

SCA
Annual Report
1999



A growing company

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 produced for private consumers, institutions, industry and the retail trade. Net sales in 1999 totaled SEK 65 billion.

The Group has recently acquired several companies in Western Europe, SCA's main market, thus strengthening the market positions of the Hygiene Products and Packaging business areas. Concurrently, selective expansion is under way in Central and Eastern Europe as well as Asia and America. At the same time, product development activity is conducted in order to generate stable and healthy profitability by increasing the proportion of highly refined products.

SCA strives to minimize the use of natural resources. Renewable and recyclable materials account for more than 95% of the Group's products. Equal quantities of recycled and fresh wood fibers are used in production. SCA owns 1.8 million hectares of productive forest land and conducts saw-mill operations.

At the beginning of 2000, the number of employees was slightly more than 34,100, in some 40 countries.

The SCA share is listed on the stock exchanges in Stockholm and London, and can be traded via SCA's website: www.sca.se. The share can also be traded in the U.S. in the form of ADRs (American Depositary Receipts).

Hygiene Products	Packaging	Forest Products
Tissue Incontinence products Baby diapers Feminine hygiene products	Corrugated packaging Containerboard	Publication papers Pulp Timber Solid wood products Forest fuel
		

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1999

SCA's cash flow from current operations remained strong and amounted to SEK 6,740 M. Accordingly, cash flow goals were exceeded for the year.

Earnings after financial items, excluding nonrecurring items, were the best ever.

A new issue of 33 million shares was carried out in the autumn. The issue generated proceeds to the Group of about SEK 4.6 billion, which are earmarked for acquisitions.

The hygiene products and packaging operations continued to strengthen their positions through company acquisitions in Denmark, France, Ireland, Portugal, Spain, Great Britain and other countries.

SCA and Holmen decided to combine their fine paper operations into a new, 50/50-owned fine paper company, Modo Paper AB.

Graphic Paper coordinated its operations with those within Forest and Timber to form a new business area, Forest Products.

Key ratios

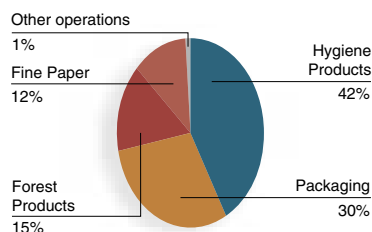
	1999	1998	1997
Net sales, SEK M	64,896	61,273	58,595
Earnings after financial items, SEK M	5,521	5,169	4,457
Earnings per share after tax, SEK ¹	16.85	16.11	13.20
Cash flow from current operations, per share, SEK ¹	31.45	18.46	23.17
Dividend, SEK ¹	6.80 ²	6.14	5.43
Strategic investments, SEK M	13,385	5,041	4,414
Shareholders' equity, SEK M	34,133	28,404	24,653
Return on shareholders' equity, %	12	13	12
Debt/equity ratio, multiple	0.69	0.83	0.85
Average number of employees	37,679	32,082	33,399

¹ For prior years, adjusted taking into account new issue in 1999.

² Board proposal.

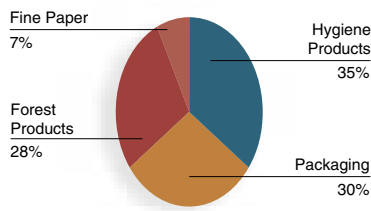
See page 73 for definitions.

Net sales by business area 1999
(excl. intra-Group deliveries)



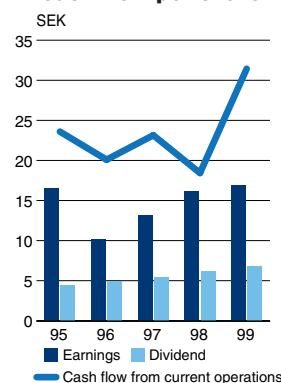
The Hygiene Products and Packaging business areas combined account for 72% of net sales, an increase of 6 percentage points compared with a year earlier.

Operating profit by business area 1999
(adjusted for central items)



The Hygiene Products and Packaging business areas combined account for 65% of operations, an increase of 5 percentage points compared with 1998.

Earnings, dividend and cash flow per share



Average dividend growth during past five years is 14%.

President's letter

HIGH GROWTH RATE THROUGH ACQUISITIONS

The sustainable cash flow goal from the Group's core activities has been raised about 20 percent in year 2000.

During 1999, we made acquisitions and strategic investments totaling SEK 13 billion. Accordingly, SCA has played an active role in restructuring and capitalized on the consolidation process that characterizes both the hygiene products and packaging industries in Europe today. Concurrently, we also made a definitive move toward divesting Group operations in the fine paper sector through a merger of the fine paper activities of SCA and Holmen in a new joint venture company, Modo Paper AB, effective 1 October 1999. The goal is to introduce the new company's share on the stock exchange.

