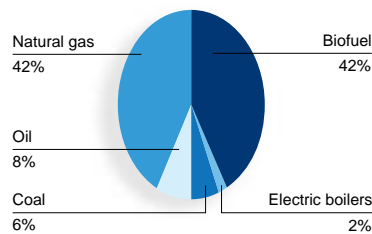
Of the total amount of electricity utilized by SCA, 59% is procured from the national grid. The balance is generated internally and has a high level of efficiency compared with procured electrical power.

Priority is given to locally produced and grid-based energy, such as biomass, natural gas and electrical power. This reduces the amount of transport of oil and coal, which reduces the environment load.

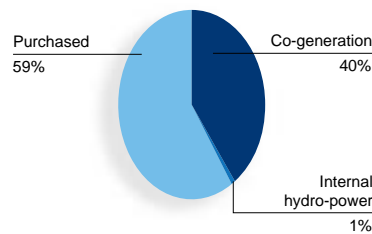
The combined power and heating capacity is well-developed at SCA's pulp and paper mills. A review of the further development of efficient co-generation power is being carried out, as is a review of the possibilities of increasing the combustion capacity of biofuel. SCA works jointly on this kind of project with power supply and municipal district heating companies. The advantage is that the plants can be built at a lower cost and that power production becomes more efficient and thus more environmentally-friendly. Production at these large plants does, however, exceed SCA's needs.

In joint operations with the municipal district heating network and the national electric network, SCA delivers 24,000 m³ of oil-equivalent heat supplies annually and electrical power equivalent to 450 GWh. Heat is recycled from the mills' water systems at a rate of 82%.

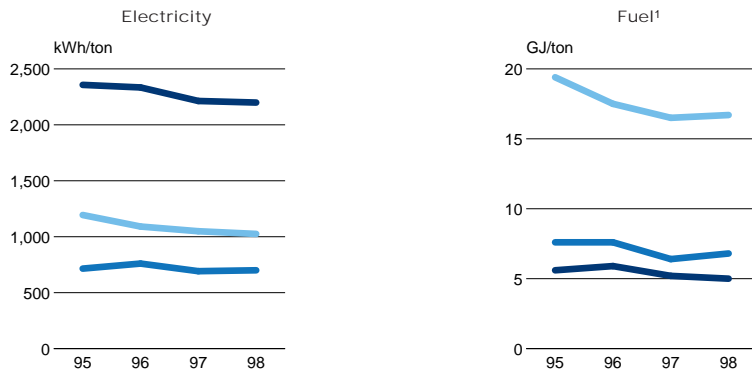
Distribution of SCA's consumption of fuel (incl. fuel for co-generation)
Total 73,000 TJ



Distribution of SCA's consumption of electricity
Total 6.7 TWh



Mean value of electricity and fuel consumption in various production processes



¹ Excluding fuel for production of electricity in co-generation plants.

- Production process:**
- Mechanical pulp (including the Laakirchen and Ortviken mills)
 - Chemical pulp (including the Mannheim, Stockstadt, Hallein, Östrand and Wifsta mills)
 - Recovered fibers (including the Edet, Tilburg, Ortmann, Kostheim, Prudhoe, Aylesford, Aschaffenburg, Widmer-Walty, Witzenhausen, New Hythe, De Hoop, Lucca and Castelfranco mills)

Financial risk management

SCA is exposed to financial risk through its international, competitive 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, refinancing and counterparty risks.

ORGANIZATION AND ACTIVITIES

SCA's financial activities are coordinated centrally within the subsidiary AB SCA Finans. The activities are centralized to capitalize on economies of scale and synergy effects in the financial sector. External financial transactions are conducted by AB SCA Finans, which also functions as the Group's in-house bank for financial transactions in foreign currency, interest rates and raw materials markets.

The Group's financial policy constitutes a framework of guidelines and regulations for the management of financial risks and financial activities in general. Every business area has also formulated its own financial policy in compliance with the SCA Group's general principles.

CURRENCY RISKS

Transaction exposure

Transaction exposure, defined as the commercial currency flow, after net calculations of counterflows in the same currencies, amounts to SEK 8,517 M annually. The most important individual currency relations are SEK against EUR and GBP (see table below).

SCA applies a decentralized approach to management of the Group's transaction exposure, whereby each business area selects the most appropriate strategy for its subsidiaries within a centrally stipulated framework. A minimum requirement calls for the hedging of booked accounts receivable and accounts payable. Centrally, there is a mandate to deviate from the subsidiaries' positions within established risk limits.

During 1998, hedging of a maximum of 7.4 months and a minimum of 2.2 months were hedged against SEK. At year-end 1998, flows representing 7.1 months were hedged, corresponding to a volume of SEK 5,100 M.

Foreign assets

Capital employed in foreign currencies at year-end 1998 amounted to SEK 37,026 M. The distribution between different currencies is shown in the table below.

In accordance with SCA's policy for financing foreign assets, capital employed should be matched by borrowings and forward contracts so that the booked debt/equity ratio is unaffected by foreign exchange rate fluctuations. Based on the Group's present currency distribution and debt/equity ratio, about 50% of capital employed in foreign assets should be matched.

On December 31, 1998, foreign assets were financed in foreign currencies corresponding to SEK 18,615 M, equivalent to a matching ratio of 52%.

In line with SCA's growth strategy for the Hygiene Products and Packaging business areas, a number of acquisitions and investments have been made in regions outside Western Europe and North America. Certain countries in these regions are characterized by high inflation or other economic instability (see "Accounting principles" page 53). Capital employed in these markets at year-end 1998 amounted to SEK 2,526 M, corresponding to 5% of the Group's total capital employed. The geographic distribution of capital employed is shown in the table below.

Long-term currency sensitivity

The distribution of SCA's net sales and operating costs among different currencies shows the Group's long-term currency sensitivity (see table below). With the exception of SEK, SCA maintains a balance between revenues and expenses in all major currencies.

SCA Group earnings are affected indirectly by foreign exchange rate trends for USD, CAD and EUR, since forest

Currency exposure

Currency	Transaction flows SEK M	Capital employed SEK M	Net debt SEK M
EUR	1,745	25,626	11,930
GBP	2,871	7,624	4,610
USD	677	1,974	1,024
Others	3,224	1,802	1,051
SEK	-8,517	14,134	2,755
Total	0	51,160	21,370

Capital employed, geographical distribution

Region	Capital employed SEK M	%
Western Europe	47,743	93
North America	817	2
Total	48,560	95
Central Europe + Russia	1,071	2
Asia	416	1
South America	847	2
Other	266	0
Total	2,600	5
Total capital employed	51,160	100

Net sales and operating expenses per currency

	Net sales	Operating expenses
DEM	20%	21%
GBP	17%	14%
FRF	11%	8%
SEK	9%	20%
NLG	7%	7%
ITL	7%	5%
USD	6%	5%
BEF	4%	4%
ATS	3%	9%
Others	16%	7%
Total	100%	100%

industry companies in North America and Finland are major exporters.

Group euro cash-pool structure

During the first quarter of 1999, a comprehensive cash-pool structure will be introduced for Group euro-currency transactions. This will reduce the number of international payments, thus minimizing float periods and transaction costs. Cash management will also be more efficient, since euro liquidity on a day-to-day basis will be concentrated in a single account.

INTEREST-RATE RISKS

Interest-rate fluctuations have a direct impact on SCA's consolidated earnings due to changes in net interest, but there is also an indirect effect as a result of the impact of interest levels on the economy as a whole. SCA's policy is to maintain a short fixed interest term, since the company considers that this results in lower borrowing costs and a more stable earnings trend in the long run.

Management of the Group's interest-rate exposure is a centralized function. SCA Finans is responsible for identifying and managing this exposure. During 1998, the average fixed-interest term was approximately seven months. At year-end the fixed-interest term was slightly less than six months.

REFINANCING RISKS AND LIQUIDITY

At 31 December 1998, gross debt amounted to SEK 25,806 M. After deduction for liquid funds, interest-bearing receivables and capital investment shares, net debt was SEK 21,370 M.

Liquidity risk is defined as the risk of being unable to meet payment obligations as a result of inadequate liquidity or difficulties in obtaining credit from external sources.

SCA applies a centralized approach to management of Group financing. SCA Finans is responsible for external borrowing and external investment.

The aim is that liquid funds and committed credit facilities should amount to at least 10% of forecast annual sales for the

Group, and that the average maturity for the Group's gross debt should be in excess of three years.

At year-end, the average maturity was three years. Liquid funds and unutilized committed credit facilities amounted to SEK 9,403 M at year-end, which corresponded to 15% of Group sales in 1998.

During 1998, the existing SEK 4,000 M in committed credit facilities was refinanced by means of a number of bilateral transactions. In this connection, the total amount was increased to SEK 6,000 M, and the average maturity period was prolonged. The counterparties for these credit facilities are eight international banks of high repute.

During the year, framework for SCA Finans' Swedish commercial paper program was increased from SEK 4,000 M to SEK 8,000 M.

In order to reduce the costs of finance for working capital in SCA's Polish operations, a Polish commercial paper program was arranged, with a framework totaling PLN 100 M (SEK 220 M).

A Swedish Medium Term Note (MTN) program was established during 1998 in order to diversify the Group's medium and long-term credit facilities. The MTN program, which has a framework total of SEK 2,000 M, permits issues with maturities ranging from 1-15 years. During 1998, medium-term notes totaling SEK 400 M were issued under the MTN program.

SCA has a long-term rating of A3/A- and a short-term rating of P2/A2 from Moody's and Standard & Poor's, and a short-term Standard & Poor's K1 rating in Sweden.

CREDIT RISKS

Financial risk management exposes SCA to credit risks. This exposure arises from lending within the framework of liquidity management, and from claims on banks through derivative instruments. Special counterparty rules stipulate the maximum credit risks allowed against various counterparties.

Credit exposure in derivative instruments is defined as the market value plus an additional amount based on credit risk factors which reflect the risk of increased exposure due to foreign currency and interest-rate fluctuations.

SCA employs ISDA Master Agreement which permit net calculation of receivables and liabilities in countries where this is possible.

At 31 December 1998, credit exposure in derivative instruments amounted to SEK 1,370 M.

RISK MANAGEMENT AND INSURANCE

SCA's Risk Management function (RM) is responsible for financing insurable risks in the Group. This is achieved by means of Group-wide insurance programs and the use of SCA's own insurance companies, so-called captives. This approach provides integration gains and optimization of deductibles, etc. at Group level. In addition, the RM function endeavors to ensure that risks are eliminated or reduced as a result of continuous improvements in the level of loss prevention.

Redemption structure for interest-bearing debt

Year	SEK M
1999	6,629
2000	1,128
2001	3,987
2002	6,803
2003	6,580
2004-	679
Total	25,806

The average maturity period at year-end was 3 years.

Financial review

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Board of Directors' report*

CHANGE IN SCA GROUP STRUCTURE

In 1997 it was decided to establish a so-called Control Agreement between SCA and PWA, to be effective in 1998. The Control Agreement creates conditions for implementing desired structural changes and facilitates the continuing integration of PWA and SCA. The integration measures that continued in 1998 included establishment of a common legal organization for hygiene-products operations. The packaging operations in PWA were also transferred to SCA Packaging. During the autumn the name of PWA AG was changed to SCA Hygiene Products AG.

CAPITAL EXPENDITURES AND ACQUISITIONS

In addition to current capital expenditures of SEK 2,058 M, strategic capital expenditures amounting to SEK 2,248 M were made during the year, with Hygiene Products accounting for SEK 1,617 M and Packaging for SEK 512 M. Projects within Hygiene Products include a new tissue machine and converting capacity for tissue in Mannheim, Germany, new capacity in the incontinence segment and establishment of new production technologies for baby diapers. The capital expenditure in Mannheim is estimated at SEK 1,400 M and is being carried out during the period 1998–2000, with most activity in 1999. In the Packaging field, capital expenditures include rebuilding and new construction in Obbola, Sweden, and Witzenhausen, Germany, as well as new converting technology for corrugated board at several production plants.

SCA's acquisitions during 1998 and certain acquisition at the beginning of 1999 are presented below in the business area sections. In total, acquisitions in 1998 amounted to SEK 2,793 M, including the additional purchase of PWA shares. As of 31 December 1998, SCA held 96% of PWA's shares.

Hygiene Products

Early in 1998 the Hygiene Products business area acquired Marpo, a Spanish tissue company with annual sales of approximately SEK 550 M. The purchase price was approximately six times Marpo's 1997 operating profit.

In Russia, SCA acquired all the shares of Svetogorsk Tissue for approximately SEK 200 M. Svetogorsk Tissue, which is located in the St. Petersburg region, has Russia's most modern tissue machine, built in 1989.

During 1998 the business area increased its holding in Productos Familia, a Colombian tissue company, to 50%, which in turn acquired all the shares of the Tecnopapel tissue company in Ecuador.

Previously announced plans to acquire a shareholding in the Melhoramentos tissue company in Brazil have not yet been completed as a result of the financial uncertainty prevailing in the country.

The business area also acquired three retailers of incontinence products in France with total annual sales of SEK 140 M.

Involvement in Asia was increased through acquisition of a Philippine tissue company. The purchase price was SEK 130 M.

Packaging

In the beginning of 1998 the Packaging business area acquired a minority interest in the corrugated board operations of the Spanish company Lantero. SCA paid SEK 196 M for 25% of the share capital and has an option to increase its holding to 49%.

The business area will acquire a 49% interest in OBALEX, a Czech packaging company with annual sales of SEK 260 M. The acquisition is being made in two stages; 33% of the shares were acquired in 1998 and the remaining shares, up to 49% of the total, are being acquired in 1999. SCA has an option to buy the remaining shares.

In the beginning of 1999 the corrugated board division of Rexam Plc was acquired. The purchase price was approximately SEK 2,600 M, equal to about 6.5 times the operating surplus and about 9 times the operating profit, based on estimated results for 1998. The business has sales of approximately SEK 2,700 M. The acquisition increases SCA's share of the market for corrugated board in Great Britain from 13% to 21%, and from 13% to 14% in Europe.

Danapak Papemballage, the third largest packaging company in Denmark, was acquired in January 1999 for SEK 636 M. The purchase price corresponds to eight times operating profit for 1998. Annually, the company produces about 100 million m² of corrugated board and has sales of SEK 650 M.

During 1998 the business area acquired all shares outstanding in the Widmer-Walty Group in Switzerland.

In early 1999, SCA acquired an 11% interest in a Singapore-based packaging company for SEK 36 M. SCA has the possibility of increasing ownership to 51% within five years. The company produces about 50 million m² of corrugated board annually.

Graphic Paper

During 1998, Graphic Paper acquired additional shares in Laarkirchen AG for SEK 44 M. Currently, compulsory redemption is under way of the remaining shares. The remaining purchase amount, SEK 54 M, will be paid during the first quarter of 1999.

DIVESTMENTS

SCA divested the Clinical Products business unit (surgical and wound-care products) in the beginning of 1998. The sale amounted to approximately SEK 1,500 M, resulting in a capital gain of SEK 400 M, which was reported during the first quarter of 1998.

