

Corporate governance report for Svenska Cellulosa Aktiebolaget SCA (publ)

More detailed information at www.sca.com

- Articles of Association
- Swedish Code of Corporate Governance
- Information from Annual General Meetings in previous years, since 2004 (notices, minutes, president's speeches and press releases)
- Information from Nomination Committee, since 2006 (composition, proposals and work)
- Information ahead of 2008 Annual General Meeting (notice, Nomination Committee proposals, account of the work of the Nomination Committee, Board's proposal for principles for remuneration to the President and other senior executives, information routines for notifying attendance at the meeting, etc.)
- Earlier Corporate Governance Reports, since 2005

THE SWEDISH SYSTEM FOR CORPORATE GOVERNANCE

The Swedish system for corporate governance is well-developed and stable.

EXTERNAL FRAMEWORK

The foundation of the Swedish system is the Swedish Companies Act which provides mandatory rules for the company's organization and governance while safeguarding shareholder influence. In addition there are both Swedish accounting legislation and international accounting rules that ensure that financial reporting meets high requirements. Significant aspects of the provision of information, in particular with regard to financial information, are regulated in Swedish law.

In addition to the formal legislation there are well-developed and equally mandatory rules on corporate governance in the national stock exchange's rules. In addition there is the Swedish Code of Corporate Governance, which has rules of a "comply or explain" nature as well as the Swedish Securities Council's guidelines on what is good practice on the stock market.

INTERNAL FRAMEWORK

The internal framework for corporate governance encompasses a number of key areas. The more prominent are rules of procedure for the Board, instructions for the President, financial policy, information policy, instructions for payment authorization and payments, risk management policy, pensions policy and the Code of Conduct.

CONTROL

A key part of a well-functioning corporate governance system consists of various forms of control. In addition to the company's auditors, the operations in the Swedish system are subject to control and monitoring by, among others, the Swedish Financial Supervisory Authority and the national stock exchange. Companies' own internal control structures at different levels are also of fundamental importance.

SCA'S CORPORATE GOVERNANCE

SCA applies the Swedish Code of Corporate Governance. This Corporate Governance Report is not part of the formal annual report and has not been reviewed by the company's auditors.

ARTICLES OF ASSOCIATION

The Articles of Association are adopted by the general meeting of shareholders and contain a number of basic mandatory details about the company. The complete Articles of Association are available on SCA's website, www.sca.com. SCA's Articles of Association stipulate, among other things, that the Board of Directors shall consist of three to twelve members, that Class A shares shall carry ten votes and Class B shares shall carry one vote.

GENERAL MEETINGS

The general meeting of shareholders is SCA's highest decision-making body, which all shareholders are entitled to attend. Each shareholder also has the right to have a mat-

ter considered at the general meeting. The company's Board of Directors is elected at the Annual General Meeting (AGM). Other mandatory tasks for the AGM include adopting the company's balance sheet and income statement, deciding on disposition of the earnings from the company's operations, deciding on guidelines for remuneration to senior executives and on discharging the members of the Board and the President from liability. The AGM also appoints the company's auditors.

ANNUAL GENERAL MEETING 2007

The Annual General Meeting of shareholders in SCA was held on Thursday, 29 March 2007 in Stockholm. Full details of the 2007 AGM are available on SCA's website www.sca.com.

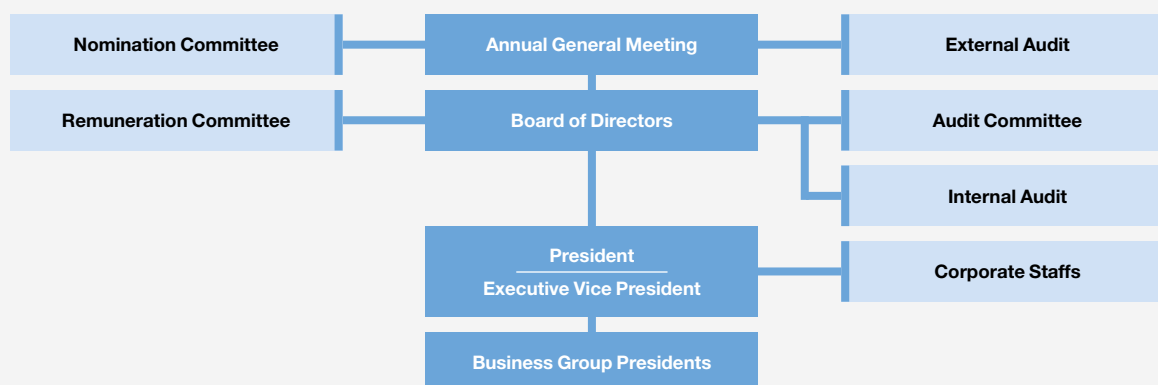
ANNUAL GENERAL MEETING 2008

The next Annual General Meeting of shareholders in SCA will be held on Tuesday, 8 April 2008 (see page 124).

