

INFORMATION

SVENSKA CELLULOSA AKTIEBOLAGET SCA (publ)
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Year-end Report 1997

SCA in brief

	1997	1996
Net sales, SEK M	58,595	55,405
Earnings after financial net, SEK M	4,457	3,573
Debt/equity ratio, times	0.73	0.67
Earnings per share after tax, SEK	13.98	10.71
Cash flow from operations per share, SEK	24.54	21.30
Dividend, SEK	5.75*	5.25

* Board proposal

- Earnings after net financial items amounted to SEK 4,457 M, an increase of 25% compared with the preceding year. Excluding non-recurring income, which amounted to SEK 425 M (416), earnings after net financial items improved 28%.
- Earnings per share amounted to SEK 13.98 (10.71), an improvement of 31%.
- All business areas posted higher operating profit during the year: Hygiene Products +12%, Packaging +27%, Graphic Paper +73% and Forest and Timber +34%.
- Volume growth for the entire Group amounted to 8%.
- Free cash flow amounted to SEK 5,628 M (4,885), up 15%. Cash flow from operations amounted to SEK 4,850 M (4,210).
- In preparation for the transition to euro, the statements of earnings and balance sheets for 1996 and 1997 in the report on 1997 operations are shown in SEK and translated to ECU, which from 1999 will correspond to the value denominated in euro.

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Appended to this year-end report is the "President's Letter" (Extract from the main content of the President's Letter in the SCA 1997 Annual Report).

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SALES AND EARNINGS

The Group's net sales amounted to SEK 58,595 M (55,405), an increase compared with 1996 of 6%. This is attributable to the effects of reduced average prices, which affected invoicing adversely by 5%, being offset by a volume increase of 8% and more favorable currency rates of 3%. Sales in the fourth quarter rose by 5% compared with the third quarter of 1997, due mainly to sales increases within Graphic Paper and Hygiene Products.

Group operating profit amounted to SEK 5,568 M (4,581). Operating profit includes capital gains of SEK 425 M on the divestment of shares in AB Industrivärden. Figures in 1996 included capital gains from divested operations etc of SEK 416 M.

Group earnings after net financial items were SEK 4,457 M (3,573), up 25%. The effects of foreign exchange movements were negligible.

Net financial expenses were SEK 1,111 M (1,008), which is attributable to a higher net debt and marginally higher interest rates. The interest coverage multiple was 5.0 (4.5).

Earnings after net financial items in the fourth quarter were SEK 1,195 M compared with SEK 1,009 M in the third quarter. The improvement is attributable mainly to Graphic Paper, where price increases on LWC and fine paper combined with productivity improvements doubled earnings.

Earnings after tax amounted to SEK 2,759 M (2,117). Earnings per share, after full tax and full dilution, were SEK 13.98 (10.71), up 31%. Net worth per share amounted to SEK 181 (165). Net worth is the sum of consolidated shareholders' equity and the surplus value in forest lands and listed shares.

Return on shareholders' equity was 12% (10) and on capital employed 12% (11).

CASH FLOW

The operating cash flow amounted to SEK 6,513 M (5,829). An increase in working capital affected cash flow by SEK -533 M (668). Capital expenditures for current investments amounted to SEK 2,207 M (2,489).

The cash flow from current operations, that is, before strategic investments and dividends, amounted to SEK 4,850 M (4,210), corresponding to SEK 24.54 (21.30) per share.

Strategic capital expenditures, which include expansion investments, acquisitions and divestments, amounted to SEK 4,184 M (2,204), or SEK 21.17 (11.15) per share. During the fourth quarter, strategic capital expenditures amounted to SEK 2,301 M, of which the acquisition of the minority

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share in PWA accounted for SEK 1,803 M and acquisition of part of a tissue company in Colombia for SEK 191 M.