RESTRUCTURING

The integration of the Group's tissue and fluff operations is continuing. SCA's plants in the hygiene sector in France are

* In addition to these pages, the Board of Directors' report includes the discussions and analyses accompanying the cash flow statement, statement of earnings and balance sheet (pages 46, 48 and 50).

now being consolidated. The plan involves closing two plants – one producing fluff products (Pontchâteau, with 220 employees) and one producing tissue products (Croisset, with 175 employees).

The restructuring program announced earlier in the Packaging sector is continuing.

CONVERTIBLE DEBENTURES ISSUED TO EMPLOYEES

During the year SCA raised a debenture loan through an issue to employees of convertible debentures with detachable warrants.

The program extends over a period of five years. The conversion price and subscription price were set at SEK 271. At the close of the subscription period 42% of the approximately 29,000 eligible employees had subscribed for an average of about 2.5 lots. Each lot comprises 36 convertible debentures and 54 options. The issue of convertibles to employees yielded SEK 296 M.

PENSION LIABILITIES

Effective in 1999, SCA will report pension liabilities in accordance with applicable international accounting recommendations (IAS 19, Employee Benefits). This means that SCA's pension liability is calculated taking into account estimated future salary increases and inflation. SCA has completed a full review and calculations of all pension schemes in the Group.

Since the reported pension liability covers the calculated liability, an adjustment against shareholders' equity is not necessary.

Nearly SEK 6 billion of the Group's total pension liability of slightly less than SEK 9 billion is held in pension foundations independent of SCA.

SCA has also decided, effective in 1999, to form a pension foundation whose main purpose is to secure the retirement pensions of Swedish salaried employees in accordance with the ITP plan.

EFFECTS OF, AND PREPARATIONS FOR, INTRODUCTION OF THE EURO

SCA is being affected directly by the introduction of the euro since a relatively large percentage of its business is conducted within the EMU area. Some 56% of SCA's sales take place within the EMU area, 17% in Great Britain and 9% in Sweden and the Group capital employed is distributed as follows: 50% in the EMU region, 28% in Sweden and 15% in Great Britain.

The analyses show that one of the more important effects will be the impact on the price picture that price-setting in a single currency will involve. In SCA's case, this will affect primarily its consumer-related products. It is likely that there will be a leveling-out of prices between markets. However, the levels of taxes on merchandise in different countries and trading margins will continue to result in different levels of prices to the end consumer for similar products. Prices of the traditional forest products are already relatively equal in various markets; accordingly, no major effect is anticipated as a result of intro-

duction of the euro.

The analyses also show that there will be a harmonizing of the product line, which will help to reduce marketing and production costs.

Another important consequence of the EMU pertains to the large liquid capital market for the euro that is being created. The market for corporate bonds is expected to be much larger than it is today. The greater part of SCA's external financing today is in the form of borrowing from the banking sector. Accordingly, in the future the Group will be able to finance its operations to a greater degree through bond issues. Such issues require that companies have favorable long credit ratings, which SCA has held for many years.

SCA will gradually change over to the euro as the reporting currency for all subsidiaries within the EMU area. For the time being, SCA shares will be listed in kronor on the Stockholm Stock Exchange and on the London Stock Exchange.

In preparation for the changeover to the euro, the consolidated statement of earnings and the balance sheets for 1997 and 1998 have been translated to ECU. The year-end rate of 9.47 (8.70) was used in the balance sheet and the average rate of 8.93 (8.62) in the statement of earnings.

YEAR 2000

The Group's operations are being protected against Y2K problems through a systematic approach and follow-up routines. SCA computer systems are considered to be adapted and protected in preparation for the new millennium.

An external audit, focusing on embedded systems was conducted with the help of the authorized company, SIS SAQ.

Year 2000 issues have been analyzed within SCA and work is being carried out in project groups within each business area. Their work is monitored by a follow-up team at Group level.

OTHER

The tax authority in Gothenburg has decided not to permit SCA to deduct for a capital loss incurred in connection with the restructuring of Group operations in France. The decision involves a demand for taxes due amounting to approximately SEK 370 M, plus additional taxes and other charges totaling SEK 100 M. In SCA's opinion, the decision of the tax authority has no legal grounds and it was appealed. Against this background, SCA has not made any provision for the tax authority's claim in the 1998 accounts.

DIVIDEND

Payment of a dividend of SEK 6.50 (5.75) per share to the shareholders, amounting to a total of SEK 1,283 M, is proposed. Dividend growth during the most recent five-year period, including the dividend proposed for 1998, has amounted to 14% per year.

See also "Proposed disposition of earnings" on page 68.

Cash flow statement

CONSOLIDATED

SEK M	1998	1997
OPERATIONS		
Net sales	61,273	58,595
Operating expenses	-50,953	-49,251
Operating surplus	10,320	9,344
Changes in		
- Current receivables	-596	-535
- Inventories	5	-125
- Operating liabilities	-341	127
Change in working capital	-932	-533
Current capital expenditures	-2,058	-2,207
Change in pension provisions	70	85
Restructuring expenses	-357	-123
Other operating cash flow changes	-73	-53
OPERATING CASH FLOW	6,970	6,513
Financial items	-1,259	-1,111
Income taxes paid	-1,279	-731
Other	-157	179
CASH FLOW FROM CURRENT OPERATIONS	4,275	4,850
STRATEGIC INVESTMENTS AND DIVESTMENTS		
Plants	-2,248	-983
Company acquisitions	-2,793	-3,431
Total strategic investments	-5,041	-4,414
Divestments	1,111	46
Cash flow from strategic investments and divestments	-3,930	-4,368
CASH FLOW BEFORE DIVIDEND	345	482
Dividend to shareholders	-1,145	-1,092
NET CASH FLOW	-800	-610

NET DEBT

SEK M	1998	1997	1996	1995	1994
Net debt, 1 January	-19,018	-17,462	-17,566	-10,573	-10,814
Net cash flow	-800	-610	87	-8,163	-75
New issue of shares through bond conversions	-	-	-	342	-
Net debt in acquired operations	-325	-	-	-	-
Currency effects	-1,227	-946	17	828	316
Net debt, 31 December	-21,370	-19,018	-17,462	-17,566	-10,573

DISCUSSION AND ANALYSIS, CASH FLOW STATEMENT

- **Operating cash flow amounted to SEK 4,275 M. Accordingly, cash flow goals for the year were fulfilled.**
- **The Group's strategic investments amounted to SEK 5,041 M, of which SEK 3,154 M is attributable to Hygiene Products and SEK 1,393 M to Packaging.**

Operating cash flow

Operating cash flow amounted to SEK 6,970 M (6,513). An increase in working capital reduced cash flow by SEK 932 M (533). The increase was due mainly to strong volume growth. Current capital expenditures amounted to SEK 2,058 M (2,207).

Cash flow from current operations

Cash flow from current operations, defined as cash flow before strategic investments and dividends, amounted to SEK 4,275 M (4,850), or SEK 21.57 (24.54) per share. Cash flow for the year exceeded the Group's long-term goal of

SEK 3,200 M by a broad margin. The short-term objective for the year, which totaled SEK 4,900 M, excluding increases in working capital, was also surpassed.

Cash flow from strategic investments and divestments

Strategic investments, that is, expansion investments and acquisitions, amounted to SEK 5,041 M (4,414). Acquisitions totaled SEK 2,793 M (3,431), including the purchase of additional shares in PWA (96% at year-end), redemption of minority interests in Laarkirchen, the acquisition of the Spanish tissue company Marpo and a minority holding (25%) in Lantero, a Spanish packaging company, the acquisition of a tissue company in the Philippines and the Russian tissue company Svetogorsk Tissue, an increase in SCA's ownership share in Productos Familia of Colombia to 50%, the acquisition of 33% of the shares in the Czech packaging company Obalex and all shares outstanding in Widmer-

Walty Group, a Swiss packaging company.

Strategic capital expenditures in plant and machinery totaled SEK 2,248 M, with Hygiene Products accounting for SEK 1,617 M and Packaging for SEK 512 M. Projects within Hygiene Products include a new tissue machine and converting capacity for tissue in Mannheim, Germany, new capacity in the incontinence segment and establishment of new production technologies for baby diapers. Ongoing projects in the Packaging business area include rebuilding and new construction in Obbola and Witzenhausen and a new conversion technology for corrugated board at several production plants.

Divestments, which amounted to SEK 1,111 M (46), consisted mainly of the sale of the Clinical Products Division.

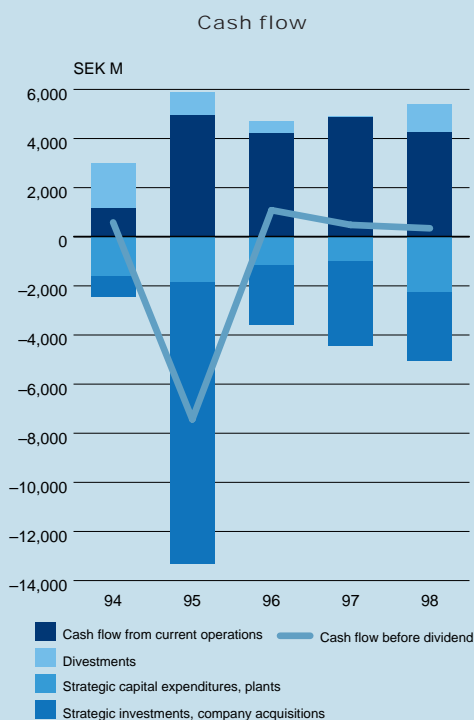
Net debt

Net debt increased during 1998 and amounted at year-end to SEK 21,370 M, which is SEK 2,352 M higher than at 1 January 1998. Of the increase, SEK 1,227 M is attributed to effects of the weaker Swedish krona.

Analysis of value development

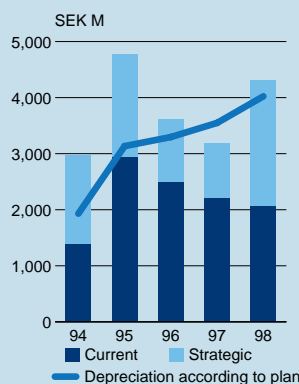
SEK M	1998	1997
Net sales	61,273	58,595
Operating surplus	10,320	9,344
% of net sales	17	16
Current capital expenditures	-2,058	-2,207
% of net sales	3	4
Change in working capital	-932	-533
Other operating cash flow changes	-360	-91
Operating cash flow	6,970	6,513
Income taxes paid, etc ¹	-1,694	-1,064
Free cash flow	5,276	5,449
per share, SEK	26.61	27.57
Interest paid after taxes	-1,001	-599
Cash flow from current operations	4,275	4,850
per share, SEK	21.57	24.54
Strategic investments and divestments	-3,930	-4,368
per share, SEK	-19.82	-22.10
Cash flow before dividend	345	482
per share, SEK	1.74	2.44

¹ Tax attributable to operating profit.



As a result of a stable cash flow from current operations, cash flow before dividends was positive, despite extensive strategic investments.

Capital expenditures plants



Capital expenditures in plants, particularly strategic investments, rose in 1998.

Statement of earnings

CONSOLIDATED

	1998		1997		
	SEK M	ECU M	SEK M	ECU M	
Net sales	61,273	6,858	58,595	6,794	
Change in inventories	470	53	334	39	
Work performed and capitalized	103	12	65	8	
Other operating revenues	350	39	430	50	
	62,196	6,962	59,424	6,891	
Operating expenses					
Raw materials and consumables	Note 1	-23,354	-2,614	-24,606	-2,853
Other external costs		-13,196	-1,477	-11,729	-1,360
Personnel costs		-12,479	-1,397	-12,371	-1,435
Depreciation of tangible and intangible assets	Note 2	-4,013	-449	-3,843	-446
Other operating expenses		-2,847	-319	-1,374	-159
Total operating expenses		-55,889	-6,256	-53,923	-6,253
Share in earnings of associated companies	Note 3	121	13	67	8
OPERATING PROFIT		6,428	719	5,568	646
Financial items	Note 4				
Income from shares and participations		69	8	70	8
Interest income and similar profit/loss items		211	24	210	24
Interest expense and similar profit/loss items		-1,539	-173	-1,391	-161
Total financial items		-1,259	-141	-1,111	-129
EARNINGS AFTER FINANCIAL ITEMS		5,169	578	4,457	517
Taxes on profit for the year	Note 5	-1,680	-188	-1,337	-155
Minority interests	Note 6	-110	-12	-361	-42
NET EARNINGS FOR THE YEAR		3,379	378	2,759	320

BY BUSINESS AREA

SEK M	Net sales		Operating profit	
	1998	1997	1998	1997
Hygiene Products	26,164	24,018	2,404	2,567
Packaging	15,035	14,282	1,480	1,196
Graphic Paper	18,902	16,562	1,851	884
– Wood-containing publications papers	7,478	6,390	1,334	458
– Fine papers, paper merchandising, market pulp	11,424	10,172	517	426
Forest and Timber	3,985	4,158	722	812
Other operations	1,647	1,862	285	384
Divested units	144	1,804	3	29
Intra-Group deliveries	-4,604	-4,091	–	–
Goodwill amortization	–	–	-317	-304
TOTAL	61,273	58,595	6,428	5,568

DISCUSSION AND ANALYSIS, STATEMENT OF EARNINGS

- **Earnings after financial items amounted to SEK 5,169 M (4,457), up 16% compared with 1997. Excluding nonrecurring items, which amounted to SEK 400 M (425), earnings after financial items improved 18%.**
- **Earnings per share after taxes rose 22% compared with 1997.**

Net sales

The Group's net sales amounted to SEK 61,273 M (58,595), an increase of 5% compared with 1997. Adjusted for divestments, the increase was 8%. The improvement is attributable to favorable effects of higher prices, 1%, a net volume increase of 4% and positive currency effects of 3%. The value of deliveries to customers outside Sweden amounted to 91% (90) of net sales.

Operating profit

Group operating profit improved 15% to SEK 6,428 M (5,568). The reported operating profit includes capital gains of SEK 400 M (425). The 6% decline in Hygiene Products was caused by lower product prices, increased expenses for new product launches and higher research and development expenditures.

Operating profit benefited from the strong volume growth, however. Currency movements had no effect on operating profit. The 24% earnings increase in Packaging was based on higher prices, lower raw material costs and productivity improvements. The earnings improvement in wood-containing publication papers was based mainly on higher prices, but increased volume deliveries, lower raw material costs, favorable currency movements and productivity improvements also contributed to the increase. The improvement in earnings from fine papers and pulp was attributable to higher prices and productivity improvements. Deliveries of fine papers were unchanged compared with the preceding year. Sawmill operations reported a sharp decline in earnings compared with 1997, due mainly to lower prices and higher raw material costs.

Other operations includes capital gains of SEK 400 M on divestment of the Clinical Products Division. In 1997, capital gains of SEK 425 M were included.

Earnings after financial items

Group earnings after financial items rose 16% to SEK 5,169 M (4,457) compared with a year earlier. Excluding nonrecurring

items, which amounted to SEK 400 M (425), the increase was 18%. Foreign exchange movements, attributable to Graphic Paper's revenues on exports from Sweden, affected earnings positively by approximately SEK 270 M. Financial items amounted to an expense of SEK 1,259 M (1,111). The change is attributable mainly to higher net debt.

