

Corporate governance report for Svenska Cellulosa Aktiebolaget SCA (publ) 556012-6293

CORPORATE GOVERNANCE

Corporate governance refers to the regulations and structures built up to guide and manage the operations of a limited company in an efficient and controlled manner. Corporate governance is ultimately intended to meet owners' return requirements and to give all stakeholders adequate and accurate information about a company.

Management of a Swedish limited company is divided in a specific manner between the shareholders at general meetings, the board of directors and the president. The Swedish model for corporate governance is based on the Swedish Companies Act.

Swedish Code of Corporate Governance

SCA is listed on the Stockholm Stock Exchange's A list and is therefore obliged to implement the Swedish Code of Corporate Governance by the 2006 Annual General Meeting.

The purpose of the Swedish Code of Corporate Governance includes creating conditions for the exercise of an active and responsible ownership role, ensuring that owners are able to protect their interests in relation to the company's management, clarifying the division of roles and responsibility between management and control bodies, and ensuring maximum transparency towards owners and capital markets.

The report below shows how SCA applied the code in 2005.

This corporate governance report has not been reviewed by the company's auditors.

ARTICLES OF ASSOCIATION

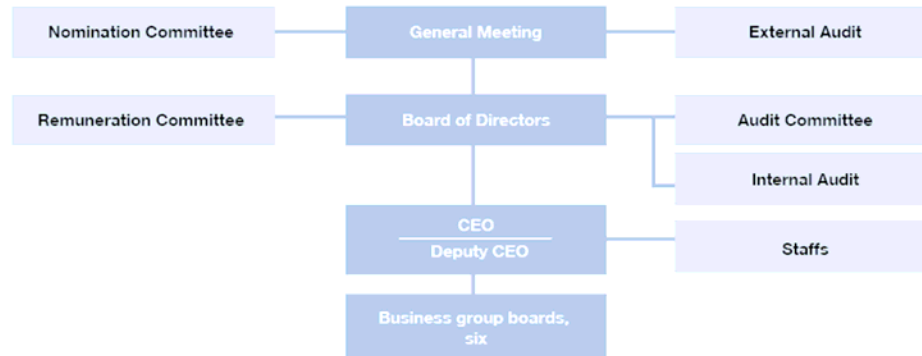
The articles of association are adopted at a general meeting and must contain a number of basic mandatory details about the company. For example, they must state the nature of the company's business, the share capital, the number of shares issued, the size of the board, and how general meetings are to be convened.

SCA's articles of association state, among other things, that the board of directors shall comprise 3 to 12 members, that Class A shares carry 10 votes and Class B shares one vote.

The complete articles of association are available on SCA's website, www.sca.com (Corporate Governance/General Meeting/Information About AGM).

In view of changes to the Swedish Companies Act, the 2006 Annual General Meeting will be asked to decide on certain amendments to the articles of association. The proposal can be accessed on SCA's website, www.sca.com (Corporate Governance/General Meeting/Annual General Meeting 2006).

Corporate governance at SCA is organized as set out below.



GENERAL MEETINGS

SCA's highest decision-making body is the general meeting, where all shareholders are entitled to attend, personally or through a proxy. The meeting can decide on all matters that do not legally expressly fall under the exclusive authority of another corporate body. Any shareholder is entitled to have a matter considered by general meeting.

The company's board is selected at the annual general meeting (AGM). Other mandatory tasks at the AGM include adopting the company's balance sheet and income statement, deciding on disposition of the earnings from the company's operations, and deciding on discharge of liability for board members and the president. The AGM also elects the company's auditors.

A general meeting – AGM or extraordinary general meeting – can also decide on amendments to the articles of association, an increase or decrease in the share capital, and other matters.

2005 Annual General Meeting

SCA's AGM was held on Thursday, 5 April 2005 in Stockholm.

Full details of the 2005 AGM are provided on SCA's website www.sca.com (Corporate Governance/General Meeting/Annual General Meeting 2005).

2006 Annual General Meeting

The next AGM of SCA shareholders will be held in Stockholm on 6 April 2006. Full details of the 2006 AGM are provided on SCA's website www.sca.com (Corporate Governance/General Meeting/Annual General Meeting 2006).