SEK M	1997	1996
Net sales	58,595	55,405
Operating surplus	9,344	8,124
<i>% of net sales</i>	<i>16</i>	<i>15</i>
Current capital expenditures	-2,207	-2,489
<i>% of net sales</i>	<i>4</i>	<i>4</i>
Changes in working capital	-533	668
Other operating cash flow changes	-91	-474
Operating cash flow	6,513	5,829
Income taxes paid, etc ¹	-885	-944
Free cash flow	5,628	4,885
<i>per share, SEK</i>	<i>28.48</i>	<i>24.72</i>
Interest expenses after taxes	-778	-675
Cash flow from current operations	4,850	4,210
<i>per share, SEK</i>	<i>24.54</i>	<i>21.30</i>
Strategic capital investments and divestments	-4,184	-2,204
<i>per share, SEK</i>	<i>21.17</i>	<i>11.15</i>
Cash flow before dividend	666	2,006
<i>per share, SEK</i>	<i>3.37</i>	<i>10.15</i>

¹ Tax attributable to operating profit.

NET DEBT AND DEBT/EQUITY RATIO

Net debt at the end of the year amounted to SEK 19,018 M. This is SEK 1,556 M higher than at January 1, 1997 when net debt amounted to SEK 17,462 M. The increase is attributable to a net of the positive cash flow from operations of SEK 4,850 M, an increase in debt through strategic capital expenditures and dividends to shareholders totaling SEK 5,276 M, and the negative effects of currency movements, SEK 946 M, and loans in acquired companies, SEK 184 M.

The equity/assets ratio was 37% (39), including surplus values 45% (46), and the debt/equity ratio was 0.73 (0.67) times, including surplus values 0.51 (0.49).

SIGNIFICANT EVENTS - FOURTH QUARTER 1997 AND BEGINNING OF 1998

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During the latter part of 1997, SCA tendered a purchase offer to all of PWA's minority shareholders. The time-specified offer of DEM 335 per share expired on December 17, 1997. A separate offer, approved by a General Meeting of Shareholders in PWA of DEM 281 per share, remains outstanding. At year-end, SCA controlled almost 94% of the shares in PWA. Costs of the acquisition of shares during the year amounted to SEK 1,803 M.

Additional shares were acquired after year-end, after which SCA today holds slightly more than 94% of the shares in PWA.

As part of the streamlining of hygiene operations to fiber-based hygiene products, an agreement was reached in the autumn to divest the Clinical Products business unit for surgical and wound-care products. The purchase price, about SEK 1,500 M, will be paid partly in cash and partly through the buyer transferring an operation in the adult incontinence product area. The transaction will result in a capital gain of approximately SEK 400 M, which is not being reported until the first quarter of 1998 since the competition authority within the EU provided its approval after the end of the year.

In the beginning of 1998, a minority interest in the corrugated board operations of the Spanish company Lantero was acquired. SCA's cost to attain 25% of the capital amounts to SEK 196 M.

In January 1998, the Spanish tissue company MARPO, with annual sales of SEK 550 M, was acquired.

Combined, the result of these three transactions is that the debt/equity ratio improves from 0.73 at year-end to 0.70 times.

DIVIDEND

The Board of Directors has decided to propose to the Annual General Meeting a dividend of SEK 5.75 (5.25) per share, an increase of about 10%. Accordingly, the dividend growth during the most recent five years amounts to 13% per year.

HYGIENE PRODUCTS BUSINESS AREA

Operating profit, SEK M	97:4	97:3	97:2	97:1	9712	9612
Hygiene Products	598	654	658	686	2,596	2,323
Fluff and clinical products	269	276	273	272	1,090	660
Tissue	329	378	385	414	1,506	1,663

The business area comprises tissue and fluff products (incontinence products for adults, baby diapers and feminine hygiene products).

Net sales during the year amounted to SEK 26,086 M (24,131), an increase of 8%. The increase was the net effect, among other factors, of a growth of 10% in volume compared with the preceding year and a decrease of 3% in prices. The effect of changes in currency rates was a positive 2%.

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Fluff operations continue to develop favorably in volume for both incontinence and feminine hygiene products, with increases of 9% and 14%, respectively, compared with the preceding year. The total volume increase in the fluff segment amounted to 10%.

Deliveries of finished tissue products amounted to 713,000 tons, 9% higher than a year earlier. The increase was largely distributed equally between the consumer and Away From Home segments.

Operating profit amounted to SEK 2,596 M (2,323). The improvement in operating profit was attributable mainly to a strong trend in the incontinence area and divestment of the diaper operations in France.