Net earnings and income tax

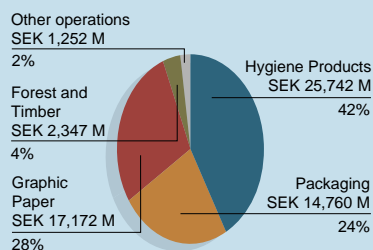
Net earnings amounted to SEK 3,379 M (2,759). Minority interests amounted to SEK 110 M (361). Total income taxes amounted to SEK 1,680 M (1,337), of which current taxes were SEK 920 M (688), changes in deferred taxes SEK 726 M (619) and taxes attributable to share in earnings of associated companies SEK 34 M (30). The tax rate was 33% (30).

Key ratios

Return on capital employed before taxes was 14% (12). Return on shareholders' equity after taxes was 13% (12). Earnings per share after full tax and full dilution was SEK 17.07 (13.98). The interest coverage ratio was 5.1 (5.0).

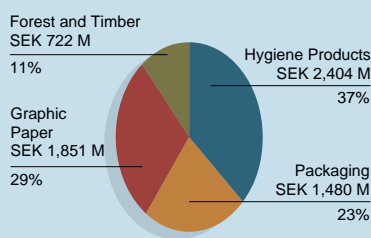
Definitions of key ratios, see page 73.

Net sales
by business area 1998
(excluding intra-Group deliveries)



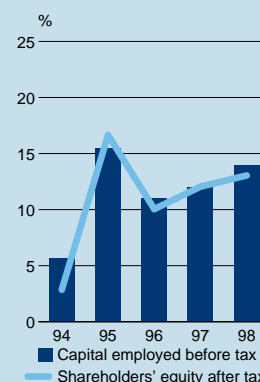
The Hygiene Products, Packaging and Graphic Paper business areas, jointly account for 94% of the Group's net sales.

Operating profit
by business area 1998



Combined, the Hygiene Products, Packaging and Graphic Paper business areas account for 89% of the Group's operating profit.

Return on capital employed
and shareholders' equity



Return on capital employed before taxes rose to 14% and return on shareholders' equity after taxes to 13%.

Balance sheet

CONSOLIDATED

		31 Dec. 1998		31 Dec. 1997	
		SEK M	ECU M	SEK M	ECU M
ASSETS					
FIXED ASSETS					
Intangible assets	Note 7				
Goodwill		6,134	648	5,083	584
Patents, trademarks and similar rights		1,021	108	1,095	126
		<u>7,155</u>	<u>756</u>	<u>6,178</u>	<u>710</u>
Tangible assets	Note 8				
Buildings and land		18,838	1,989	17,693	2,034
Machinery and equipment		26,427	2,791	24,916	2,864
Construction in progress		1,547	163	569	65
		<u>46,812</u>	<u>4,943</u>	<u>43,178</u>	<u>4,963</u>
Financial assets					
Shares and participations	Note 9, 10	1,022	108	870	100
Other long-term receivables		158	17	125	14
Capital investment shares	Note 9, 11	1,112	117	1,112	128
Interest-bearing receivables		373	39	258	29
		<u>2,665</u>	<u>281</u>	<u>2,365</u>	<u>271</u>
Total fixed assets		56,632	5,980	51,721	5,944
CURRENT ASSETS					
Inventories	Note 12	6,157	650	5,780	664
Accounts receivable		10,043	1,061	9,006	1,035
Other current receivables	Note 13	2,590	273	1,940	223
Short-term investments		1,132	120	676	78
Cash and bank balances		1,819	192	1,582	182
		<u>21,741</u>	<u>2,296</u>	<u>18,984</u>	<u>2,182</u>
Total current assets		21,741	2,296	18,984	2,182
TOTAL ASSETS		78,373	8,276	70,705	8,126
EQUITY, PROVISIONS AND LIABILITIES					
SHAREHOLDERS' EQUITY					
Nondistributable equity	Note 15				
Share capital		1,974	208	1,974	227
Restricted reserves		11,787	1,245	11,426	1,313
		<u>13,761</u>	<u>1,453</u>	<u>13,400</u>	<u>1,540</u>
Distributable equity					
Retained earnings		11,264	1,168	8,494	973
Net earnings for the year		3,379	378	2,759	320
		<u>14,643</u>	<u>1,546</u>	<u>11,253</u>	<u>1,293</u>
Total shareholders' equity		28,404	2,999	24,653	2,833
MINORITY INTEREST		1,386	146	1,496	172
PROVISIONS					
Provisions for pensions	Note 16	3,386	358	3,237	372
Provisions for taxes	Note 17	6,353	671	5,450	626
Other provisions	Note 18	1,167	123	1,765	203
		<u>10,906</u>	<u>1,152</u>	<u>10,452</u>	<u>1,201</u>
Total provisions		10,906	1,152	10,452	1,201
LIABILITIES					
Interest-bearing debt	Note 19	25,806	2,725	22,647	2,603
Accounts payable		6,330	669	5,884	676
Other interest-free liabilities	Note 20	5,541	585	5,573	641
		<u>37,677</u>	<u>3,978</u>	<u>34,104</u>	<u>3,920</u>
Total liabilities		37,677	3,978	34,104	3,920
TOTAL EQUITY, PROVISIONS AND LIABILITIES		78,373	8,276	70,705	8,126
CONTINGENT LIABILITIES	Note 21	460		484	
ASSETS PLEDGED	Note 22	1,454		1,291	

DISCUSSION AND ANALYSIS, BALANCE SHEET

Assets and capital employed

The Group's assets increased by about SEK 7,700 M during 1998. The increase is due largely to acquisitions, that operations tied-up more working capital and exchange rate differences due to the weakening of the Swedish krona.

Capital expenditures in properties and plants amounted to SEK 4,306 M (3,190). These included SEK 2,248 M (983) in strategic capital expenditures that is, major expansions and transition to new technologies. The balance, SEK 2,058 M (2,207) is attributable to current capital expenditures.

The value in SEK of the Group's foreign net assets amounted at year-end to SEK 27,456 M (22,439). Capital employed rose SEK 5,993 M to SEK 51,160 M. SCA's assets in countries with high inflation or other economic instability are reported in local currencies for monetary assets and liabilities and in the region's functional currency (USD or EUR) for nonmonetary assets. Monetary assets are financed to the greatest possible degree with loans in local currencies while other assets are financed with loans in USD or EUR or with shareholders' equity. In this manner, these assets are, for accounting purposes,

unaffected by exchange rate movements in accordance with the principles applied for other foreign assets in the Group (see "Accounting principles" on page 53).

The distribution by currency is shown below.

Capital employed by currency

SEK M	31 Dec. 1998	%	31 Dec. 1997	%
SEK	14,134	28	13,578	30
DEM	8,913	17	7,312	16
GBP	7,624	15	7,661	17
NLG	5,049	10	4,306	10
ATS	4,583	9	4,112	9
ITL	2,880	6	2,259	5
FRF	2,011	4	1,900	4
USD	1,974	4	856	2
BEF	1,080	2	1,191	3
ESP	1,009	2	110	0
CHF	612	1	82	0
Others	1,291	2	1,800	4
Total	51,160	100	45,167	100

Financing

SCA's gross debt amounted to SEK 25,806 M (22,647) at 31 December, 1998. The average term of SCA's gross debt was 3 years. Liquid funds and unutilized committed credits amounted at 31 December 1998 to SEK 9,403 M, which corresponds to 15% of net sales.

Net debt amounted to SEK 21,370 M at 31 December 1998, up SEK 2,352 M.

Currency effects accounted for SEK 1,227 M of the increase. Minority interests amounted at 31 December 1998 to SEK 1,386 M (1,496). The decline is attributable to the additional acquisition of shares in PWA.

Shareholders' equity

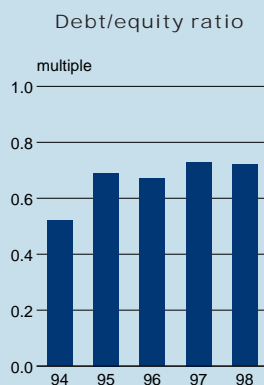
Shareholders' equity increased during 1998 by SEK 3,751 M, totaling SEK 28,404 M at 31 December 1998. The increase was attributable to the following factors:

SEK M	
Net earnings for the year	3,379
Dividend	-1,145
Other changes	1,517
Total	3,751

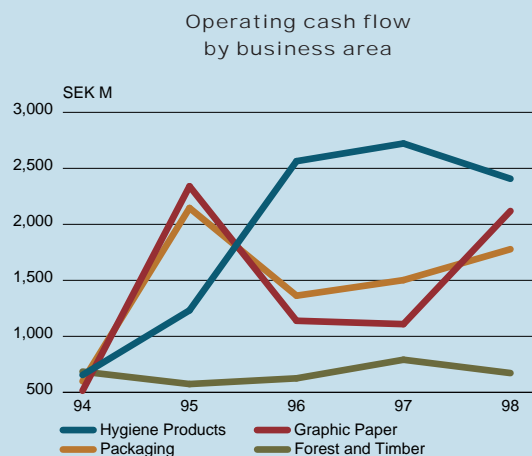
Other changes are due mainly to translation effect of foreign subsidiaries, which were not fully currency hedged during the year.

Key ratios

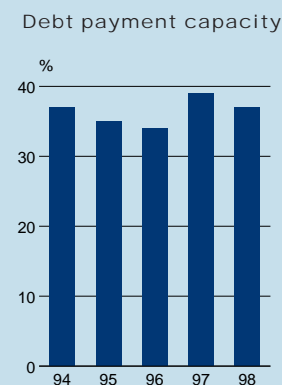
Net worth per share amounted to SEK 204 (181). Debt/equity multiple was 0.72 (0.73). The debt/equity multiple including surplus values was 0.51 (0.51).



In principle, debt/equity ratio was unchanged compared with a year earlier.



The even operating cash flow in the forestry operations provides a stable platform for the more fluctuating cash flows from hygiene products and packaging as well as Graphic Paper.



Debt payment capacity declined slightly in 1998.

Parent Company

STATEMENT OF EARNINGS

SEK M	1998	1997
Revenues	61	76
Operating expenses		
Other external costs	-148	-90
Personnel costs	-111	-120
Depreciation of tangible assets	Note 2 -35	-34
Other operating expenses, net	-4	38
Total operating expenses	-298	-206
OPERATING PROFIT	-237	-130
Financial items	Note 4	
Income from shares and participations, Group companies	1,201	1,522
Income from shares and participations, other companies	-	1
Interest income and similar profit/loss items	123	231
Interest expense and similar profit/loss items	-448	-490
Total financial items	876	1,264
EARNINGS AFTER FINANCIAL ITEMS	639	1,134
Group contribution	97	95
Appropriations	161	163
Taxes on profit for the year	0	1
NET EARNINGS FOR THE YEAR	897	1,393

CASH FLOW STATEMENT

SEK M	1998	1997
Operating surplus	-202	-96
Other cash flow from operations	2,521	2,256
Company acquisitions and divestments	-2,773	-1,230
Group contribution	95	-81
Dividend to shareholders	-1,135	-1,036
Net cash flow	-1,494	-187

BALANCE SHEET

SEK M	31 Dec. 1998	31 Dec. 1997
ASSETS		
FIXED ASSETS		
Tangible assets	Note 8	
Buildings and land	3,878	3,870
Machinery and equipment	5	2
	3,883	3,872
Financial assets		
Shares and participations	Note 9, 10 24,573	21,805
Interest-bearing receivables	69	10
	24,642	21,815
Total fixed assets	28,525	25,687
CURRENT ASSETS		
Receivables from subsidiaries	2,411	2,021
Other current receivables	Note 13 39	31
Short-term investments	251	1
Cash and bank balances	12	12
Total current assets	2,713	2,065
TOTAL ASSETS	31,238	27,752

SEK M	31 Dec. 1998	31 Dec. 1997
EQUITY, PROVISIONS AND LIABILITIES		
SHAREHOLDERS' EQUITY	Note 15 18,964	19,156
UNTAXED RESERVES	Note 14 434	595
PROVISIONS	Note 16 135	165
LIABILITIES		
Interest-bearing debt	Note 19 1,727	1,441
Liabilities to subsidiaries	9,909	6,270
Accounts payable	14	14
Other interest-free liabilities	Note 20 55	111
Total liabilities	11,705	7,836
TOTAL EQUITY, PROVISIONS AND LIABILITIES	31,238	27,752
CONTINGENT LIABILITIES	Note 21 18,977	14,818
ASSETS PLEDGED	Note 22 527	482

Accounting principles

The SCA Group financial statements are prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations.

CONSOLIDATED ACCOUNTS

Group composition

The consolidated financial statements include the accounts of the Parent Company and all subsidiaries, in accordance with the definitions in the Swedish Annual Accounts Act. In addition, SCA's share in joint-venture companies is included (see below).

Purchase method

The consolidated accounts have been prepared in accordance with the purchase method. The shareholders' equity in acquired subsidiaries is determined on the basis of a market valuation of assets and liabilities at the time of acquisition (a so-called purchase analysis). In those instances in which the market valuation of assets and liabilities 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 value of the shareholders' equity according to the purchase analysis is reported as goodwill or negative goodwill in consolidation.

If necessary, an allocation to a provision for future costs of reorganization and staff reductions in the acquired operations 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 sheets and statement of earnings of foreign subsidiaries are translated in accordance with the current method. The assets and liabilities in foreign subsidiaries are translated at the

year-end exchange rates. 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.

The financial statements of companies in highly inflationary countries or countries with other economic instability are translated first to the region's functional currency (normally USD or EUR) according to the monetary method. Any exchange rate differences which arise are reported in the statement of earnings. Thereafter, the translation is carried out to the reporting currency applying the current method.

The acquisition value of nonmonetary assets are reported in the functional currency in the region (USD or EUR) at the currency rate prevailing at the time of acquisition.

Minority interests

Minority interests in the consolidated statement of earnings is reported as a share in net earnings.

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

Taxes

Deferred tax is calculated and reported in accordance with the principles in IAS 12. However, deferred tax liabilities or receivables 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 to the tax authorities is reported as current. Deferred tax liabilities are reported as a provision.

The tax expenses reported for the year include 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 rights of the shares outstanding. Accounting for associated companies is 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 consolidated operating profit.
- The share in income tax expenses at associated companies, in accordance with the full-tax method, is included in the consolidated income tax expense.

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 Shares and participations. The book value of the shareholdings changes to reflect SCA's share in net earnings of the respective companies, reduced by dividends received. Nondistributed earnings of associated companies are included under nondistributable 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.

PRINCIPLES OF VALUATION

Receivables and liabilities in foreign currencies

In the consolidated financial statements, receivables and liabilities in foreign currencies are valued using year-end exchange rates. Gains and losses on current receivables and operating liabilities are netted and included in operating profit. To the extent that forward contracts are used to hedge operating receivables and liabilities, the contract rate is used for valuation of the corresponding receivables and liabilities. Gains and losses on financial receivables and liabilities are reported as other financial items.