NOMINATION COMMITTEE

The Nomination Committee represents the company's shareholders. The committee is assigned the task of providing the best possible information on which the AGM can base its decisions and of submitting proposals for decisions on, among other things, the election of Board members and appointment of auditors and on their remuneration. The 2007 AGM decided that the Nomination Committee, ahead of the 2008 AGM, should consist of representatives for at least the four and at

Corporate governance at SCA is organized as set out below



most the six largest (in terms of voting rights) shareholders, together with the Chairman of the Board, who is also the convener.

COMPOSITION OF THE NOMINATION COMMITTEE AHEAD OF THE 2008 AGM:

- Carl-Olof By, AB Industrivärden, Chairman of the Nomination Committee
- Curt Källströmer, Handelsbanken's pension foundations, among others
- Anders Oscarsson, SEB Funds
- Hans Sterte, Skandia Liv
- Magnus Landare, Alecta
- Sverker Martin-Löf, Chairman of the Board of SCA

All shareholders have had an opportunity to submit proposals to the Nomination Committee. The Nomination Committee has submitted its proposals for the 2008 Annual General Meeting. The proposals are available on the company's website www.sca.com, 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

In accordance with the AGM decision the Board of Directors consists of eight members elected at the Annual General Meeting with no deputies. In addition, Board members include three members with three deputies appointed

by the employees. Following Jan Åström's resignation from the Board during the year, the Board consisted of seven members elected at the Annual General Meeting. Detailed information about individual Board members and deputies is provided on page 110–111.

A majority (Börjesson, Gyll, Johansson, Nyrén and Barbara Milian Thoralfsson) of the AGM-elected members are independent of the company and senior management. Of these Board members, four (Börjesson, Gyll, Johansson and Barbara Milian Thoralfsson) can also be considered independent of the company's major shareholders. Following Jan Åström's resignation from the Board, no other member is a member of senior management. All of the Board members understand the requirements incumbent upon a listed company.

THE WORK OF THE BOARD

There is no specific allocation of duties within the Board other than the specific duties of the Chairman and the tasks incumbent on the Board's committees. The Board works according to the rules of procedure established by the Board. Work is carried out according to an annual schedule. The rules of procedure specify the allocation of duties among the Board members, its committees and the President. The rules of procedure stipulate the specific content and presentation of the information that management provides to the Board as well as ensuring that the Board conducts an annual review of its own routines. The Board has formed an Audit Committee and a Remuneration Committee from within its ranks. SCA's General Counsel is the Secretary to the Board. In 2007 the Board held nine meetings.

Board of Directors

	Attendance	Independent ¹⁾	Attendance Audit Committee	Attendance Remuneration Committee	Fees ²⁾
Rolf Börjesson	8/9	■		1/1	475,000
Sören Gyll	8/9	■	6/7		500,000
Tom Hedellius	9/9			1/1	475,000
Leif Johansson	9/9	■			425,000
Sverker Martin-Löf, (Chairman)	9/9		7/7	1/1 (Chairman)	1,400,000
Anders Nyrén	8/9	■	7/7 (Chairman)		525,000
Barbara M.Thoralfsson	9/9	■			425,000
TOTAL					4,225,000 SEK

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

²⁾ This amount relates to fees to Board members.

■ = 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.

Board members appointed by employee organizations are listed on page 111.

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AUDIT COMMITTEE

The tasks of the Audit Committee, which is not authorized to make decisions, include making preparations for the Board's quality assurance of the company's financial reporting. The Committee's work involves internal control and compliance issues, checking reported figures, estimates, assessments and other material that may affect the quality of the financial reports. The Committee has assigned the company's auditors the specific task of examining how successfully the overall, as well as the more detailed rules for control are followed within the company. The Committee meets the company's auditors on a regular basis, sets up guidelines for audits and other services, evaluates the auditors and assists the Nomination Committee in the selection of auditors and in matters relating to remuneration. The Audit Committee consists of Anders Nyrén, Chairman, Sören Gyll and Sverker Martin-Löf. The Audit Committee held seven meetings in 2007.

REMUNERATION COMMITTEE

The Remuneration Committee handles salaries, pension benefits, incentive issues and other terms of employment for the President and other senior executives. Senior executives in this context include the Executive Vice President, business group presidents, individuals within the parent company who report to the President, and other executives that the Committee decides to include. The terms of employment for the President are determined by the Board while terms of employment for other senior executives are decided by the Remuneration Committee. The Remuneration Committee consists of Sverker Martin-Löf, Chairman, Tom Hedelius and Rolf Börjesson. The Remuneration Committee held one meeting in 2007. In addition, a number of issues were dealt with per capsulam.