Prices in the tissue operations were 5% lower than in the preceding year. In contrast, raw material prices were mainly unchanged during the year. Personnel reductions and other productivity enhancement measures combined with volume increases could not fully offset the lower prices.

Compared with the third quarter of 1997, when earnings amounted to SEK 654 M, higher raw material costs and the costs for launching new products resulted in somewhat lower earnings for the fourth quarter, primarily in the tissue segment. However, the price decline in tissue operations has leveled out and the price levels in the fourth quarter were marginally somewhat higher than in the third quarter.

PACKAGING BUSINESS AREA

Operating profit, SEK M	97:4	97:3	97:2	97:1	9712	9612
Packaging	336	291	376	193	1,196	939
Corrugated board, incl raw materials	261	248	324	154	987	830
Liner products - external deliveries	75	43	52	39	209	109

The business area comprises transport packaging made of corrugated board as well as kraftliner and testliner/fluting.

Net sales amounted to SEK 14,282 M (13,697). Accordingly, sales rose by slightly more than 4%, which includes a net of price reductions of 5% and a strong volume increase due to company acquisitions and the positive effect of changed currency rates on net sales.

Operating profit amounted to SEK 1,196 M (939). Lower prices for both corrugated packaging and external liner products resulted in a decrease in earnings, compared with the preceding year, despite substantially lower raw material costs. However, as a result of the effects of volume increases, mainly through company acquisitions and productivity improvements, earnings as a whole rose by 27%.

Earnings in the fourth quarter improved compared with third quarter 1997. Prices for corrugated board continue to be depressed, while prices for liner, particularly kraftliner, rose during the autumn.

Deliveries of corrugated board amounted to 2,511 (2,480) million square meters.

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Production of liner products during the period amounted to 2,107,000 (2,070,000) tons, of which 980,000 (750,000) tons were delivered to external customers and 1,125,000 (1,320,000) internally.

GRAPHIC PAPER BUSINESS AREA

Operating profit, SEK M	97:4	97:3	97:2	97:1	9712	9612
Graphic Paper	436	210	173	65	884	510
Wood-containing printing papers	193	102	128	35	458	990
Fine papers, paper merchanting, market pulp	243	108	45	30	426	-480

The business area comprises wood-containing printing papers (newsprint, SC, LWC), fine paper and bleached kraft pulp, as well as paper merchanting operation for fine paper.

Net sales amounted to SEK 16,562 M (15,872), an increase of 4%, compared with 1996. Volume growth was 9% and price decreases 8%. Changes in currency rates affected sales positively by 3%.

Operating profit for the full year amounted to SEK 884 M (510). The decline in earnings during the year for wood-containing printing papers is attributable to the sharp price declines, about 15%, which were offset by about 50% through reductions in raw material costs and production increases.

Compared with the third quarter, price hikes for LWC combined with increased volumes contributed to an earnings improvement in wood-containing printing papers during the fourth quarter.

The sharp earnings improvement in fine paper and pulp are attributable to price increases and the effects of the previously reported efficiency enhancement programme.

Fine paper prices rose during the fourth quarter concurrent with continued productivity improvements resulting in lower costs. The favorable price trend for pulp was broken in November due to the crisis in Asia. Earnings in the merchant operations improved during the fourth quarter.

Deliveries of wood-containing printing papers amounted to 1,311,000 (1,171,000) tons. Deliveries of fine papers amounted to 808,000 (804,000) tons.

FOREST AND TIMBER

Net sales amounted to SEK 4,158 M (3,948) and operating profit totaled SEK 812 M (607). Both the forest and sawmill operations reported improved earnings compared with 1996. In the forest operation, reduced prices were offset by increased volumes and lower costs. The sharply rising prices for sawn timber, which was the main reason for the earnings improvement in the sawmill segment, met downward pressure during the second half of the year.

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The volume of deliveries of sawn timber amounted to 704,000 (686,000) cubic meters.

PERSONNEL

The number of employees as of December 31, 1997 was 33,404 (33,222).