NOMINATION COMMITTEE

The Nomination Committee represents the company's shareholders. The committee is tasked with creating as good a basis as possible for the AGM's decisions, by submitting proposals for decisions on the composition of the board and auditors as well as their remuneration.

The 2005 AGM decided that the Nomination Committee ahead of the 2006 AGM should comprise representatives of the company's five largest shareholders, together with the Chairman of the board, who is also the convener.

Nomination Committee ahead of the 2006 AGM

The Nomination Committee ahead of the 2006 AGM has the following members:
Carl-Olof By, AB Industrivärden, Chairman of the Nomination Committee
Curt Källströmer, Handelsbanken pension foundations and others
Björn Lind, SEB funds
Björn Franzon, Fourth Swedish National Pension Fund
Caroline af Ugglas, Skandia Liv
Sverker Martin-Löf, Chairman of SCA

All shareholders have been invited to submit proposals to the Nomination Committee.

The Nomination Committee has submitted its proposal ahead of the 2006 Annual General Meeting. The proposal can be accessed on SCA's website, www.sca.com (Corporate Governance/General Meeting/Nomination Committee), together with an account of how the Nomination Committee conducted its work.

BOARD OF DIRECTORS

The Board of Directors has overall responsibility for the company's organization and for management of the company's affairs.

Board members

The Board of Directors comprises seven members elected at a general meeting and three members, with three deputy members, appointed by the employees. The President is a member of the Board.

More detailed information about Board members and deputies is provided on page 98 of the Annual Report and on SCA's website, www.sca.com (Corporate Governance/Board of Directors/Presentation of the Board of Directors).

A majority (Rolf Börjesson, Sören Gyll, Anders Nyrén and Indra Åsander) is independent in relation to the company and the company's management. Of these board members, three (Rolf Börjesson, Sören Gyll and Indra Åsander) can also be regarded as independent in relation to the company's major shareholders. Only one board member (Jan Åström) is a member of senior management.

The work of the Board

The Board does not have within itself a different allocation of duties than those derived from the Chairman's special tasks and the tasks incumbent on the Board's committees.

The work of the Board adheres to an annual schedule and is regulated in the procedures adopted by the Board relating to the allocation of work between the Board, its committees and the President. The procedures prescribe a specific content and presentation of the information that management provides to the Board and also ensures that the Board annually examines its own routines. The boards of the different business groups have similar procedures.

The Board has appointed an Audit Committee and a Remuneration Committee from among its members. SCA's General Counsel is the Secretary to the Board.

The Board held nine meetings during 2005.

Audit Committee

The tasks of the Audit Committee include preparing the Board's quality assurance of the financial reporting but with no right of decision. This includes questions relating to internal control, compliance with regulations, control of reported figures, estimates, assessments and other material that can affect the quality of the financial reports. The committee has assigned the company's auditors to examine especially how well the overall, as well as the more detailed internal control activities are complied with in the company. The committee meets the company's auditors on a regular basis, sets up guidelines for audits and other services, evaluates the auditor and assists the Nomination Committee in the selection of auditors and matters relating to remuneration.

The Audit Committee comprises the Board members elected by the general meeting with the exception of the President.

The Audit Committee was established in April 2005 and subsequently held three meetings during the year.

Remuneration Committee

The Remuneration Committee handles salaries, pension benefits, incentive programmes and other terms of employment for the President and other senior executives. The Committee has no powers of decision. Senior executives include the Executive Vice President, business group presidents, persons within the Parent Company who report to the President, and other executives that the committee decides to include. Terms of employment for the President and other senior executives are decided by the Board.

The Remuneration Committee met on two occasions in 2005. In addition a large number of matters were dealt with per capsulam.

Chairman of the Board

According to the Board procedures the Chairman of the Board, in addition to leading the work of the Board, must continuously through contacts with the President monitor the Group's operations and development. In addition, the duties of the Chairman include representing the company in ownership matters, ensuring that the work of the Board is evaluated annually and that the Board continuously updates and deepens its knowledge of the Group's operations.

The 2005 Annual General Meeting decided to appoint Sverker Martin-Löf as the Chairman of the Board.