SCA hedges its investments in foreign net assets, including goodwill. Hedging is implemented through loans in foreign currencies and forward exchange contracts. These are valued at the exchange rate prevailing at year-end. Exchange rate differences on hedging operations, after tax, as well as differences that arise when foreign net assets are translated, are carried directly to shareholders' equity in the balance sheet.

Inventories and accounts receivable

Inventories consist of finished and semi-finished goods, raw materials, fuels, warehouse supplies and felling rights.

These are valued at the lower of cost or market value in accordance with the first-in, first-out principle. The acquisition costs of inventories of finished and semi-finished goods, raw materials and fuels are based on the average production or acquisition costs for the year.

Interest is not included in the inventory values.

Felling rights are calculated at contract prices which, on average, do not exceed market value.

Doubtful accounts receivable are reported in the amount which, after a careful assessment, is deemed likely to be paid.

Tangible assets

Tangible assets are reported at acquisition cost after deducting accumulated depreciation according to plan.

Unlike acquisition values for other capital expenditures, acquisition costs for property and plant related to major

projects shall also include funds appropriated for start-up and commissioning work and for interest expenses during the construction and assembly period.

Depreciation according to plan is based on the historical cost and estimated useful lives of the assets.

The following depreciation rates are used on property and plant:

	%
Forest industry machines	5–10
Converting machinery	7–14
Mobile and other light equipment	20
Buildings	2–6
Land improvements	5

Intangible assets

Goodwill is amortized according to plan. The economic life is normally 20 years. SCA selected this time frame since the company acquisitions represent a long-term strategic value. Other intangible assets (primarily patents and trademarks) are amortized 10–20% per year.

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 52. The following notes pertain to the financial statements of the Parent Company and the SCA Group.

STATEMENT OF EARNINGS

Note 1 Operating expenses

Operating expenses include capital gains from divestments amounting to SEK 400 M (425).

Operating expenses include R&D expenses amounting to SEK 784 M (751) for the Group.

Note 2 Depreciation of tangible and intangible assets

SEK M	Group		Parent Company	
	1998	1997	1998	1997
Buildings	515	519	2	2
Land	52	65	32	31
Machinery and equipment	2,912	2,788	1	1
Subtotal	3,479	3,372	35	34
Goodwill	407	372	-	-
Patents, trademarks and similar rights	127	99	-	-
Total	4,013	3,843	35	34

Depreciation according to plan is based on the historical cost and estimated economic lifetimes of the assets concerned, as specified in the accounting principles on page 53.

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 53. Shares in pre-tax earnings are included in consolidated operating profit and amount to SEK 121 M (67).

Dividends amounting to SEK 6 M (4) were received from associated companies.

Note 4 Financial items

SEK M	Group		Parent Company	
	1998	1997	1998	1997
<i>Income from shares and participations in Group companies</i>				
Dividends from subsidiaries	-	-	1,201	1,522
<i>Income from shares and participations in other companies</i>				
Dividends from other companies	69	70	-	1
<i>Interest income and similar profit/loss items</i>				
Interest income, external	182	210	0	0
Interest income, subsidiaries	-	-	94	81
Other financial income, external	29	-	-	-
Other financial income, subsidiaries	-	-	29	150
<i>Interest expense and similar profit/loss items</i>				
Interest expense, external	-1,502	-1,362	-135	-100
Interest expense, subsidiaries	-	-	-282	-217
Other financial expenses, external	-37	-29	-31	-173
Other financial expenses, subsidiaries	-	-	-	0
Total	-1,259	-1,111	876	1,264

Note 5 Taxes on profit for the year

Group, SEK M	1998	1997
Current taxes – consolidated companies	-920	-688
Deferred taxes – consolidated companies	-726	-619
Taxes attributable to shares in earnings of associated companies	-34	-30
Total	-1,680	-1,337

Note 6 Minority interests

Interest, %	31 Dec. 1998	31 Dec. 1997
SCA Laakirchen AG, Austria	22	24
Uni-Charm/Mölnlycke B.V.	60	60
Thai Klinipro Co. Ltd	-	51
SCA Hygiene Products AG*	4	6
Sodipel SARL	12	12
SCA Graphic Paper Polska SP.Z.O.O.	45	-

* Formerly Papierwerke Waldhof Aschaffenburg AG (PWA)

Minority interests in net earnings is reported in the statement of earnings in an amount of SEK 110 M (361), specified as follows

SEK M	1998	1997
Minority interests in:		
- earnings after financial items	152	565
- income taxes	-42	-204
Minority interests	110	361

BALANCE SHEET

Note 7 Intangible assets

Group, SEK M	Goodwill		Patents, trademarks and similar rights	
	1998	1997	1998	1997
Acquisition value, 1 Jan.	7,141	6,378	1,790	1,879
Capital expenditures	779	552	115	41
Sales and disposals	-	-9	-65	-197
Reclassifications	-	4	39	12
Translation differences	786	216	49	55
Accumulated acquisition value, 31 Dec.	8,706	7,141	1,928	1,790
Amortization, 1 Jan.	-2,058	-1,700	-695	-669
Sales and disposals	-	46	11	78
Reclassifications	-	-5	-	-4
Amortization during the year	-407	-372	-127	-99
Translation differences	-107	-27	-96	-1
Accumulated amortization, 31 Dec.	-2,572	-2,058	-907	-695
Residual value according to plan, 31 Dec.	6,134	5,083	1,021	1,095

Note 8 Tangible assets

Group, SEK M	Buildings		Land		Machinery and equipment		Construction in progress	
	1998	1997	1998	1997	1998	1997	1998	1997
Acquisition value, 1 Jan.	12,566	12,442	5,861	5,446	42,404	39,410	569	306
Capital expenditures	824	173	382	469	3,682	3,558	1,412	392
Sales and disposals	-178	-400	-323	-220	-1,411	-991	0	-78
Reclassifications	20	22	66	32	369	24	-455	-51
Translation differences	754	329	304	134	2,212	403	21	-
Accumulated acquisition value, 31 Dec.	13,986	12,566	6,290	5,861	47,256	42,404	1,547	569
Depreciation, 1 Jan.	-3,299	-2,889	-535	-474	-17,488	-15,416	-	-
Sales and disposals	96	94	17	4	569	883	-	-
Reclassifications	-7	61	-	-	7	-65	-	-
Depreciation during the year	-515	-519	-52	-65	-2,912	-2,788	-	-
Translation differences	-184	-46	-20	-	-905	-102	-	-
Accumulated depreciation, 31 Dec.	-3,909	-3,299	-590	-535	-20,729	-17,488	-	-
Write-ups, 1 Jan.	-	-	3,100	3,100	-	-	-	-
Accumulated write-ups, 31 Dec.	-	-	3,100	3,100	-	-	-	-
Writedowns for the year	-39	-	-	-	-100	-	-	-
Accumulated writedowns, 31 Dec.	-39	-	-	-	-100	-	-	-
Residual value according to plan, 31 Dec.	10,038	9,267	8,800	8,426	26,427	24,916	1,547	569

Note 8 Tangible assets, cont.

Parent Company, SEK M	Buildings		Land		Machinery and equipment	
	1998	1997	1998	1997	1998	1997
Acquisition value, 1 Jan.	58	57	1,043	999	7	7
Capital expenditures	2	1	45	46	4	0
Sales and disposals	-1	-	-5	-2	0	-
Accumulated acquisition value, 31 Dec.	59	58	1,083	1,043	11	7
Depreciation, 1 Jan.	-29	-27	-302	-271	-5	-4
Sales and disposals	1	-	-	-	-	-
Depreciation during the year	-2	-2	-32	-31	-1	-1
Accumulated depreciation, 31 Dec.	-30	-29	-334	-302	-6	-5
Write-ups, 1 Jan.	-	-	3,100	3,100	-	-
Accumulated write-ups, 31 Dec.	-	-	3,100	3,100	-	-
Residual value according to plan, 31 Dec.	29	29	3,849	3,841	5	2

Note 9 Financial assets

SEK M	Shares and participations				Capital investment shares			
	Group		Parent Company		Group		Parent Company	
	1998	1997	1998	1997	1998	1997	1998	1997
Acquisition value, 1 Jan.	870	604	22,907	19,960	1,084	838	-	589
Investments	481	336	2,770	2,947	-	1,084	-	102
Sales	-48	-26	-2	-	-	-838	-	-691
Net increase in associated companies during the year	30	34	-	-	-	-	-	-
Reclassification to joint-venture or subsidiary	-336	-	-	-	-	-	-	-
Other reclassifications	-39	-68	-	-	-	-	-	-
Translation differences	64	-10	-	-	-	-	-	-
Accumulated acquisition value, 31 Dec.	1,022	870	25,675	22,907	1,084	1,084	-	0
Write-ups, 1 Jan.	-	-	140	140	29	29	-	29
Sales	-	-	-	-	-	-	-	-29
Accumulated write-ups, net, 31 Dec.	-	-	140	140	29	29	-	0
Write-downs, 1 Jan.	-	-	-1,242	-142	-1	-1	-	-1
Sales	-	-	-	-	-	-	-	1
Write-downs during the year	-	-	-	-1,100	-	-	-	-
Accumulated write-downs, 31 Dec.	-	-	-1,242	-1,242	-1	-1	-	0
Residual value according to plan, 31 Dec.	1,022	870	24,573	21,805	1,112	1,112	-	0

Note 10 Shares and participations

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

SEK M	Group		Parent Company	
	1998	1997	1998	1997
Subsidiaries	-	-	24,497	21,789
Associated companies	773	741	-	-
Other companies	249	129	76	16
Total	1,022	870	24,573	21,805

Major changes during 1998 in the Parent Company's and Group's holdings were as follows:

Subsidiaries

The increase is attributable to a new issue in SCA Group Holding BV subscribed by the Parent Company through a non-cash transfer of internally acquired subsidiary shares.

Associated companies

Among others, the Lantero, Obalex and Welpa packaging companies were acquired during the year.

For specification, see page 65.

Note 11 Capital investment shares

Group, SEK M	Number	Book value
AB Industrivärden	14,393,656	1,112
Total	14,393,656	1,112

Of the holding in AB Industrivärden, 7,320,000 shares are available for future possible redemption in accordance with the so-called exchangeable bonds issued during spring 1997. The market value of shares in AB Industrivärden exceeds the consolidated book value by SEK 457 M.

Note 12 Inventories

Group, SEK M	1998	1997
Raw materials and consumables	1,493	1,603
Work in progress	379	476
Finished goods	3,224	2,912
Spare parts and warehouse supplies	897	519
Felling rights	164	270
Total	6,157	5,780

Note 15 Shareholders' equity

Group, SEK M	Share capital	Share premium reserve	Legal reserve	Equity proportion reserve	Other restricted reserves	Translation differences	Distributable equity	Total
Balance, 1 Jan.	1,974	1,870	737	1,345	8,758	-1,284	11,253	24,653
Translation differences	-	-	-	-	-	1,566	765	2,331
Exchange rate differences on hedging instruments	-	-	-	-	-	-860	-	-860
Transfer between distributable and nondistributable shareholders' equity	-	-	-	-	-421	-	421	0
Equity in associated companies	-	-	-	30	-	-	-30	0
Calculated premium on personnel convertibles	-	-	46	-	-	-	-	46
Dividend paid	-	-	-	-	-	-	-1,145	-1,145
Net earnings for the year	-	-	-	-	-	-	3,379	3,379
Balance, 31 Dec.	1,974	1,870	783	1,375	8,337	-578	14,643	28,404

The Share premium reserve, Legal reserve, Equity proportion reserve, Translation differences and Other restricted reserves amount in total to SEK 11,787 M (11,426) and are reported as Restricted reserves. Distributable equity includes a positive translation difference of SEK 542 M (negative: 223).

Parent Company, SEK M	Share capital	Share premium reserve	Legal reserve	Write-up reserve	Distributable equity	Total
Balance, 1 Jan.	1,974	1,870	395	806	14,111	19,156
Calculated premium on personnel convertibles	-	-	46	-	-	46
Dividend paid	-	-	-	-	-1,135	-1,135
Net earnings for the year	-	-	-	-	897	897
Balance, 31 Dec.	1,974	1,870	441	806	13,873	18,964

Note 13 Other current receivables

SEK M	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Bills receivable	831	403	-	-
Prepaid expenses and accrued income	660	634	32	23
Other receivables	1,099	903	7	8
Total	2,590	1,940	39	31

Note 14 Untaxed reserves in Parent Company

Untaxed reserves in the Parent Company include an SEK 316 M (475) allocation to tax equalization reserve and SEK 118 M (120) in accumulated depreciation in excess of plan.

Note 15 Shareholders' equity, cont.

SCA's share capital consists of 197,399,935 shares with a par value of SEK 10 each. The issues, etc., for the period 1990–1998 are presented below. For additional information on the SCA share, see page 8.

Issues, etc. 1990–1998

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 subscription through Series 1 warrants	1,008,284	10.1	5.9
1991 Conversion of debentures and new subscription through Series 1 warrants	371,118	3.7	10.5
1992 Conversion of debentures and new subscription through Series 1 warrants	777,453	7.8	19.6
1993 Conversion of debentures and new subscription 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 –	–	–	–
1997 –	–	–	–
1998 –	–	–	–

SCA's share capital, 31 December 1998

	No. of votes	No. of shares	Nominal amount SEK M
A shares	10	62,145,880	621.5
B shares	1	135,254,055	1,352.5
Total		197,399,935	1,974.0

At full conversion of convertible debentures outstanding at 31 December 1998, excluding debentures issued by SCA Group Holding B.V. and warrants outstanding, the number of B shares would increase by a maximum of 138,710,850.

Note 16 Provisions for pensions

SEK M	Group		Parent Company	
	1998	1997	1998	1997
PRI pensions	1,044	1,036	30	29
Other pensions	2,342	2,201	105	136
Total	3,386	3,237	135	165

The calculated interest on the amount allocated to pensions is reported as an operating expense. The interest rate for PRI pensions was 4.9% (3.7).

Provisions were made in accordance with the regulations in each country.

Effective in 1999, SCA will report pension liabilities in accordance with applicable international accounting recommendations (IAS 19, Employee Benefits). This means that SCA's pension liability is calcula-

ted taking into account estimated future salary increases and inflation. SCA has completed a full review and calculations of all pension schemes in the Group.

Since the reported pension liability covers the calculated liability, an adjustment against shareholders' equity is not necessary.

Nearly SEK 6 billion of the Group's total pension liability of slightly less than SEK 9 billion is held in pension foundations independent of SCA.

SCA has also decided, effective in 1999, to form a pension foundation whose main purpose is to secure the retirement pensions of Swedish salaried employees in accordance with the ITP plan.

Note 17 Provisions for taxes

Group, SEK M	1998	1997
Balance, 1 Jan.	5,450	4,710
Deferred tax charges	726	619
Other changes	177	121
Total	6,353	5,450

Note 18 Other provisions

This includes restructuring reserves of SEK 892 M (1,582). Provisions were withdrawn during the year for the ongoing integration and restructuring program, primarily within the Hygiene Products and Packaging business areas, in accordance with decisions in prior years. Other allocations are mainly provisions for undertakings in conjunction with divestments of operations.