SCA's ownership share of the fine paper activities is reported from 1 October 1999 as an associated company with a share in earnings. As a result, effective from the same date, the Group's operating cash flow consists exclusively of SCA's remaining core business activities.

Consolidated cash flow goals for year 2000 have been recalculated in view of the Group's comprehensive acquisition program and the deconsolidation of fine paper operations. As shown in the table on page 4, the goal for operating cash flow from business activities, excluding fine paper, has been raised about 20 percent compared with 1999, and the goal for sustainable cash flow has been increased from SEK 3.8 billion to SEK 4.4 billion.

To secure continued strong concentration on SCA's consolidation efforts in its Hygiene Products and Packaging business areas, a new issue of shares was floated in 1999. The share issue amounted to SEK 4.6 billion – historically, one of the largest issues of new shares ever effected on the Stockholm Stock Exchange.

Business operations in 1999 were characterized by two different trends. During the first half of the year, prices declined in most product areas in parallel with lower raw material costs. During the second half of 1999, a strong improvement in economic conditions was noted in Europe and Asia, while economic growth in North America remained strong. As a result, raw material costs rose rapidly, creating pressure on margins, in parallel with gradual improvements in opportunities to adjust prices for the Group's end-products.

The value of SCA shares rose 51 percent in 1999. The year-end price on 30 December 1999 was SEK 252, the highest to date for SCA shares. The long-term trend is shown in the diagram on page 4, which shows the annual effective return on SCA shares since 1985 (based on the average price for the year and what year the shares were acquired).

Hygiene Products and Packaging expand

SCA's strategic focus is based primarily on continued expansion of the Hygiene Products and Packaging business areas. In line with this strategy, we have implemented strategic investments amounting to approximately SEK 18 billion since the end of 1997. A total of 29 companies have been acquired. Our efforts have been supported in part by the ongoing trend toward increased consolidation in Europe.

All acquired companies are evaluated in terms of their contribution to SCA's cash flow. Cash flow requirements on acquired companies are also linked to SCA's incentive program. Results of the incentive programs, in turn, are linked directly to development trends for the company's cash flow and value growth for SCA shares. The system contributes to internal respect for, and commitment to, our requirements on profitability, including the profitability of acquired companies.

Acquisitions by Hygiene Products in 1999 have contributed to increasingly stronger market positions in Southern Europe, including leadership positions on the Iberian Peninsula. The business area's products for protection against light incontinence have shown rapid growth in Europe, where the Group's market share is nearly 70 percent. The acquisition of AM Paper, a British company, has increased SCA's European market share for tissue to 21 percent. Sales of baby diapers have increased sharply and SCA's own Libero brand-name diaper has increased its market shares. Our active product development work is one of the main forces behind this trend. Internally, the Hygiene Products business area's new organization is now in place, and the industrial infrastructure, featuring fewer and larger production plants, will be completed in year 2000. The new TAD machine for household paper production in

Mannheim, Germany is in operation, and the products met favorable market reception.

Supported by the large number of recent acquisitions, the Packaging business area has achieved growing improvements in European market coverage, and its percentage of sales attributable to refined packaging products has increased. In response to customer demands, we are also focusing greater efforts on offering customers a broader concept of effective logistics solutions. Acquisitions in Denmark, France, Ireland and Spain during the year have strengthened our positions in several important local markets.

Modo Paper AB

Some time ago, we declared that fine paper was not included among SCA's core activities. Several divestment alternatives were evaluated before the Board of Directors reached a decision to merge the fine paper activities of SCA and Holmen. The merger has created Europe's third largest producer of fine paper, with a competitive product portfolio. The company is expected to generate higher values for SCA's shareholders through the combination's synergy effects and strong market positions. The intention is that the shareholding will be divested. This will also release more resources for expansion in other areas.

New business area – Forest Products

Since the transfer of fine paper activities to Modo Paper, the operations of SCA's Graphic Paper business area have been concentrated exclusively on publication papers. As a natural step, we are now coordinating Graphic Paper with the activities of Forest and Timber. There are many common bonds between pulp and paper production operations, raw material supplies and the Group's sawmills. Coordination of these activities will create a more unified and effective organizational structure with improved potential to benefit from synergies as well as integrated management and administrative routines. The new business area, Forest Products, will assume responsibility for forest management activities, timber supplies,

sawmill operations, pulp production and publication papers. The new business area, accordingly, will serve as the internal raw materials supply unit for hygiene products and packaging activities, as well as responsibility for external sales of newsprint and timber products.