Evaluation of the work of the Board

The work of the Board like that of the President is evaluated annually using a systematic and structured process the purpose of which includes obtaining a good basis for the Board's own development work.

The Nomination Committee is informed of the results of this evaluation.

Remuneration of the Board

The total fee to Board members elected by the general meeting was decided by the 2005 AGM at SEK 3,250,000, of which SEK 1,050,000 to the Chairman and SEK 350,000 to each Board member who is not an employee. Committee member receive an additional fee of SEK 50,000.

OPERATIONAL MANAGEMENT

President

The President, who is also the CEO, is tasked with responsibility for ongoing management of the company in accordance with the Board's guidelines and instructions.

The President is supported by an Executive Vice President, also the CFO, and eight group staffs, see pages 99–100 of the Annual Report and SCA's website, www.sca.com (Corporate Governance/Senior Management).

The Board's procedures clarify the allocation of work between the Board and the President.

Business Group management

Each of the Group's six business groups is headed by a business group board and a business group president.

The business groups have a large measure of independence. The management of each business group has its own staff organization and operational responsibility for the operations within their area.

The work procedures for the business group boards ensure that significant matters within each business group are handled by the business group board, where the Group CEO is normally the chairman. The different work procedures in the Group are also coordinated in such a manner that a number of significant issues must be submitted to the board of the Parent Company.

Board of Directors

	Attendance	Independent ¹⁾	Attendance Audit Committee	Attendance Remuneration Committee	Fees ²⁾
Rolf Börjesson	9/9	•	3/3	2/2	450,000
Sören Gyll	9/9	•	3/3		400,000
Tom Hedelius	9/9		3/3	2/2	450,000
Sverker Martin-Löf, Chairman	9/9		3/3	2/2 (Chairman)	1,150,000
Anders Nyrén	9/9	•	3/3 (Chairman)		400,000
Indra Åsander	8/9	•	2/3		400,000
Jan Åström, VD	9/9				0
Total					3,250,000 SEK

• = Member can be regarded as independent of the company and its management.

• = Member can be regarded as independent of the company and its management and of the company's major shareholders.

Members appointed by representative /trade unions, see page 100 of the Annual Report.

¹⁾ As defined in the Swedish Code of Corporate Governance.

²⁾ This amount relates to fees to Board members.

REMUNERATION TO MANAGEMENT

SCA's shareholders will be asked at the 2006 AGM to adopt principles for remuneration and other terms of employment for the company's management. The proposal can be accessed on SCA's website, www.sca.com (Corporate Governance/General Meeting/Annual General Meeting 2006).

Regarding salary and remuneration and other benefits to the President and other senior executives, see Note 32 of the Annual Report and SCA's website, www.sca.com (Corporate Governance/Remuneration to Senior Executives).

Outstanding stock and share-price related incentive programmes

During 2001 and 2002, about 200 senior executives received stock options at no cost to a value (theoretically calculated), which on the date did not exceed about 20% of the executive's base salary. The total number of stock options for both years allotted to these executives amounted to about 1,800,000. For additional information, see Note 32 of the Annual Report and SCA's website, www.sca.com (Corporate Governance/Remuneration to Senior Executives).

AUDIT

Auditors

The 2004 Annual General Meeting appointed the audit firm Pricewaterhouse-Coopers AB as the company's auditors. In conjunction with this appointment the firm appointed Robert Barnden, Authorized Public Accountant, to be senior auditor. Barnden has been senior auditor since 2000.

Barnden is also auditor of Nobia AB and Seco Tools AB, and deputy auditor of Telefonaktiebolaget LM Ericsson and Acando Frontec.

Barnden has no shares in SCA.

Audit work

International Financial Reporting Standards (IFRS) are used in the preparation of the Group's accounts from 2005.

The Group's nine-month report was reviewed by the company's auditors. The review complied with the recommendation issued by FAR (the institute for the accounting profession in Sweden).

The audit of the annual accounts, consolidated accounts and the accounting records, as well as the administration of the company by the Board and the President is conducted in accordance with generally accepted auditing standards in Sweden.