Note 19 Interest-bearing debt

SEK M	Group		Parent Company	
	1998	1997	1998	1997
Amortization within one year	986	376	2	3
Loans maturing within one year	5,643	3,791	-	-
Total short-term interest-bearing debt	6,629	4,167	2	3
Bond loans	1,338	846	15	15
Convertible loans	292	38	290	36
Other long-term loans	17,547	17,596	1,420	1,387
Total long-term interest-bearing debt	19,177	18,480	1,725	1,438
Total interest-bearing debt	25,806	22,647	1,727	1,441

A total of SEK 300 M (300) in short-term debt has been netted against fund secured for the corresponding loans.

An SEK 400 M MTN program was issued in 1998 (See "Financial risk management" on page 41).

Other long-term loans are raised in foreign currencies mainly for financing of the Group's foreign assets.

Assets have been pledged as security for SEK 1,208 M (1,145) of these long- and short-term loans.

Redemption structure for interest-bearing debt

Year	SEK M
1999	6,629
2000	1,128
2001	3,987
2002	6,803
2003	6,580
2004 and later	679
Total	25,806

Gross debt by currency

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

Currency	Gross debt, SEK M	
	1998	1997
DEM	5,222	2,661
GBP	5,247	4,546
NLG	2,401	2,515
ATS	1,058	1,597
FRF	1,041	831
BEF	45	445
ITL	2,708	2,480
USD	1,102	556
ESP	852	59
SEK	4,740	6,846
Other	1,390	111
Total	25,806	22,647

Convertible loans

SEK M	1998	1997
1990 GBP 10,516,384 at 10%	35	36
Subordinated bond loan convertible to SCA Class B shares between 1 October 1990 and 31 July 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 price at 31 December 1998 was SEK 159.10.		
1998 SEK 296,933,616 at 0%	255	
Subordinated debenture loan (personnel convertibles) which may be converted to SCA Class B shares on 30 September 2003. Application to convert must be made not earlier than 2 June 2003 and not later than 25 August 2003. Conversion price is SEK 271.00.		
Total loans issued by Parent Company	290	36
Bond loan issued by SCA Group Holding B.V. 1989 ECU 101 M at 4.25%	2	2
Subordinated bond loan convertible to SCA Class B shares between 25 April 1989 and 10 January 2004. The conversion price at 31 December 1998 was SEK 130.00.		
Total loans issued by Group	292	38

Conversion of the 1990 GBP loan means that a maximum of 217,455 Class B shares will be issued. The amount of the loan decreased in 1998 through a repayment that did not involve conversion of debentures into shares.

Conversion of the 1998 convertible debenture loan means that a maximum of 1,095,696 Class B shares will be issued. In addition, 1.5 warrants were issued for each convertible, which means that another 1,643,544 Class B shares could be issued. The estimated premium, SEK 46 M, is reported in restricted shareholders' equity as a reserve.

Note 20 Other interest-free liabilities

SEK M	Group		Parent Company	
	1998	1997	1998	1997
Accrued expenses and prepaid income	3,058	3,072	40	92
Tax liabilities	204	447	-	4
Other operating liabilities	1,873	1,681	3	3
Total interest-free current liabilities	5,135	5,200	43	99
Long-term interest-free liabilities	406	373	12	12
Total	5,541	5,573	55	111

Accrued expenses and prepaid income

SEK M	Group		Parent Company	
	1998	1997	1998	1997
Accrued social costs	586	446	6	5
Accrued vacation pay liability	451	447	6	5
Accrued financial expenses	289	236	16	16
Other items	1,732	1,943	12	66
Total	3,058	3,072	40	92

Note 21 Contingent liabilities

SEK M	Group		Parent Company	
	1998	1997	1998	1997
Discounted bills	109	143	-	-
Guarantees for				
- employees	15	48	3	3
- associated companies	10	64	-	-
- customers and others	146	95	-	-
- subsidiaries	-	-	18,966	14,806
Other contingent liabilities	180	134	8	9
Total	460	484	18,977	14,818

As stated in the 1997 Annual Report, a so-called Control Agreement was established during 1997 between SCA, through its German holding company SCA Group Holding (Deutschland) GmbH, and PWA (name changed to SCA Hygiene Products AG), effective 1 January 1998. The agreement is valid until further notice with a mutual cancellation notice period of six months. The offer to the remaining shareholders to purchase their shares for DEM 281 per share still applies pending legal consideration of the underlying valuation. The Control Agreement entails a liability for the German holding company to carry any losses which arise in SCA Hygiene Products AG during the period of the agreement. SCA has provided a surety for this commitment and to pay an annual dividend of DEM 17.15 per share to the remaining shareholders in SCA Hygiene Products AG.

The former owners of 20% of the shares in SCA Laakirchen Holding AG which, as a result of an organization change, was replaced by a holding in a newly formed company, are entitled during the year 2000 to sell their share to SCA for a price of approximately SEK 480 M.

As reported in the 1997 Annual Report, SCA entered into lease-out/lease-in transactions during 1996 with American banks as counterparties pertaining to the two LWC plants in Ortvisken, Sweden. The terms of the contracts are 32 and 36 years. However, SCA has the opportunity to cancel the transactions after about 18 years without incurring any financial consequences. At the time the transactions were effected, the net present 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 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 were netted during 1996 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 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.

In raising certain credits, at the request of the lender, companies in the Group 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, a negative clause was included in some loan agreements, 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 provided the customary seller guarantees.

Note 22 Assets pledged

SEK M	Group		Parent Company	
	1998	1997	1998	1997
Real estate mortgages	1,176	1,156	481	481
Chattel mortgages	7	9	-	-
Other mortgages	271	126	46	1
Total	1,454	1,291	527	482

The above assets have been pledged as security for debt amounting to SEK 1,208 M (1,145) at year-end.

Note 23 Tax assessment values

Tax assessment values relate to assets in Sweden, as follows:

SEK M	Group		Parent Company	
	1998	1997	1998	1997
Buildings	4,363	4,407	12	13
Land and other property	7,329	10,457	6,576	9,466
Total	11,692	14,864	6,588	9,479

The decline in tax value for land and other property is attributable mostly to forest land. The lower tax assessment level is due to a new national tax rule which the authorities are applying as of the 1998 general property taxation. In accordance with the new rules, large forest holdings are valued lower while smaller holdings (< SEK 5 M) are assessed higher value.

Note 24 Value of forest land

SEK M	1998	1997	1996	1995	1994
Book value	4,582	4,570	4,187	4,156	4,125
Taxed forestry value	6,779	10,209	9,588	7,140	7,193
Estimated market value					
- after tax*	16,000	15,100	13,500	12,000	10,600
- after tax, per hectare, SEK	9,100	8,600	7,600	6,800	5,900

* The value is calculated based on the average earnings for forestry operations (excluding capital gains) 1995-1998 and an estimate for 1999, capitalized at an interest rate of 4%.

Note 25 Number of employees and wages, salaries and remuneration

	1998	1997
Average number of employees		
<i>SCA Group total</i>	32,082	33,399
of whom, women	21%	22%
<i>Sweden</i>	7,209	7,493
of whom, women	21%	23%
of which, Parent Company	59	49
of whom, women	41%	47%
Number of municipalities	26	26
<i>Abroad</i>	24,873	25,906
of whom, women	21%	22%
Number of countries	27	22
Distribution by country is presented in "Group by country" on page 71.		
SEK M	1998	1997
Wages, salaries and remunerations		
<i>Parent Company</i>		
Board of Directors ¹ , President and VPs	18	16
of which, variable salary	3	2
Other employees	30	27
Total, Parent Company	48	43
<i>Subsidiaries</i>		
Boards of Directors, Presidents and VPs	144	163
of which, variable salary	20	17
Other employees	9,314	8,905
Total, subsidiaries	9,458	9,068
Group total	9,506	9,111
of which, Boards of Directors, Presidents and VPs	162	179
of which, variable salary	23	19
SEK M	1998	1997
Statutory and contractual payroll expenses		
<i>Parent Company</i>	47	59
of which, pension costs	31²	29
<i>Subsidiaries</i>	2,961	2,718
of which, pension costs	683	653
Group total	3,008	2,777
of which, pension costs	714³	682

¹ Includes SEK 2.0 M (1.6) Board fees approved by the Annual General Meeting.

² SEK 15 M (25) of Parent Company pension costs pertain to the Board, President and VPs. Former Presidents, VPs and their survivors are included. The company's outstanding pension commitments to them amount to SEK 67 M (100). For the commitment to the Board Chairman, who retired in 1997, the company purchased insurance, which is pledged to the Board Chairman.

³ SEK 49 M (49) of pension costs pertain to the Boards, Presidents and VPs. Former Presidents, VPs and their survivors are included. The company's outstanding pension commitments to them amount to SEK 228 M (237).

Salaries and other remunerations distributed by country and between Board members, others and employees

SEK M	1998		1997	
	Board, Presidents, VPs (of which, bonus)	Other employees	Board, Presidents, VPs (of which, bonus)	Other employees
Parent Company				
Sweden	18 (3)	30	16 (2)	27
Subsidiaries				
Sweden	24 (2)	1,955	29 (2)	1,931
Germany	31 (8)	2,164	25 (5)	2,101
Great Britain	22 (4)	1,327	11 (1)	1,259
France	6 (1)	732	13 (2)	649
The Netherlands	12 (1)	688	14 (1)	856
Belgium	22 (1)	416	36 (0)	376
Italy	2 (0)	348	9 (1)	241
Austria	11 (2)	845	9 (1)	773
US	1 (0)	157	10 (3)	183
Norway	1 (0)	143	1 (-)	146
Switzerland	0 (0)	128	- (-)	22
Spain	1 (0)	82	- (-)	45
Finland	1 (0)	47	2 (1)	75
Denmark	1 (0)	58	0 (0)	59
Other countries ¹	9 (1)	224	4 (0)	189
Total, subsidiaries	144 (20)	9,314	163 (17)	8,905
Group total	162 (23)	9,344	179 (19)	8,932

¹ Canada, the Czech Republic, Greece, Hungary, Ireland, Kazakstan, Lithuania, the Philippines, Poland, Portugal, Rumania, Russia, Slovakia, Thailand and Ukraine.

Note 26 SCA's employees

The distribution of wage earners/salaried employees in SCA is about 60/40. The borders between different categories of employees are successively being erased over time in pace with production processes becoming increasingly advanced and organizational structures change.

The employees have a high level of competence due to internal advanced training and other skills-enhancing measures financed by the Group. SCA's invested a total of SEK 100 M, or nearly SEK 3,000 per employee, in skills-enhancing measures during 1998.

About 6–7% of the employees in the Group hold academic degrees.

Personnel turnover is relatively low, about 8–10%, particularly considering the many changes in the Group's structure and organization which, among other actions, the acquisition of PWA and the merger of SCA Hygiene Paper and SCA Mölnlycke caused.

Note 27 Executive management conditions of employment

The Chairman of the Board of Directors, who previously held the position of Chief Executive Officer (CEO), received contractual pension payments during 1998 and as Board Chairman of SCA he received a Board fee of SEK 750,000 (600,000). He also received a Board fee from PWA of SEK 14,770 (35,448) and, as a member of the Board of PWA, a bonus of SEK 266,525, of which SEK 186,900 pertain to 1997 (189,000) and SEK 79,625 to 1998.

During 1998, the CEO received SEK 5,613,647 (5,234,475), car benefits (fuel excluded) and housing benefits as well as a Board fee from PWA of SEK 79,821 (35,448). As a member of the Board of PWA, he also received a bonus of SEK 266,525, of which SEK 186,900 pertains to 1997 (189,000) and SEK 79,625 to 1998. In the case of the CEO, as well as other senior executives in the Group, there is one bonus agreement which is linked to the Group's return on capital employed and one related to the development of the SCA share. The first, including any bonus awarded from PWA, can result in a maximum bonus amounting to 30% of base salary, which for the CEO in 1997 resulted in a bonus corresponding to 30% (23.5) of base

salary. The latter bonus agreement is related to the development of the SCA share during 1997, 1998 and 1999 and can, after 1999, result in a maximum bonus corresponding to 10% of base salary for each of the three years. The CEO, as well as other senior executives in the Group, are involved in a new incentive system as of 1999, which is described in more detail in Note 28.

The pension agreement for the CEO is formulated so that old age pension (including general pension benefits) is paid from the age of 65 at 70% of salary at retirement. This is contingent upon employment being sustained during at least 20 years from the date he reached 40 years of age. At termination at the request of the 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 104,908 (104,735) in 1998 pertaining to supplementary pension commitments.

Moreover, the agreement with the CEO stipulates that, in the event of termination of employment after age 55, he is entitled to be transferred to a position as expert advisor. Pension benefits are not paid while serving in the position of expert advisor.

The agreement with the CEO stipulates 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 agreement does 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.

¹ Measured as the number of persons who left SCA divided by the number of employees at year-end.

Note 28 New executive incentive system

As of 1 January 1999 a new incentive system for SCA's senior executives is being implemented. With the new system, a strong link is established between the individual's possibility for a bonus and the value appreciation for the SCA share which accrues to the shareholders. The program involves some 60 executives at Group and business area level and replaces previous incentive programs which are being phased out during a transition period. The new incentive system involves two parts: a long-term component (3 years) and a short-term component (1 year).

The long-term element is based on a rolling earnings period of three years. Outcome depends on how the value (so-called effective return) on the SCA Class B share develops during a three-year period in relation to the value development of SCA's competitors and on the stock exchange as a whole. For the CEO and the presidents of the Hygiene Products, Packaging and Graphic Paper business areas, after a three-year period, the bonus can amount to 45% of base salary, which is paid in its entirety in SCA shares. For the other executives included in the program, the maximum outcome can be 35% of the base salary, paid in SCA shares, and 5% in cash. A general condition for payment of a bonus is that the dividend on the SCA Class B share is not reduced in relation to the preceding year.

In order to phase out the former prevailing three-year (rolling) share-related incentive system (which was introduced in 1997 and covers the period 1997, 1998 and 1999 and can yield a maximum of 10% of the base salary in bonus in each of the stated years), the following will apply during a transition period for the years 1999 and 2000. In 1999, the same applies as previously, that is, a maximum result of 10% of the base salary. In 2000, the maximum result will be

20% for the CEO and the three mentioned presidents of business areas and 15% for the other executives covered by the system. The basis for the 20% and 15% shall be the same as for the new system's long-term element, that is, comparison of the value development of the SCA Class B share and value development of SCA's competitors as well as the stock exchange as a whole. Bonus in 1999 and 2000 will be paid in the form of SCA shares. In 2001, the new system will be implemented in its entirety with the possibility of a maximum bonus of 45% of the base salary for the CEO and the three business area presidents and 35% of the base salary for the other executives covered by the system.

The short-term component is based on an earnings period of one year. The bonus amount, which cannot exceed a maximum of 15% of the base salary, is related to whether or not targets established for operating cash flow are achieved during the year. The bonus payments deriving from the short term component are paid in cash. The targets for the short-term component for the CEO and the three presidents of the business areas are established each year by the salary committee of the Board of Directors. The targets for the other executives are set by the CEO.