MARKET OUTLOOK

Because of the economic crisis in Asia, projections of economic trends are uncertain for both Europe and North America. Imbalance is expected to arise in supply and demand for raw materials and semi-finished goods. A growing percentage of refined products should show better relative stability in terms of demand and pricing.

SHARE DISTRIBUTION

971231	Series A	Series B	Total
Registered number of shares	62,145,880	135,254,055	197,399,935
Unconverted debenture loans	-	224,559	224,559
Total after full conversion	62,145,880	135,478,614	197,624,494

ANNUAL GENERAL MEETING

The Annual General Meeting will be held March 31, 1998 in Stockholm. April 3, 1998 is proposed as the record date for entitlement to receive dividends. Distribution through VPC (Swedish Securities Register Center) is expected to occur on April 14, 1998. Interim reports will be released April 28, July 28, and October 28, 1998. The 1997 Annual Report is scheduled to be published in the beginning of March 1998.

Stockholm, January 29, 1998

SVENSKA CELLULOSA AKTIEBOLAGET SCA (publ)
President and CEO

This report is not finally audited.

Copies of the Year-end Report are available at D.F. King (Europe) Ltd., Royex House, Aldermanbury Square, London EC2V 7HR, Great Britain. Telephone +44-171 600 5005.

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Statement of Earnings

January 1 - December 31

	1997		1996	
	SEK M	ECU M	SEK M	ECU M
Net sales	58,595	6,794	55,405	6,596
Operating costs and expenses	-49,251	-5,710	-47,281	-5,629
Operating surplus	9,344	1,084	8,124	967
Depreciation according to plan	-3,843	-446	-3,575	-426
Share in earnings of associated companies	67	8	32	4
Operating profit	5,568	646	4,581	545
Net financial items	-1,111	-129	-1,008	-120
Earnings after net financial items	4,457	517	3,573	425
Income taxes	-1,337	-155	-1,144	-136
Minority interest	-361	-42	-312	-37
Net earnings after tax	2,759	320	2,117	252
Return on shareholders' equity		12%		10%
Return on capital employed		12%		11%

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Business Areas

Net sales

January 1 - December 31

SEK M	1997	1996
Hygiene Products	26,086	24,131
<i>Fluff and clinical products</i>	13,859	12,664
<i>Tissue</i>	12,227	11,467
Packaging	14,282	13,697
<i>Corrugated board incl. raw materials</i>	11,164	10,419
<i>Liner products - external deliveries</i>	3,118	3,278
Graphic Paper	16,562	15,872
<i>Wood-containing printing papers</i>	6,390	6,190
<i>Fine papers, paper merchanting, market pulp</i>	10,172	9,682
Forest and Timber	4,158	3,948
Other operations	1,598	1,576
Divested units	-	1,061
Intra-Group deliveries	-4,091	-4,880
Total sales	58,595	55,405

Earnings

January 1 - December 31

SEK M	1997	1996
Hygiene Products	2,596	2,323
<i>Fluff and clinical products</i>	1,090	660
<i>Tissue</i>	1,506	1,663
Packaging	1,196	939
<i>Corrugated board incl. raw materials</i>	987	830
<i>Liner products - external deliveries</i>	209	109
Graphic Paper	884	510
<i>Wood-containing printing papers</i>	458	990
<i>Fine papers, paper merchanting, market pulp</i>	426	-480
Forest and Timber	812	607
Other operations	384	436
Divested units	-	54
Goodwill depreciation	-304	-288
Total operating profit	5,568	4,581
Net financial items	-1,111	-1,008
Earnings after net financial items	4,457	3,573

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Balance Sheet

	1997-12-31		1996-12-31	
	SEK M	ECU M	SEK M	ECU M
Assets				
Long-term assets	50,351	5,787	48,599	5,697
Other current assets	16,726	1,923	15,461	1,812
Financial investments	1,370	157	1,072	126
Liquid assets	2,258	259	2,862	335
Total assets	70,705	8,126	67,994	7,970
Shareholders' equity and liabilities				
Shareholders' equity	24,653	2,833	22,906	2,685
Minority interest	1,496	172	3,331	390
Interest-bearing liabilities	22,647	2,603	21,396	2,508
Long-term non-interest-bearing liabilities	10,206	1,173	9,130	1,070
Current liabilities	11,703	1,345	11,231	1,317
Total shareholders' equity and liabilities	70,705	8,126	67,994	7,970