CHAIRMAN OF THE BOARD

According to the Board's rules of procedure, the Chairman of the Board, in addition to presiding over the Board's activities, must communicate with the President in order to monitor the Group's operations and development on a continuous basis. In addition, the Chairman represents the company in ownership matters and ensures that the Board's work is evaluated annually and that the Board continuously updates and increases its in-depth knowledge of the Group's operations. The 2007 Annual General Meeting decided to appoint Sverker Martin-Löf as 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, one purpose of which is to obtain a sound 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 fees for AGM-elected Board members were set by the AGM at SEK 4,225,000. The Chairman of the Board received an annual fee of SEK 1,275,000 and the other Board members who are not employees each received SEK 425,000. Members of the Remuneration Committee received an additional SEK 50,000 and members of the Audit Committee, an additional SEK 75,000, and the Chairman of the Audit Committee received an additional fee of SEK 100,000.

OPERATIONAL MANAGEMENT

THE PRESIDENT

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

by an Executive Vice President, who is also the CFO, and a group management team, see page 112. The Board's rules of procedure and the Board's instructions for the President outline, among other things, the allocation of duties between the Board and the President.

BUSINESS GROUP MANAGEMENT

Each of the SCA Group's six business groups is headed by a business group president. The management of each business group has operational responsibility for their area. The rules of procedure and instructions ensure that a number of matters of importance within each business group are referred to the CEO or the parent company's Board of Directors.

REMUNERATION TO MANAGEMENT

PRINCIPLES FOR REMUNERATION TO SENIOR EXECUTIVES

The guidelines for remuneration to senior executives decided by the 2007 Annual General Meeting are available in Note 7 and on the company's website www.sca.com while the Board's proposal to the 2008 Annual General Meeting is available on page 24 of the Board of Directors' Report and on the company's website www.sca.com.

SALARIES AND OTHER REMUNERATION FOR THE PRESIDENT AND OTHER SENIOR EXECUTIVES

For information about salaries and other remuneration and benefits for the President and other senior executives, see Note 7.

OUTSTANDING STOCK AND SHARE-PRICE RELATED INCENTIVE PROGRAMMES

In 2001 and 2002 some 200 senior executives received stock options at no cost to a value (theoretically calculated) that, on the date of allocation, did not exceed about 20% of each executive's base salary. The total number of stock options for both years allocated to these executives amounted to around 1,800,000. For additional information, see Note 7.

Remuneration to auditors (PricewaterhouseCoopers)

SEKm	Group			Parent Company		
	2007	2006	2005	2007	2006	2005
Remuneration for audit assignments	62	62	64	9	9	9
Remuneration for other consultations	17	29	25	2	2	11

AUDITORS

The 2004 Annual General Meeting appointed, for a mandate period of four years, the accounting firm PricewaterhouseCoopers AB as the company's auditors. The accounting firm notified the company that with effect from 29 March 2007, Anders Lundin, Authorized Public Accountant, is senior auditor. Lundin is also auditor for AarhusKarlshamn AB, AB Industrivärden, Bong Ljungdahl AB, Husqvarna AB, Melker Schörling AB, Säki AB and Teligent AB.

Lundin has no shares in SCA.

AUDIT WORK

The company's auditors an audit report for SCA's annual accounts and consolidated accounts, the administration of the company by the Board and the President of SCA and the annual accounts for other subsidiaries. This audit is conducted in accordance with the Swedish Companies Act and Auditing Standards in Sweden according to FAR SRS, which are based on international auditing standards according to the International Federation of Accountants (IFAC). Auditing of annual accounts documents outside Sweden is performed in accordance with statutory requirements and other applicable rules in each country and in accordance with generally accepted auditing standards according to IFAC GAAS, audit reports for the legal entities. The Group's six-month report is reviewed by the company's auditors in accordance with the recommendation issued by FAR SRS.

REMUNERATION TO AUDITORS

The company's auditors have received remuneration for audits and other required reviews as well as advice and other assistance resulting from observations made during such audits. Auditors have also received remuneration for separate advisory services. Most of the advice relates to audit-related consultation on accounting and tax issues in connection with restructuring processes.

According to its instructions, the Audit Committee must draw up guidelines stipulating which services, other than auditing, the company may purchase from its auditors. Remuneration paid to auditors in 2007 is specified in Note 8.

FINANCIAL REPORTING

FINANCIAL REPORTING TO THE BOARD

The Board's rules of procedure and schedule specify which reports and what information of a financial nature should be presented to the Board at each of the regular meetings.