In order to phase out the former incentive system, the component which is based on return on capital employed (and can result in a maximum bonus of 30% of base salary) the following will apply during a transition period for the years 1999 and 2000. In 1999, the bonus will not be based solely on return on capital employed, but 50% will be related to the established cash flow target. In 2000, the bonus will be based totally on the established cash flow target. In 2001, the new, totally cash-flow based system will be established with reduced maximum bonus amounting to 15% of base salary.

Specification to Note 10

Parent Company shareholdings in subsidiaries

Company name	Org. no.	Registered office	No. of shares	Capital %	Book value, SEK M
<i>Swedish subsidiaries:</i>					
SCA Research AB	556146-6300	Gothenburg	1,000	100	0.1
AB SCA Finans	556108-5688	Stockholm	420,750	100	50.1
SCA Holding AB	556313-1621	Stockholm	10,374,430	100	341.4
SCA Hedging AB	556237-4867	Stockholm	50,000	100	72.0
SCA Kraftfastigheter AB	556449-7237	Stockholm	1,000	100	0.1
Fastighets- och Bostadsaktiefbolaget FOBOF	556047-8520	Stockholm	1,000	100	0.1
SCA Försäkrings AB	516401-8540	Stockholm	140,000	100	14.0
SCA Recovered Papers Holding AB	556537-5739	Stockholm	1,000	100	0.1
SCA Konsult AB	556351-6029	Stockholm	1,000	100	0.1
<i>Foreign subsidiaries:</i>					
SCA Group Holding B.V.	181970	Amsterdam	246,347	100	24,018.8
Parent Company shareholdings in subsidiaries					24,496.8

Group holdings of share and participations in associated companies

Company name	Org. no.	Registered office	No. of shares/ participations	Capital %	Book value, SEK M
Staper Ltd	1130403	Aylesford	100,000	50	6.4
Centrale Eerbeek		Eerbeek		50	28.0
Kaplamin Ambalaj Sanayi ve Ticaret AS		Izmir	8,750,000	29	35.9
SCA Packaging Ambalaj ve Ticaret AS		Altinova	2,064,600	34	30.9
Ova SCA Packaging Ambalaj ve Ticaret AS		Tarsus	3,783,000	29	28.6
Selkasan Kagit ve Paketleme Malzemeleri Imalati Sanayi ve Ticaret AS		Manisa	9,277,800	16	39.5
Nordliner IL Returpapper		Stockholm	14,000	15	2.7
SCA Weyerhaeuser Packaging Holding Co Asia Ltd		Hong Kong	158,720	50	98.7
Rank SCA Packaging India Ltd		India	7,731,882	50	32.3
Les Bois de la Baltique SA		Rochefort	75,000	38	14.4
AB Släden	556094-8001	Östersund	66,000	33	7.6
GAE Smith	1075198	Leicester	44,300	50	39.6
Atkasan		Izmir	44,625	35	3.5
Paredes SA	B955 509 609	Genas	24,272	23	56.5
Obalex SRO		Jilove u Decina	66,000	33	42.5
Allesta AG	FN 108934	Altbüron	300	50	5.1
Wellpappenfabrik Ges.m.b.H		Wien		48	33.5
Lantero Carton		Madrid	10,000	25	230.3
Other associated companies					36.7
Group holdings of shares and participations in associated companies					772.7

The difference between the book value in the Group and the Group's share in the associated company's shareholders' equity amounts to SEK 93 M.

Specification to Note 10, cont.

Group holdings of shares and participations in other major companies

Company name	Org. no.	Registered office	Capital %
SCA GROUP HOLDING B.V.	181970	Amsterdam	100
SCA Forest Holding AB	556479-1100	Stockholm	100
SCA Forest & Timber AB	556379-3594	Sundsvall	100
Svanö AB	556056-7694	Kramfors	100
SCA Graphic Holding AB	556479-2058	Stockholm	100
SCA Graphic Paper AB	556379-3586	Sundsvall	100
SCA Graphic Sundsvall AB	556093-6733	Sundsvall	100
SCA Transforest AB	556431-6965	Sundsvall	100
SCA Graphic Laakirchen AG		Laakirchen	98
Aylesford Newsprint Holdings Ltd		Aylesford	50
SCA Hygiene Products Holding BV	305322	Amsterdam	100
SCA Hygiene Holding AB	556479-2181	Stockholm	100
SCA Hygiene Products AB	556007-2356	Härryda	100
– SCA Hygiene Products KS AB	556412-1035	Härryda	100
– SCA Hygiene Products IS AB	556239-3719	Härryda	100
– SCA Hygiene Products AFH AB	556239-3693	Gothenburg	100
– SCA Hygiene Products Inc.	421987	Ontario	100
– SCA Hygiene Products A/S	30877	Alleröd	100
– SCA Hygiene Products GmbH	HRB934	Hilden	100
– SCA Mölnlycke Kft	13-09-063186	Nagykata	100
– SCA Mölnlycke Ltd	47636	Dunmanway	100
– SCA Mölnlycke Holding B.V.	185911	Ar Zeist	100
– SCA Hygiene Products A/S	915620019	Tönsberg	100
– SCA Mölnlycke Lda	PT 503237612	Linda-a-Velha	100
– SCA Mölnlycke o.o.o.	67714	Moscow	100
– SCA Hygiene Products spol.s.r.o.	31723837	Gemerská-Hörka	100
– SCA Hygiene Products S.A.	A-28451383	Madrid	100
– SCA Mölnlycke Holdings Inc	58-2011277	Philadelphia	100
– SCA Hygiene Products Ltd.	577116	Dunstable	100
– SCA Hygiene Products s.r.o.	48536466	Prag	100
– SCA Mölnlycke AE	MAE 13446/01AT7B/86/190	Nea Ionia	100
– SCA Mölnlycke Sp.z.o.o.	Depart. B. 2367	Warsaw	100
– OY SCA Hygiene Products AB	FI01650275	Helsinki	100
– Productos Sanitarios Sancela S.A.	890937981-1	Medellin	49
– Uni-Charm Mölnlycke KK	660779	Tokyo	50
– Comercializadora Sancela SA de CV	CSA-880531-EX3	Mexico City	49
– Uni-Charm Mölnlycke BV	330631	Hoogezand	40
– Taiwan Sancella Enterprise Co., Ltd	16093200	Taipei	50
– Sancella SA	950464	Charguia	49
SCA Group Holding Deutschland GmbH	HRB4014	Mettman	100
SCA Hygiene Products AG	HRB42709	Munich	96
– SCA Hygiene Products GmbH	HRB3248	Mannheim	100
– SCA Hygiene Products GmbH	HRB5301	Wiesbaden	100
– SCA UK Holdings Ltd	697345	Aylesford	100
– SCA Hygiene Products SL	30550 folio 17, hoja B-173937	Barcelona	100
– SCA Hygiene Products Corp.	18818	Manila	100
– SCA Hygiene Paper Poland	Wroclaw Abt. B 7243	Wroclaw	99
– ooo Svetogorsk	P-11430.17	Svetogorsk	100
– SCA Fine Paper GmbH	HRB3098	Raubling	100
Tatra Papiervertriebs GmbH	HRB94274	Raubling	90
Chemische Werke Zell-Wildshausen GmbH	HRB344	Düsseldorf	100
Wertstoff GmbH	HRB1887	Raubling	100
SCA Paper Trade GmbH	HRB10326	Raubling	100
SCA Fine Paper Hallein GmbH	FN31749	Hallein	100
James McNaughton Paper Group Ltd	1131445	Erith	93
Buhomij BV	10020018	Andelst	100
SCA Packaging Deutschland Holding GmbH	HRB61506	Berlin	100
– PWA Packaging Beteiligungen GmbH	HRB5220	Mannheim	100
SCA Packaging Deutschland AG & Co KG	HRA3009	Mannheim	100
– SCA Packaging Industrierpapier GmbH	HRB3097	Raubling	100

Specification to Note 10, cont.

Group holdings of shares and participations in other major companies

Company name	Org. no.	Registered office	Capital %
SCA Packaging Holding BV	196416	Amsterdam	100
SCA Packaging International BV		Amsterdam	100
SCA Packaging Obbola AB	556147-1003	Umeå	100
SCA Packaging Munksund AB	556237-4859	Piteå	100
SCA Packaging Belgium NV		Gent	100
SCA Packaging Italia Spa		Arcore	100
SCA Packaging Sweden AB	556036-8507	Värnamo	100
SCA Packaging France SA		Eragny	100
SCA Corporate UK Ltd	2263948	Aylesford	100
SCA Finance BV		Eerbeek	100
SCA Packaging Benelux BV		Eerbeek	100
SCA Packaging De Hoop BV		Eerbeek	100
SCA Recycling Holding AB	556513-8590	Stockholm	100
SCA Recycling Holding BV		Amsterdam	100
SCA Recycling Belgium NV	608601	St Stevens Woluwe	100
SCA Recycling France SA	B404148439	Courbevoie	100
SCA RML Europe NV	593097	Zaventem	100
SCA Recycling UK Ltd	214967	Aylesford	100
Italmaceri Srl		Torino	50
SCA Coordination Center NV	547534	Brussels	100
SCA Reinsurance Ltd	168575	Dublin	100
PWA Holding AB	556204-5434	Stockholm	100

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.

Proposed disposition of earnings

As shown in the consolidated balance sheet, distributable shareholders' equity amount to SEK 14,643 M.

Distributable shareholders' equity at the Parent Company:

retained earnings	12,975,511,621
net earnings for the year	897,200,952
Total	13,872,712,573

The Board of Directors and the President recommend:

to the shareholders, a dividend of SEK 6.50 per share	1,283,099,578
retained earnings to be carried forward	12,589,612,995
Total	13,872,712,573

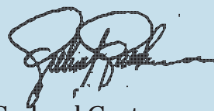
Stockholm, 19 February 1999



Bo Rydin
Chairman



Christer Gardell



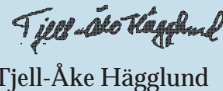
Gerhard Gustavsson



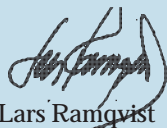
Sören Gyll



Tom Hedelius



Tjell-Åke Hägglund



Lars Ramqvist



Clas Reuterskiöld



Alf Söderlund



Sverker Martin Lof
President

Auditor's report

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF SVENSKA CELLULOSA
AKTIEBOLAGET SCA (publ)

Reg.No: 556012-6293

We have audited the Parent Company and the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Svenska Cellulosa Aktiebolaget SCA (publ) for 1998. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the Parent Company and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Group's results and financial position.

We recommend

- that the income statements and the balance sheets of the Parent Company and the Group be adopted, and
- that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report.
- that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 19 February 1999

Öhrlings Coopers & Lybrand AB



Bertil Edlund
Authorized Public Accountant

Quarterly data

GROUP

SEK M	1998				1997			
	IV	III	II	I	IV	III	II	I
Net sales	15,918	15,234	14,857	15,264	15,003	14,262	15,114	14,216
Operating surplus	2,476	2,506	2,427	2,911	2,381	2,244	2,645	2,074
Depreciation according to plan	-1,043	-1,006	-966	-998	-924	-958	-1,009	-952
Share in earnings of associated companies	27	32	41	21	45	8	7	7
Operating profit	1,460	1,532	1,502	1,934	1,502	1,294	1,643	1,129
Financial items	-343	-338	-298	-280	-307	-285	-284	-235
Earnings after financial items	1,117	1,194	1,204	1,654	1,195	1,009	1,359	894
- of which, nonrecurring items	-	-	-	400	-	-	300	125
Income taxes	-356	-426	-376	-522	-391	-351	-300	-295
Minority interests	-30	-19	-29	-32	-120	-88	-71	-82
Net earnings	731	749	799	1,100	684	570	988	517
Earnings per share	3.68	3.77	4.05	5.57	3.47	2.89	5.00	2.62

BUSINESS AREAS

Net sales

SEK M	1998				1997			
	IV	III	II	I	IV	III	II	I
Hygiene Products	6,951	6,490	6,395	6,328	6,090	5,922	6,015	5,991
Packaging	3,832	3,725	3,650	3,828	3,519	3,465	3,975	3,323
Graphic Paper	4,959	4,779	4,491	4,673	4,341	4,108	4,174	3,939
<i>Wood-containing publication papers</i>	1,979	1,900	1,761	1,838	1,856	1,540	1,655	1,339
<i>Fine papers, paper merchanting, market pulp</i>	2,980	2,879	2,730	2,835	2,485	2,568	2,519	2,600
Forest and Timber	998	901	1,033	1,053	1,118	903	1,081	1,056
Other operations	365	467	404	411	463	427	511	461
Divested units	3	1	-1	141	466	427	466	445
Intra-Group deliveries	-1,190	-1,129	-1,115	-1,170	-994	-990	-1,108	-999
Total	15,918	15,234	14,857	15,264	15,003	14,262	15,114	14,216

Earnings

SEK M	1998				1997			
	IV	III	II	I	IV	III	II	I
Hygiene Products	583	600	605	616	595	645	647	680
Packaging	316	396	395	373	336	291	376	193
Graphic Paper	469	492	425	465	436	210	173	65
<i>Wood-containing publication papers</i>	380	358	317	279	193	102	128	35
<i>Fine papers, paper merchanting, market pulp</i>	89	134	108	186	243	108	45	30
Forest and Timber	206	140	188	188	221	208	230	153
Other operations	-30	-16	-34	365	-13	7	283	107
Divested units	-1	-1	-	5	3	9	11	6
Goodwill amortization	-83	-79	-77	-78	-76	-76	-77	-75
Operating profit	1,460	1,532	1,502	1,934	1,502	1,294	1,643	1,129
Financial items	-343	-338	-298	-280	-307	-285	-284	-235
Earnings after financial items	1,117	1,194	1,204	1,654	1,195	1,009	1,359	894
- of which, nonrecurring items	-	-	-	400	-	-	300	125
Earnings after financial items excl. nonrecurring items	1,117	1,194	1,204	1,254	1,195	1,009	1,059	769

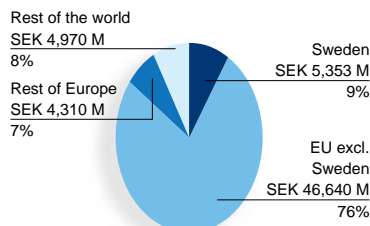
Margins

Business areas, %	1998				1997			
	IV	III	II	I	IV	III	II	I
Hygiene Products	8	9	9	10	10	11	11	11
Packaging	8	11	11	10	10	8	9	6
Graphic Paper	9	10	9	10	10	5	4	2
<i>Wood-containing publication papers</i>	19	19	18	15	10	7	8	3
<i>Fine papers, paper merchanting, market pulp</i>	3	5	4	7	10	4	2	1
Forest and Timber	21	16	18	18	20	23	21	14
Group, %								
Operating margin	9.2	10.1	10.1	12.7	10.0	9.1	10.9	7.9
Financial net margin	-2.2	-2.2	-2.0	-1.8	-2.0	-2.0	-1.9	-1.7
Profit margin	7.0	7.9	8.1	10.9	8.0	7.1	9.0	6.2