Equity/assets ratio

37%

39%

Debt/equity ratio

0.73 times

0.67 times

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Cash Flow Statement

January 1 - December 31

SEK M	1997	1996
Operating surplus	9,344	8,124
Changes in working capital	-533	668
Current capital expenditures	-2,207	-2,489
Other operating cash flow changes	-91	-474
Operating cash flow	6,513	5,829
Net financial items	-1,111	-1,008
Income taxes paid	-731	-659
Other	179	48
Cash flow from current operations	4,850	4,210
Strategic capital expenditures	-983	-1,126
Acquisitions	-3,247	-1,558
Divestments	46	480
Cash flow before dividend	666	2,006
Dividend	-1,092	-994
Net cash flow	-426	1,012
Net debt, January 1	-17,462	-17,566
Net cash flow	-426	1,012
Net debt in acquired/divested operations	-184	-925
Currency effects	-946	17
Net debt, December 31	-19,018	-17,462

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Quarterly Data

Group

SEK M	1997				1996			
	IV	III	II	I	IV	III	II	I
Net sales	15,003	14,262	15,114	14,216	13,694	13,496	13,482	14,732
Operating surplus	2,381	2,244	2,645	2,074	2,238	1,975	1,759	2,152
Depreciation according to plan	-924	-958	-1,009	-952	-962	-853	-864	-896
Share in earnings of associated companies	45	8	7	7	21	-1	3	9
Operating profit	1,502	1,294	1,643	1,129	1,297	1,121	898	1,265
Net financial items	-307	-285	-284	-235	-265	-253	-239	-251
Earnings after net financial items	1,195	1,009	1,359	894	1,032	868	659	1,014
Non-recurring items	-	-	300	125	250	166	-	-
Earnings after net financial items excl non-recurring items	1,195	1,009	1,059	769	782	702	659	1,014

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Quarterly Data

Business Areas - Net sales

SEK M	1997				1996			
	IV	III	II	I	IV	III	II	I
Hygiene Products	6,622	6,415	6,547	6,502	6,240	5,861	5,841	6,189
<i>Fluff and clinical products</i>	3,541	3,424	3,507	3,387	3,161	3,164	3,131	3,208
<i>Tissue</i>	3,081	2,991	3,040	3,115	3,079	2,697	2,710	2,981
Packaging	3,519	3,465	3,975	3,323	3,277	3,288	3,359	3,773
<i>Corrugated board incl raw materials</i>	2,781	2,610	3,176	2,597	2,439	2,454	2,640	2,886
<i>Liner products - external deliveries</i>	738	855	799	726	838	834	719	887
Graphic Paper	4,341	4,108	4,174	3,939	3,967	3,965	3,726	4,214
<i>Wood-containing printing papers</i>	1,856	1,540	1,655	1,339	1,426	1,730	1,517	1,517
<i>Fine papers, paper merchanting market pulp</i>	2,485	2,568	2,519	2,600	2,541	2,235	2,209	2,697
Forest and Timber	1,118	903	1,081	1,056	1,057	866	1,003	1,022
Other operations	397	361	445	395	372	417	383	404
Divested units	-	-	-	-	-	346	347	368
Intra-Group deliveries	-994	-990	-1,108	-999	-1,219	-1,247	-1,177	-1,238
Total sales	15,003	14,262	15,114	14,216	13,694	13,496	13,482	14,732

Business Areas - Earnings

SEK M	1997				1996			
	IV	III	II	I	IV	III	II	I
Hygiene Products	598	654	658	686	673	623	508	519
<i>Fluff and clinical products</i>	269	276	273	272	210	216	120	114
<i>Tissue</i>	329	378	385	414	463	407	388	405
Packaging	336	291	376	193	165	159	197	418
<i>Corrugated board incl raw materials</i>	261	248	324	154	150	157	190	333
<i>Liner products - external deliveries</i>	75	43	52	39	15	2	7	85
Graphic Paper	436	210	173	65	127	71	90	222
<i>Wood-containing printing papers</i>	193	102	128	35	150	261	304	275
<i>Fine papers, paper merchanting, market pulp</i>	243	108	45	30	-23	-190	-214	-53
Forest and Timber	221	208	230	153	189	116	164	138
Other operations	-13	7	283	107	214	204	-4	22
Divested units	-	-	-	-	-	19	17	18