Remuneration to auditors (PWC)	Group			Parent Company		
	MSEK	2005	2004	2003	2005	2004
Remuneration for audit assignments	64	58	40	9	5	2
Remuneration for other consultations	25	43	39	11	6	3

Remuneration to auditors

Remuneration has been paid to the company's auditors for audits and other prescribed reviews as well as for advice and other assistance resulting from observations from such audits. Remuneration has also been paid for separate advisory services. Most of the advice relates to audit-related consultations on accounting and tax issues in conjunction with restructuring.

According to its instructions, the Audit Committee must set guidelines for which services other than auditing the company may purchase from the company's auditors.

Remuneration paid to the auditors in 2005, is specified in Note 9 of the Annual Report.

FINANCIAL REPORTING

Financial reporting to the Board

The schedule in the Board's work procedures specifies which reports and what information of a financial nature should be presented to the Board at every ordinary meeting.

The Board's instruction to the President enjoins him to make sure that the Board receives the reports required for the Board to be able to continuously assess the financial position of the company and the Group. The instruction also specifies which types of reports the Board must receive at every meeting.

External financial reporting

The quality of the external financial reporting is ensured through a number of different measures and routines.

The company's internal control function is tasked, among other things, with examining accounting matters that are critical for financial reporting and communicating their observations to the Audit Committee and the Board.

The Board's Audit Committee, as already stated, is tasked with quality assurance of the financial reporting.

In addition to the annual accounts, the auditors also examine the closing accounts for the third quarter.

The President is also responsible, supported by his staffs, for ensuring that the financial information otherwise provided, for example in press releases with a financial content, presentation material for meetings with media representatives, owners and financial institutions, etc., in all respects are correct and of good quality.

Communication with the company's auditors

The Audit Committee in accordance with its instruction regularly meets the company's auditors in order to obtain information as to the focus and scope of the audit and to discuss the coordination between the external audit and the internal control function as well as an opinion on the company's financial risks.

In addition, the Board in accordance with its work procedure meets the auditors as at least three ordinary board meetings during the year.

At these meetings the auditors, among other things, present and receive opinions on the focus and scope of the planned audit and deliver verbal audit and review reports.

In addition, at the Board's third ordinary autumn meeting, the auditors deliver an in-depth report concerning the audit for the current year. The work procedure specifies a number of obligatory matters to be reported. These include important matters that have led to observations or discussions during the audit, business routines and transactions where differences of opinion can be thought to exist regarding the choice of accounting technique, as well as accounting for consultancy assignments given to the audit firm by SCA and for its overall dependence on the company and its management.

On each occasion, Board members have an opportunity to ask the auditor questions and some in-depth discussion of the accounts takes place without representatives for the company's management being present.

A similar regulation of the company's contacts with the auditors is provided in the work procedures for the boards of the business groups.

INTERNAL CONTROL

With reference to a pronouncement from the Swedish Corporate Governance Board, the Board provides below a description of how internal control is organized. Both according to the Swedish Companies Act and according to the Swedish Code of Corporate Governance, the Board is responsible for ensuring that the company has satisfactory internal control. Responsibility for maintaining

an effective control environment and the ongoing work with internal control and risk management are delegated to Group management.

Managers at different levels in the company also have this responsibility within their area of responsibility.

The Group's internal audit function has its own corporate staff and reports to the Audit Committee on internal audit matters and to the CFO on other matters.

The key tasks of staffs and their employees are to implement, further develop and maintain the Group's control routines, and to carry out internal controls focused on business critical matters. The internal control function reports directly to the chairman of the Board's Audit Committee.

CONTROL ENVIRONMENT

SCA's internal control structure is based on:

- allocation of work between the Board, its committees and the President
- the Group's organization with well-defined areas of responsibility and delegation
- control documents such as policies and guidelines, including a Code of Conduct for SCA's employees
- a management system based on a number of well-defined planning, implementation and support processes

Risk assessment

SCA's risks inherent in financial reporting comprise the risk that a material error can arise in reporting of the company's position and results. The company's accounting instructions and manuals as well as established follow up routines are designed to minimize these risks.

Information and communication

SCA has information and communication channels that ensure that instructions and manuals are available to those who need access to them, and that information about news and updates is communicated within the Group.

Regular reporting and examination of financial results is carried out both in the operating units management and in the established board structure.