Group by country

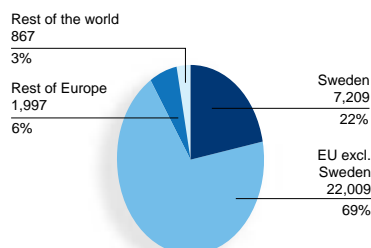
	Net sales				Average no. of employees				Salaries	
	SEK M	%	SEK M	%	of whom, women		of whom, women		SEK M	SEK M
	1998	1998	1997	1997	1998	%	1997	%	1998	1997
Sweden	5,353	9	5,569	10	7,209	21	7,493	23	2,027	2,003
EU excl. Sweden										
Germany	11,239	18	10,846	18	6,281	16	6,486	15	2,195	2,126
Great Britain	10,401	17	9,935	17	4,453	16	4,628	17	1,349	1,270
France	6,880	11	6,321	10	2,969	28	3,009	26	738	662
The Netherlands	4,582	8	4,237	7	2,701	13	3,129	13	700	870
Italy	4,119	7	4,097	7	1,404	24	1,039	17	350	250
Belgium	2,394	4	2,365	4	872	30	1,270	27	437	412
Austria	1,635	3	1,734	3	2,368	13	2,501	14	856	782
Denmark	1,605	3	1,530	3	139	50	136	46	60	59
Spain	1,470	2	908	2	360	25	186	32	83	45
Finland	735	1	738	1	176	53	290	62	48	77
Ireland	671	1	709	1	19	16	146	79	5	19
Greece	555	1	522	1	238	42	267	49	46	39
Portugal	282	0	270	1	29	31	41	29	23	7
Luxembourg	72	0	65	0	-	-	-	-	-	-
Total EU, excl. Sweden	46,640	76	44,277	75	22,009	20	23,128	19	6,890	6,618
Rest of Europe										
Norway	1,226	2	1,527	3	461	37	494	40	144	147
Poland	983	2	746	1	501	42	379	46	36	24
Switzerland	757	1	661	1	400	23	50	46	128	22
Hungary	498	1	410	1	240	45	271	51	18	21
Czech Republic	213	0	156	0	90	54	81	47	8	6
Turkey	127	0	125	0	-	-	-	-	-	-
Slovakia	85	0	96	0	305	33	409	41	11	12
Other	421	1	359	1	-	-	-	-	-	-
Total rest of Europe	4,310	7	4,080	7	1,997	36	1,684	44	345	232
Rest of the world										
US	1,838	3	1,635	3	414	40	497	39	158	193
Canada	492	1	447	1	216	40	170	24	65	50
Japan	86	0	148	0	-	-	-	-	-	-
Other	2,554	4	2,439	4	237	45	427	92	21	15
Total rest of the world	4,970	8	4,669	8	867	41	1,094	57	244	258
SCA GROUP	61,273	100	58,595	100	32,082	21	33,399	22	9,506	9,111

Net sales
by region 1998



Countries outside Sweden, accounted for slightly more than 91% of total net sales.

Employees
by region 1998



Average number of employees totaled, 32,082. The percentage of employees outside Sweden was 78%.

Ten-year comparison

SEK M	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Statement of earnings										
Net sales	61,273	58,595	55,405	65,317	33,676	33,420	32,137	32,760	31,122	24,853
Operating profit ¹	6,428	5,568	4,581	7,350	1,810	2,172	8,608	2,605	3,338	3,137
Hygiene Products	2,404	2,567	2,277	1,254	676	1,012	781	662	533	686
Packaging	1,480	1,196	939	2,370	910	680	462	607	626	573
Graphic Paper	1,851	884	510	2,345	495	35	-313	186	507	806
Forest and Timber	722	812	607	877	869	515	375	468	481	495
Other operations	285	384	436	299	193	-11	197	224	191	145
Divested units	3	29	100	210	175	204	777	776	837	420
Goodwill amortization	-317	-304	-288	-301	-288	-287	-248	-200	-105	-
Nonrecurring items ²	-	-	-	296	-1,220	25	6,577	-118	268	12
Financial income	280	280	319	296	252	217	319	320	469	426
Financial expenses	-1,539	-1,391	-1,327	-1,915	-1,002	-1,179	-1,899	-1,740	-1,404	-839
Earnings after financial items	5,169	4,457	3,573	5,731	1,060	1,210	7,028	1,185	2,403	2,724
Income taxes	-1,680	-1,337	-1,144	-1,915	-423	-79	-796	-150	-838	-934
Minority interests	-110	-361	-312	-352	-82	-60	-32	-134	-59	-56
Net earnings for the year³	3,379	2,759	2,117	3,464	555	1,071	6,200	901	1,506	1,734
Balance sheet										
Fixed assets (excl. financial receivables)	55,147	50,351	48,599	46,822	31,336	30,983	30,613	30,820	32,903	17,951
Receivables and inventories	18,790	16,726	15,461	16,435	10,606	10,409	10,775	11,022	12,252	9,398
Financial receivables	1,485	1,370	1,072	1,128	131	175	212	247	-	-
Short term investments	1,132	676	1,469	1,692	1,873	1,296	3,435	672	2,216	3,133
Cash and bank balances	1,819	1,582	1,393	2,053	982	1,388	1,064	806	1,058	606
Total assets	78,373	70,705	67,994	68,130	44,928	44,251	46,099	43,567	48,429	31,088
Shareholders' equity	28,404	24,653	22,906	22,024	19,590	19,963	18,284	11,144	11,350	10,533
Minority interests	1,386	1,496	3,331	3,493	853	916	807	688	586	567
Provisions ⁴	10,906	10,452	9,441	-	-	-	-	-	-	-
Interest-bearing debt	25,806	22,647	21,396	22,439	13,559	13,673	15,510	19,281	21,818	9,249
Operating- and other interest-free liabilities	11,871	11,457	10,920	20,174	10,926	9,699	11,498	12,454	14,675	10,739
Total shareholders' equity and liabilities	78,373	70,705	67,994	68,130	44,928	44,251	46,099	43,567	48,429	31,088
Capital employed ⁵	51,160	44,840	43,311	47,408	31,780	31,459	29,581	30,918	24,217	14,585
Net debt	21,370	19,018	17,462	17,566	10,573	10,814	10,799	17,556	18,407	5,475
Cash flow analysis										
Operating cash flow	6,970	6,513	5,829	6,586	2,422	2,689	2,930	2,329	-	-
Cash flow from current operations	4,275	4,850	4,210	4,943	1,174	1,313	1,388	633	-	-
Cash flow before dividend	345	482	2,006	-3,673	504	2,285	5,278	1,738	-	-
Current capital expenditures	2,058	2,207	2,489	2,927	1,377	1,479	1,461	1,495	2,518	2,021
Strategic capital expenditures	2,248	983	1,126	1,849	1,599	74	316	462	2,108	694
Acquisitions	2,793	3,431	1,558	7,698	821	520	383	1,928	6,899	934
Key ratios ⁶										
Equity/assets, %	38	37	39	37	46	47	41	28	25	36
Equity/assets including surplus values, %	46	46	46	44	52	53	45	46	43	57
Interest coverage, multiple	5.1	5.0	4.5	4.5	2.4	2.3	5.5	1.8	3.6	7.6
Debt payment capacity, %	37	39	34	35	37	-	-	-	-	-
Debt/equity ratio, multiple	0.72	0.73	0.67	0.69	0.52	0.52	0.57	1.44	1.54	0.49
Return on capital employed, %	14	12	11	16	6	7	29	8	14	22
Return on shareholders' equity, %	13	12	10	17	3	6	47	8	14	19
Operating margin, %	11	10	8	11	5	6	27	8	11	13
Net margin, %	6	5	4	5	2	3	19	3	5	7
Capital turnover rate, multiple	1.29	1.31	1.28	1.38	1.06	1.06	1.09	1.06	1.29	1.70
Earnings per share, SEK	17.07	13.98	10.71	17.55	2.94	5.82	33.23	4.97	8.12	9.27
Dividend, SEK per share	6.50 ⁷	5.75	5.25	4.75	3.75	3.40	3.10	3.10	3.10	2.81

¹ Operating profit has been distributed (pro forma) for 1989.

² Not reported separately in 1996–1998.

³ Earnings in Sweden have been charged with 28% deferred tax in 1994–1998 and 30% in 1989–1993.

⁴ The provisions are included in operating- and other interest-free liabilities in 1989–1995.

⁵ Calculation of average return on capital employed and shareholders' equity is based on five measurements during 1993–1998, four measurements in 1991 and 1992 and two measurements in earlier years.

⁶ Key ratios are defined on page 73.

⁷ Board proposal.

Definitions and key ratios

Calculation of key ratios are based mainly on the recommendations issued by the Swedish Society of Financial Analysts. Averages are calculated based on five measuring points.

CAPITAL DEFINITIONS

Capital employed

The Group's and business areas' 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 noninterest-bearing liabilities.

Undistributable goodwill attributable to the Reedpack acquisition (in 1990) is included in the Group's capital employed as a Groupwide asset. Other goodwill is included in capital employed of the business areas.

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 debt, 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 interests 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 interests.

Interest coverage

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

Cash earnings

Cash earnings are calculated as earnings before tax, with a reversal of depreciation of tangible and intangible assets, share in earnings of associated companies, nonrecurring items, reduced by tax payments.

Debt payment capacity

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

Operating cash flow

Operating cash flow includes the total of operating surplus, change in operating capital and pension liabilities, with deduction for current capital expenditures in property and plant and restructuring costs.

Cash flow from current operations

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

Strategic investments

Strategic investments are designed to increase the Company future cash flow through acquisitions of companies, capital expenditures to expand facilities, or in new technologies that boost SCA's competitiveness.

Current capital expenditures

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 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 areas 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 as a percentage of average shareholders' equity.

OTHER MEASUREMENTS

Net worth per share

Net worth per share is calculated 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:

SEK M	1998	1997
Net earnings for year	3,379	2,759
Reversal of interest expense, after tax, on option and convertible loans	6	3
Total	3,385	2,762
Average number of shares after full dilution, millions	198.2	197.6
Earnings per share after taxes and full dilution, SEK	17.07	13.98

Glossary

Hygiene Products

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

Tissue – Créped soft paper which is the basis for hygiene products such as napkins, toilet paper and towels, and towel-ing products for institutions, hotels, etc.,

Packaging

Sheet plant – See Converting plant.

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

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

Converting plant – Produces finished packaging from corrugated board sheets supplied by a corrugated board plant (see below) or an integrated packaging plant.

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 properties.

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

Commercial print – independent printing houses which mainly produce advertising materials.

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

Chemical pulp – Wood fibers processed chemically, normally by cooking.

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

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

Mechanical pulp – Debarked wood which is ground or chipped for mechanical refining to separate the fibers to form pulp.

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

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

SCA Forest and Timber

Cross-cut blanks – Sawn goods used as semifinished goods in the furniture and door industries, for example.

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.

m³ fub – Cubic meters under bark. The actual volume of wood in a tree, less the bark, expressed in cubic meters

SCA Raw Materials and Logistics

Recycled fiber – Fiber based on recovered paper.

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

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

Environmental management

EMAS – EU's system for environmental management and auditing of forestry.

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

Liner – See under Packaging headline.

m³sk – Forest cubic meter. Trunk wood and bark from root line to treetop. Used in connection with forest inventories.

MW – Megawatt. Unit used to measure power.

Oil equivalent – Amount of fuel equal to a cubic meter of oil.

Productive forest land – Land with a productive capacity that exceeds one cubic meter of forest per hectare annually.

RMS – SCA's resource-management system.

TJ – Terajoule. Unit used to measure energy (fuel). One TJ is equal to approximately 25 cubic meters of oil.

TWh – Terawatt hour: a unit used to measure energy (electricity). One TWh is equal to one billion kWh.

Production capacities

(excluding fluff products)

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

	Mill	Country	Production Capacity (1,000 metric tons)													Total pulp & paper	Sawn timber m ³	Recovered paper ⁷⁾		
			Tissue	Corrugated board ⁴⁾	Kraftliner	Testliner	Fluting	Newsprint	SC paper	LWC paper	Uncoated fine paper	Coated fine paper	Market pulp ⁶⁾	CTMP pulp						
Hygiene Products	Lilla Edet	SE	77															77		
	Nättraby	SE	30															30		
	Tilburg	NL	31															31		
	Friesland ***	NL	25															25		
	Croisset ¹⁾	FR	30															30		
	Stembert	BE	60															60		
	Sept	FR	88															88		
	Svetogorsk	RU	23															23		
	Mannheim ²⁾ **	DE	324															324		
	Mainz-Kostheim **	DE	103															103		
	Ortmann **	AT	112															112		
Prudhoe	GB	82															82			
Marpo	ES	23															23			
Total			1,008															1,008		
Packaging		SE		90														90		
		DK		61														61		
		GB		431														431		
		FR		134														134		
		BE		224														224		
		IT		437														437		
		TR		31														31		
		DE		315														315		
		HU		7														7		
		PL		5														5		
		CH		36														36		
		ES		152														152		
		CN		30														30		
		CN		1														1		
		CZ		43														43		
		Munksund	SE			350												350		
		Obbola *	SE			300	100											400		
		Lucca	IT				240	85										325		
		Castelfranco	IT					70										70		
	New Hythe (Aylesford)	GB				140	100										240			
	De Hoop *	NL				175	145										320			
	Izmir	TR				55											55			
	Aschaffenburg	DE					290										290			
	Witzenhausen	DE				240	85										325			
	Oftringen *	CH				60	40										100			
Total				1,997⁵⁾	650	1,010	815											4,472		
Graphic Paper	Ortviken	SE							340		400							740		
	Wifsta	SE										150						150		
	Östrand	SE												320	70			390		
	Aylesford *	GB							380									380		
	Laakirchen ***	AT								317								317		
	Stockstadt	DE										175	195	50				420		
Hallein	AT											265	45				310			
Total									720	317	400	325	460	415	70			2,707		
Forest and Timber ³⁾	Tunadal	SE																300		
	Lugnvik	SE																150		
	Holmsund	SE																70		
Munksund	SE																265			
Total																		785		
SCA Recycling		AT																		329
		FR																		63
		DE																		773
		IT																		579
		SE																		538
		BE																		597
	TR																		69	
	GB																			865
Total																				3,813
TOTAL			1,008	1,997	650	1,010	815		720	317	400	325	460	415	70			8,187	785	3,813

* Certified in accordance with ISO 14001.

** EMAS certified (EU system for environmental management and auditing).

¹⁾ Includes non-woven.

²⁾ Includes 50,000 tons of packaging paper and greaseproof paper.

³⁾ The forestry operations are certified in accordance with FSC as of January 1999.

⁴⁾ The conversion factor (from tons to m²) has changed since last year.

⁵⁾ The total of 1,997 tons corresponds to 3.5 billion m².

⁶⁾ Defined as dry capacity.

⁷⁾ Controlled and traded.