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Goodwill depreciation	-76	-76	-77	-75	-71	-71	-74	-72
Total operating profit	1,502	1,294	1,643	1,129	1,297	1,121	898	1,265
Net financial items	-307	-285	-284	-235	-265	-253	-239	-251
Earnings after net financial items	1,195	1,009	1,359	894	1,032	868	659	1,014

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Quarterly Data

Business Areas - Margins

Percent	1997				1996			
	IV	III	II	I	IV	III	II	I
Hygiene Products	9	10	10	11	11	11	9	8
<i>Fluff and clinical products</i>	8	8	8	8	7	7	4	4
<i>Tissue</i>	11	13	13	13	15	15	14	14
Packaging	10	8	9	6	5	5	6	11
<i>Corrugated board incl. raw materials</i>	9	10	10	6	6	6	7	12
<i>Liner products - external deliveries</i>	10	5	7	5	2	0	1	10
Graphic Paper	10	5	4	2	3	2	2	5
<i>Wood-containing printing papers</i>	10	7	8	3	11	15	20	18
<i>Fine papers, paper merchanting, market pulp</i>	10	4	2	1	-1	-9	-10	-2
Forest and Timber	20	23	21	14	18	13	16	14
Operating margin	10.0	9.1	10.9	7.9	9.5	8.3	6.7	8.6
Net financial margin	-2.1	-2.0	-1.9	-1.7	-1.9	-1.9	-1.8	-1.7
Profit margin	7.9	7.1	9.0	6.3	7.5	6.4	4.9	6.9

Five-year summary

Full-year	1997	1996	1995	1994	1993
Earnings after net financial items, SEK M	4,457	3,573	5,731	1,060	1,210
Earnings per share after tax, SEK	13.98	10.71	17.55	2.94	5.82
Equity/assets ratio, %	37	39	37	46	47
Return on capital employed, %	12	11	16	6	7
Return on shareholders' equity, %	12	10	17	3	6

Produced volume - January 1 - December 31

Kton	1997	1996	Change, %
Tissue	714	657	9
Corrugated board*	1,515	1,505	1
Kraftliner	702	656	7
Testliner/fluting	1,405	1,414	-1
Newsprint	672	643	5
SC paper	294	307	-4
LWC paper	334	252	33

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Fine paper	804	747	8
Market pulp**	440	401	10
Total	6,880	6,582	5

* Cochis not included

** Calculated as dry tonnage

President's Letter

Extract from the main content of the President's Letter in the SCA 1997 Annual Report

The early part of 1997 was characterized by optimism over economic development in the world. After the summer, however, a clearly discernible sense of uncertainty emerged following the sudden financial crisis in Asia. Because of the world economy's increased globalization, it is obvious today that economic trends in Europe and North America will also be affected adversely by developments in Asia.

SCA continued to pursue its consistent strategy in 1997, as a unified and integrated paper company, by increasing its concentration on added-value, high-quality products in the fields of hygiene, packaging and graphic paper. Efforts were focused primarily in SCA's main market, Western Europe, although a greater share of resources was used to position the Group in Central and Eastern Europe, and in a global effort in the rapidly expanding sector for incontinence products.

From a shareholder's perspective, 1997 was a successful year. The SCA share developed favorably. The effective return for the year (based on last paid price) amounted to 34 percent, surpassing the general index on the Stockholm Stock Exchange, and the forestry industry yield index, by broad margins. The historical trend for the SCA share is presented in the diagram below, which shows annual effective return on the SCA share from investments made in different years since 1980. As shown in the diagram, average share value appreciation for the entire period is 15 percent and 20 percent over the past five years. Accordingly, the SCA share has created higher value for shareholders in relation to established objectives.