The Board's instructions for the President require him to ensure that the Board receives the necessary reports in order to continuously assess the financial position of the company and the Group. The instructions also specify 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 variety of measures and routines. The tasks assigned to the company's internal control unit include examining accounting processes critical for financial reporting and communicating any observations to the Audit Committee and the Board. In addition to the annual accounts, the auditors examine the six-month closing accounts. The President, supported by his corporate staffs, is responsible for ensuring that all other financial information provided, for example, in press releases with a financial content and presentation material for meetings with media representatives, owners and financial institutions is correct and of good quality.

COMMUNICATION WITH THE COMPANY'S

AUDITORS

In accordance with its instructions, the Audit Committee meets regularly with the company's auditors to obtain information on the focus and scope of the audit and to dis-

cuss coordination between the external audit and internal control, as well as opinions on the company's financial risks. In addition, the Board, in accordance with its rules of procedure, meets the auditors at no fewer than three regular board meetings during the course of the year. At these meetings the auditors present and receive opinions on the focus and scope of the planned audit and deliver verbal audit and review reports. Furthermore, at the Board's third regular autumn meeting, the auditors deliver an in-depth report on the audit for the current year. The rules of procedure specify a number of mandatory issues that must be covered. These include matters of importance that have been a cause for concern or discussion during the audit, business routines and transactions where differences of opinion may exist regarding the choice of accounting procedures, as well as accounting for consultancy work assigned 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 auditors questions and some detailed discussion of the accounts takes place without representatives from company management being present. A similar regulation of the company's contacts exists in the business groups.

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Board of Directors' Report on internal control of financial reporting

For SCA, good internal control and governance is a basic prerequisite for achievement of the company's business objectives. This also means that the company's stakeholders can have confidence in the operations, the products and the reports presented

OVERALL MANAGEMENT AND CONTROL ENVIRONMENT

Under the Swedish Companies Act, the Board of Directors is responsible for internal control and governance of the company. For the purpose of creating and maintaining an efficient control environment, the Board has drawn up a number of basic documents of significance for the company's financial reporting. These include the rules of procedure for the Board and instructions for the President, accounting and reporting instructions, a financial policy and a code of conduct. The basic control documents are applied within all of the business groups and are reviewed on a regular basis. An efficient control environment also requires a satisfactory organizational structure that is reviewed on an ongoing basis.

The day-to-day work of maintaining the control environment as established by the Board is primarily the responsibility of the President, who reports on a regular basis to the Board on the basis of established routines. Reports are also provided by the internal audit function and the company's auditors.

Managers at different levels within the Group also have, within their respective areas, well-defined powers and responsibilities with respect to internal control. As part of the management system, there are several well-defined processes for planning and implementation of decisions and to support decision-making.

RISK MANAGEMENT

SCA's risk involved with financial reporting is thought to consist mainly of the risk that a material error may be made in the reporting of the company's financial position and results. In order to manage and minimize these risks, control documents have been established relating to accounting, routines for closing accounts

and follow-up of reported annual accounts. A Group-wide system for reporting closing accounts has also been introduced. SCA's Board of Directors and Audit Committee assess the financial reporting on an ongoing basis from a risk perspective.

CONTROL ACTIVITIES

An important task is to implement, develop and maintain the Group's control routines and to implement internal control measures aimed at business critical issues. Persons in charge at various levels within SCA, are responsible for carrying out the necessary control measures with respect to financial reporting.

The company's controller organization plays an important role in that it is responsible for ensuring that financial reporting from each unit is correct, complete and delivered in a timely manner. Also, each business group has a Vice president Finance director with the same responsibilities for his/her respective business group.

In recent years SCA has introduced a standardized system of control measures involving five processes that are significant to the company's financial reporting. The system covers the ordering order-to-cash process (including customer payments), the purchasing purchase-to-pay process (including payments to suppliers), the closing of the books, the payroll process and management of non-current assets.

Control of these processes is implemented through self-evaluation followed up by an internal audit. SCA has, in some cases, enlisted external help to validate these control measures.

INFORMATION AND COMMUNICATION

SCA has information and communication channels intended to ensure that instructions, manuals, etc. of significance in the preparation of reliable financial reports are updated and communicated to the relevant individuals within the company. Regular reporting and examination of financial results is car-

ried out both within the management teams of operating units and in the established board structure.

SCA has also established routines for external communication of financial information that can affect the company's market value. These routines shall ensure that financial reporting is received simultaneously and interpreted in a correct manner by players in the financial market

SUPERVISION AND FOLLOW-UP

The Board of Directors and the Audit Committee review the annual accounts and interim reports before they are published. The Committee discusses significant accounting principles, risks and issues concerning the presentation of the reports. The company's external and internal auditors take part in these discussions.

SCA's management conduct a monthly follow-up of results and analyze any deviation from the budget and the previous year's results. All monthly results are discussed with the management of each business group.

SCA has established a corporate internal audit unit with 13 employees. The head of the unit reports regularly to the Audit Committee on issues concerning internal auditing and to the CFO on other issues.

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