Board of Directors and Auditor

BOARD OF DIRECTORS

Elected by Annual General Meeting



Bo Rydin (1932). Chairman, SCA Board member since 1972. Deputy member 1970–1972. Other board memberships in listed Swedish companies: Chairman of AB Industrivärden, Skanska AB, Grängeverken and SAS Council, vice chairman of Svenska Handelsbanken. SCA shares held: 61,196.



Sverker Martin-Löf (1943). President and CEO, SCA. SCA Board member since 1986. Other board memberships in listed Swedish companies: AGA Aktiebolag and Telefonaktiebolaget LM Ericsson. SCA shares held: 7,057. Convertibles: 1,800. Options: 32,700.



Clas Reuterskiöld (1939). CEO and President, AB Industrivärden. SCA Board member since 1994. Other board memberships in listed Swedish companies: AGA Aktiebolag, Telefonaktiebolaget LM Ericsson, Sandvik AB, Skanska AB and Svenska Handelsbanken. SCA shares held: 7,284.



Tom Hedelius (1939). Chairman, Svenska Handelsbanken. SCA Board member since 1985. Other board memberships in listed Swedish companies: Bergman & Beving AB (chairman), AGA Aktiebolag (vice chairman), Telefonaktiebolaget LM Ericsson (vice chairman), AB Industrivärden (vice chairman), SAS Council, and AB Volvo. SCA shares held: 1,663.



Christer Gardell (1960). President, AB Custos. SCA Board member since 1997. Other board memberships in listed Swedish companies: ASG AB (chairman), Perstorp AB and Svedala Industri AB. SCA shares held: 1,356.



Lars Ramqvist (1938). Chairman of Telefonaktiebolaget LM Ericsson. SCA Board member since 1994. Other board memberships in listed Swedish companies: Skandia (vice chairman), AB Volvo (vice chairman) and Astra AB.



Sören Gyll (1940). Chairman, Pharmacia & Upjohn Inc. SCA Board member since 1997. Other board memberships in listed Swedish companies: AB Volvo, AB SKF, Skanska AB and Bilia AB. Board membership in foreign company: Oresa Ventures S.A. SCA shares held: 119.

Appointed by employees



Gerhard Gustavsson (1939). Process Engineer, SCA Hygiene Products AB, Edet Mill. SCA Board member since 1989.

Represents salaried employees.
Convertibles: 36. Options: 54.



Tjell-Åke Hägglund (1944). President, SCA Recreation and Pension Foundations. SCA Board member since 1985. Represents salaried employees. SCA shares held: 75. Convertibles: 72. Options: 108.



Alf Söderlund (1943). Instrument Maker, SCA Graphic Sundsvall AB, Ortviken Papermill. SCA Board member since 1985. Represents wage-earner employees. SCA shares held: 62. Convertibles: 36. Options: 54.

Deputy members

Jörgen Andersson (1964). Electrician, SCA Hygiene Products AB, Edet Mill. SCA Board member since 1997. Represents wage-earner employees. SCA shares held: 126. Convertibles: 360. Options: 540.

Per Ågren (1941). Repairman, SCA Packaging Järfälla AB. SCA Board member since 1998. Represents wage-earner employees. Convertibles: 36. Options: 54.

Bruno Lundgren (1941). Supervisor, SCA Packaging Munksund AB. SCA Board member since 1989. Represents salaried employees. SCA shares held: 62. Convertibles: 720. Options: 1,080.

Board Secretary

Michael Bertorp (1949). Executive Vice President and General Counsel, responsible for Secretariat and Legal Affairs. SCA shares held: 1,917. Convertibles: 1,800. Options: 10,700.

AUDITOR

Öhrlings Coopers & Lybrand AB.

Senior responsible auditor: Authorized Public Accountant Bertil Edlund

BOARD OF DIRECTORS AND ITS WORK PROCEDURES

SCA's Board of Directors comprise 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 a member of the Board of Directors. Other staff members in the Company participate in Board meetings to make presentations or in an administrative capacity.

During the 1998 fiscal year, the Board held 9 (7) 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 has appointed a special committee of its members whose task is to prepare a proposal regarding the composition of SCA's Board of Directors. For the period preceding the 1999 Annual General Meeting, this nominating committee comprises Bo Rydin, Chairman, Tom Hedelius, Clas Reuterskiöld and Christer Gardell.

There is also salary committee which deals with matters related to employment and pension terms of senior executives and other employees. During the period preceding the 1999 Annual General Meeting, this committee comprises Bo Rydin, Chairman, Clas Reuterskiöld and Sören Gyll. The Board of Directors has addressed the issue of appointing a special auditing committee, but decided that control matters brought to the attention of Board should be dealt with by the entire Board. In order to ensure that the Board's information requirements in this respect are met, the Company's senior auditor reports personally to the Board each year regarding his observations based on examination of the accounts and his assessment of the Company's internal controls.

Figures within parentheses indicate year of birth.

Information as of 31 December 1998.

Senior management



Sverker Martin-Löf (1943)
President and CEO, SCA.
 Doctor of Technology.
 SCA employee since 1977.
 Earlier: Senior Vice President, Technology, MoDo.
 SCA shares held: 7,057.
 Convertibles: 1,800.
 Options: 32,700.



Alfred H. Heinzel (1947).
President, SCA Hygiene Products. B. Sc. Eng. and MBA.
 SCA employee since 1988.
 Earlier: President, Laakirchen AG.
 SCA shares held: 0.
 Convertibles: 900.
 Options: 1,350.



Kenneth Eriksson (1944).
President, SCA Graphic Paper. Mechanical Engineer.
 SCA employee since 1979.
 Earlier: President, Sunds Defibrator AB.
 SCA shares held: 0.
 Convertibles: 1,800.
 Options: 2,700.



Colin J. Williams (1942).
President, SCA Packaging.
 Master of Physical Chemistry. MBA.
 SCA employee since 1988.
 Earlier: Employed by Johnson & Johnson.
 SCA shares held: 0.
 Convertibles: 1,800.
 Options: 2,700.



Jan Åström (1956).
President, SCA Fine Paper.
 M. Sc. Eng.
 SCA employee since 1993.
 Earlier: Employed by MoDo.
 SCA shares held: 0.
 Convertibles: 360.
 Options: 5,540.



Jerker Karlsson (1944).
President, SCA Forest and Timber. Licentiate of Forestry.
 SCA employee since 1970.
 Earlier: President, SCA Skog AB.
 SCA shares held: 1,027.
 Convertibles: 1,800.
 Options: 2,700.



Ulf Frölander (1939).
President, SCA Raw Materials and Logistics. Ph. D.
 SCA employee since 1988.
 Earlier: Executive Vice President, Boliden AB.
 SCA shares held: 1,006.
 Convertibles: 1,800.
 Options: 12,700.





Francis Van Sevendonck (1946). Senior Vice President, Human Resources. Bachelor of Law. SCA employee since 1990. Earlier: Director of Human Resources, Westinghouse Electric Corporation. SCA shares held: 0. Convertibles: 1,800. Options: 2,700.



Carl-Axel Olson (1948). President, AB SCA Finans. MBA. SCA employee since 1975. Earlier: Vice President AB SCA Finans. SCA shares held: 1,119. Convertibles: 1,800. Options: 4,700.



Michael Bertorp (1949). Executive Vice President and General Counsel, Secretariat and Legal Affairs. Bachelor of Law. SCA employee since 1984. Earlier: Judge in Swedish court system and positions in the Ministry of Justice. SCA shares held: 1,917. Convertibles: 1,800. Options: 10,700.



Lennart Persson (1947). Senior Vice President, Accounting and Financial Control. Business economist. SCA employee since 1987. Earlier: Executive Vice President AB SCA Finans. SCA shares held: 0. Convertibles: 1,800. Options: 8,700.



Åke Rietz (1945). Executive Vice President and Chief Financial Officer. MBA. SCA employee since 1988. Earlier: CFO, Duni AB. SCA shares held: 1,168. Convertibles: 1,800. Options: 15,200.



Ralf Helsing (1942). Senior Vice President, Business and IT Control. Business economist. SCA employee since 1986. Earlier: Group Controller in SCA. SCA shares held: 0. Convertibles: 1,800. Options: 6,700.



Alf de Ruvo (1938). Executive Vice President, Corporate Research and Technology. M. Sc. and M. Sc. Eng. SCA employee since 1983. Earlier: Vice President, Research and Development, Sunds Defibrator AB. SCA shares held: 1,100. Convertibles: 1,800. Options: 6,700.



Sten Lindholm (1941). Senior Vice President, Corporate Communications. BA. SCA employee since 1990. Earlier: Senior Vice President, Corporate Communications, AGA Aktieföretag. SCA shares held: 0. Convertibles: 1,800. Options: 2,700.

SCA in the world

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Jan Åström, President

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Raw Materials and Logistics

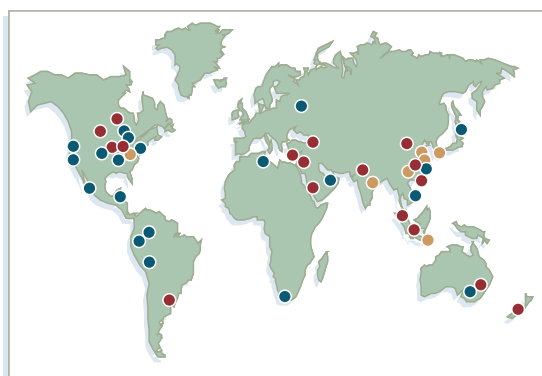
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Other companies

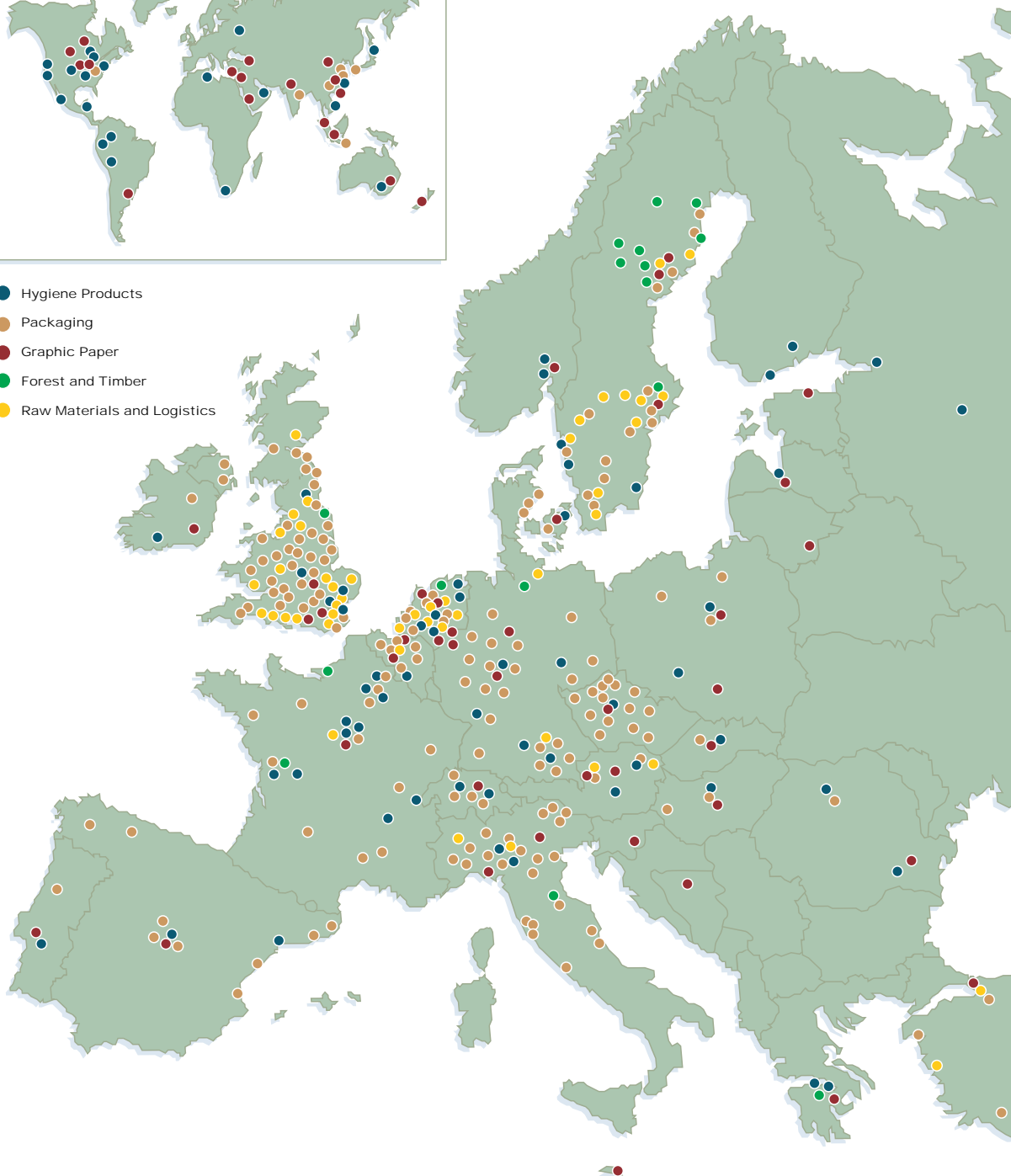
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Per Larsson



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



Annual General Meeting and Nominating Committee

The Annual General Meeting of shareholders is being held on Wednesday, 24 March 1999 at 1:00 p.m. in Vinterträdgården, Grand Hôtel, Stockholm, Sweden. Doors open for registration at 12:00 noon. Refreshments will be served after the meeting.

Right to participate in the meeting
To participate in the meeting, shareholders

must be on the SCA list of shareholders not later than Friday, 12 March 1999

and notify SCA of their intention to participate, not later than 4:00 p.m. on Friday, 19 March 1999.

Registration on shareholders' list
The SCA list of shareholders is maintained by the Swedish Central Securities Depository (CSD). Stock may be registe-

red 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 CSD not later than Friday, 12 March 1999.

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

Notice of intention to participate
Notice can be given

- by telephone: +46-8 788 51 39,
- by telefax: +46-8 678 23 24,
- by mail to:
Svenska Cellulosa Aktiebolaget SCA
Legal Affairs
Box 7827, SE-103 97 Stockholm,
Sweden.
- or on SCA's website: www.sca.se

In providing such notice, a shareholder should state:

- name
- social security/organization number
- address and telephone number

Payment of dividend
Monday, 29 March 1999 is proposed as the record date for entitlement to dividends. Payment is expected to be made through CSD on Wednesday, 7 April 1999.

Nominating Committee for SCA's Board of Directors

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

Financial information report dates in 1999

Year-end and interim reports are published in the SCA Investor Report magazine, among other publications, and on SCA's home page on the Internet: www.sca.se

SCA Investor Report and the Annual Report are sent automatically to shareholders who have given notice that they wish to receive this information.

28 April 1999 Interim report for three months ended 31 March 1999.

29 July 1999 Interim report for six months ended 30 June 1999.

28 October 1999 Interim report for nine months ended 30 September 1999.

31 January 2000 Year-end report on 1999 operations.

March 2000 Annual Report for 1999.

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

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or from SCA's Internet website: www.sca.se

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*SCA supports
Amnesty International's
human rights efforts*