Earnings from SCA's hygiene operations showed strong growth in 1997, with return on capital employed totaling 23 percent. Corresponding return from Packaging and Graphic Paper was much weaker due to low prices. A gradual improvement was noted toward year-end, however. Group return on capital employed and shareholders' equity was 12 percent, which is slightly below established target levels for a complete economic cycle. Objectives for growth and cash flow were met during 1997, however. Volume growth amounted to 8 percent, with an operating surplus of 16 percent and cash flow from operations totaling SEK

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4,850 M, clearly in excess of the Group's objective of SEK 3 billion.
Current investments were maintained at 4 percent, while the potential for expansion investments was fully utilized.

A summary of the Group's business strategy, which was presented in detail to the capital market in 1997 and strengthened in a strategic review by the Board of Directors in December 1997, is presented below.

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Present position

SCA's Group structure has taken shape gradually during the 1990s through major acquisitions, capital expenditure and divestment of non-core business operations. A guiding principle has been the determination to strengthen SCA's positions in priority product areas, to expand SCA's geographic presence and to increase value added and quality for the benefit of customers and to enhance profitability and value growth in SCA shares. Throughout the entire process, continuous environmental considerations have been a focal point, with SCA's environmental work and closed-loop philosophy included as an integrated part of the company's business concept.

Today, SCA is a European company and, in terms of size, the only European alternative to American hygiene product companies.

The product portfolio shows favorable balance, with fiber-based hygiene products, packaging and graphic paper. The portfolio's inherent synergies and economies of scale are manifested most strongly in a regional perspective, but rapidly lose their prominence in the global perspective.

SCA Raw Materials and Logistics was created to further exploit synergies between Group business areas in Europe. Its operations have already produced favorable effects in such areas as energy, raw material procurements and transport logistics. Combined with a variety of productivity improvements, the operations of SCA Raw Materials and Logistics are creating conditions that will enable the Group to meet constantly increasing competition resulting from the market's growing internationalization.

Hygiene products and global competition

SCA is one of the largest manufacturers of fiber-based hygiene products in Europe, with annual sales of SEK 26 billion in a market valued at SEK 120 billion. SCA also commands a position of world leadership in the market for incontinence products. Effective January 1, 1998, all hygiene operations are concentrated under joint management following SCA's establishment of a dominance agreement with PWA.

The new structure will provide better potential to develop overall hygiene operations characterized by continued strong profitability. SCA places particularly sharp focus on the customer segments institutional and private label products, which account for two-thirds of hygiene product sales and require lower advertising expenditures compared with a more established brand name strategy that characterizes SCA's American competitors. SCA has the potential, however, to enhance its profile through greater focus on selective brand names in regions where the Group has particularly strong and concentrated operations and/or product areas in which the Group commands a marketing edge based on technological, commercial or other unique strengths.

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The “dual” strategy outlined above is supported by increased investments in new technologies. More development programs in tissue operations are now concentrated on the rapid-growth quality segment of the private label sector, which places greater demands on absorption capabilities of paper products, for example. As a concrete measure, a new machine, which can produce an extra soft and fluffy tissue, is planned in Mannheim, Germany. Currently, the facility is the largest tissue production plant in Europe. The overall structure of SCA tissue mills in Europe is also under review as part of efforts to reduce costs by approximately SEK 500 M annually by concentrating products and production in fewer units. The work is expected to be completed before the year 2000.

Packaging and profitability trends

During the 1990s, SCA has become Europe’s leading transport packaging company in corrugated board and liner, which account for 25 percent of total Group sales. Average profitability in the packaging sector remains far too low, however, reflecting strong covariance with the degree of consolidation and integration in different countries, market size and labor costs.

The greatest challenge in packaging operations, accordingly, is to increase profitability - a sustained return of 15 percent on capital employed - without sacrificing business growth objectives and cash flow requirements. The challenge will be met through selective improvement measures in corrugated board units that still show weak profitability. SCA will also continue to play an active role in consolidating the packaging sector, which in itself represents an important force to increase profitability.

Graphic Paper: continued focus on high-quality paper grades

The Graphic Paper business area has worked intensively to improve production efficiency and develop higher product quality in fine paper operations, and its merchandising operations have contributed to continued improvements in the profitability of SCA Fine Paper. In parallel, potential has also improved for SCA to participate in the fine paper industry’s structural transformation.

In the wood-containing printing paper sector, or publication paper, efforts have been concentrated on full utilization of new investments during recent years. SCA’s investments in high-quality magazine paper have taken the Group into a market segment in which IT development is yielding favorable effects on increased paper consumption.

Growth markets

Western Europe will continue to be SCA’s primary and domestic market in the foreseeable future. Top priority is placed on various efforts to strengthen the Group’s market position in Western Europe. However, there is also good reason to assign greater importance during the next few years to increased efforts in neighboring Central and Eastern European markets, particularly in view of their strong growth in paper consumption.

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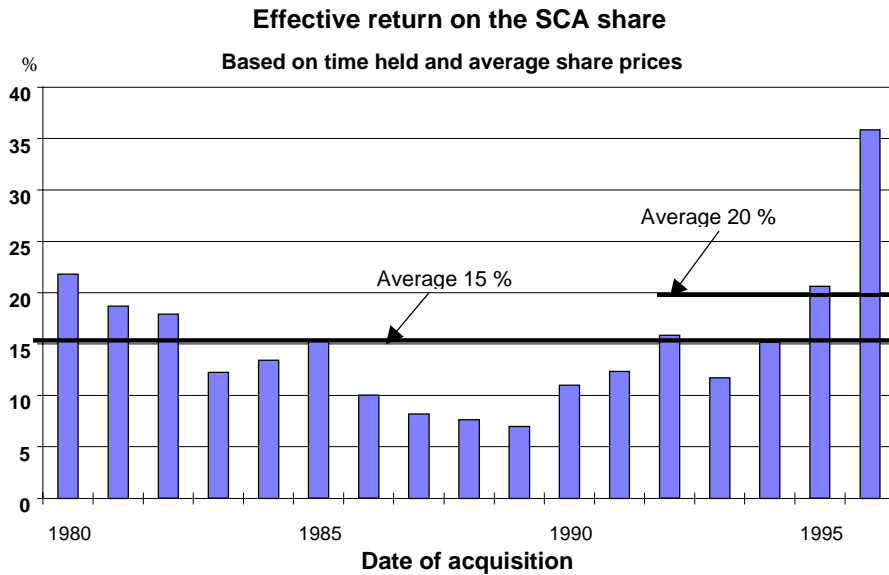
Stockholm in January 1998

Sverker Martin-Löf
President and CEO

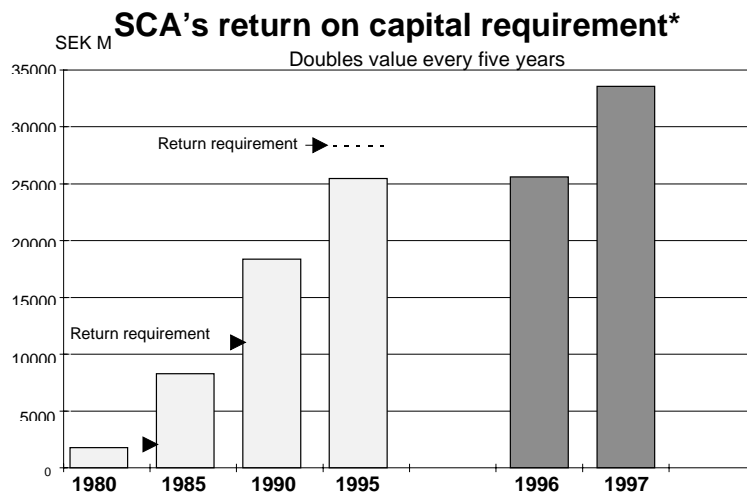
Enclosure: Diagram

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The diagram illustrates the annual effective return, through 1997, based on the date of acquisition of the SCA share. For example, if the SCA shares were purchased in 1996, the effective return through 1997 amounted to 36%. 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 20% for the past five years.



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

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The left columns in the diagram show that SCA exceeded the requirement of doubled value in the 1980-1985 and 1985-1990 periods, although this was not the case in the 1990-1995 period. Strong growth in value in 1997, however, compensated for this lag.