Substantial savings were realized during the year from greater coordination of operating routines in SCA Raw Materials and Logistics. Particularly sharp reductions were reported in energy costs, and new channels were established for outsourcing energy and environmental facilities.

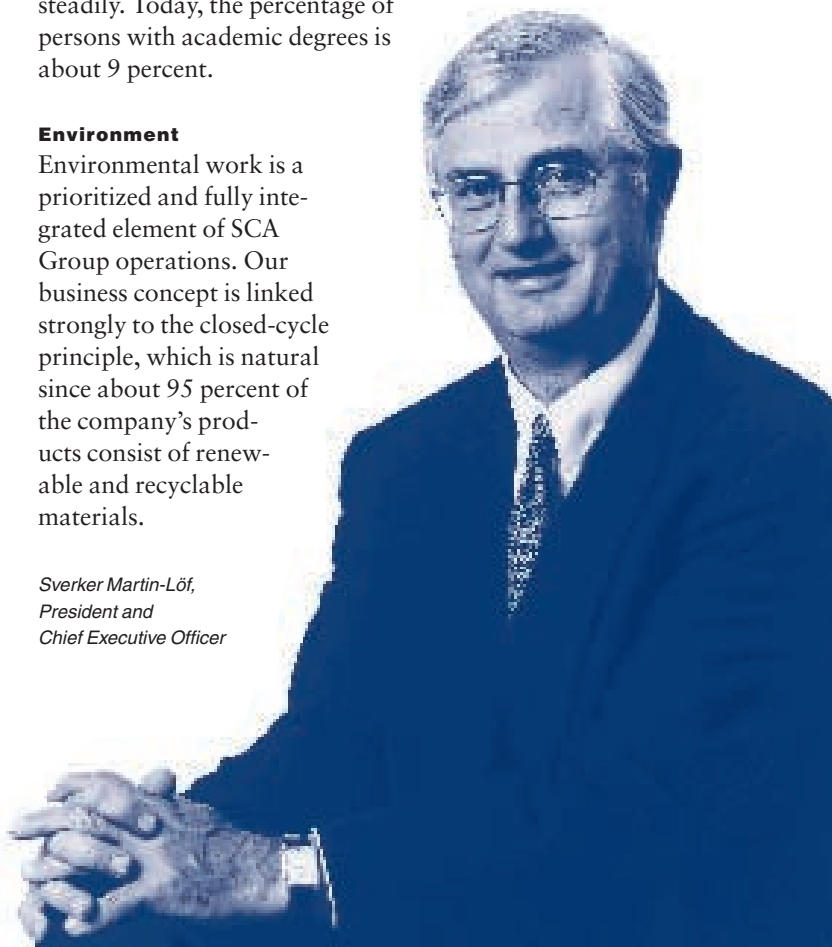
SCA's employees

Skilled and well-trained personnel are a critical factor for the achievement of greater effectiveness and maintaining a continued rapid rate of product development, among other aspects of Group operations. Accordingly, SCA makes determined efforts to increase the skill levels of its personnel, for instance in conjunction with recruitment of new employees. Today, the equivalent of a high-school diploma is a basic employment requirement, and the number of Group employees with college and university training is increasing steadily. Today, the percentage of persons with academic degrees is about 9 percent.

Environment

Environmental work is a prioritized and fully integrated element of SCA Group operations. Our business concept is linked strongly to the closed-cycle principle, which is natural since about 95 percent of the company's products consist of renewable and recyclable materials.

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



The success of our environmental work was confirmed during the year by the Dow Jones Sustainability Group Index, a global survey of 3,000 companies in 33 countries. The survey evaluated each company's ability to combine economic growth with successful environmental programs, in addition to other considerations. SCA and about 200 other companies were cited as the global leaders. More detailed information about the survey and our entire comprehensive environmental program is presented in our separate environmental report.

Cash flow and dividend growth

We strive constantly toward the achievement of SCA's objective to provide shareholders with a competitive return on their investment. The strategy for creating value growth is based on utilizing cash flow from operations for dividends and profitable strategic investments. The investments, in turn, create growing cash flow that strengthens the base for sustained dividend growth.

In connection with its review of Group strategy, the Board of Directors has determined that the Group's present structure and earnings capacity should gradually yield a somewhat higher level of dividends in relation to reported equity. The Board of Directors has proposed an increase of 11 percent in the dividend for 1999.

SCA's dividend has increased continuously, or remained unchanged, since the company was listed on the Stockholm Stock Exchange in 1950. The average growth in the dividend over the past five years, including the proposed dividend for 1999,

has amounted to 14 percent. The dividend for 1999 corresponds to 23 percent of cash flow from current operations.

Redemption of shares

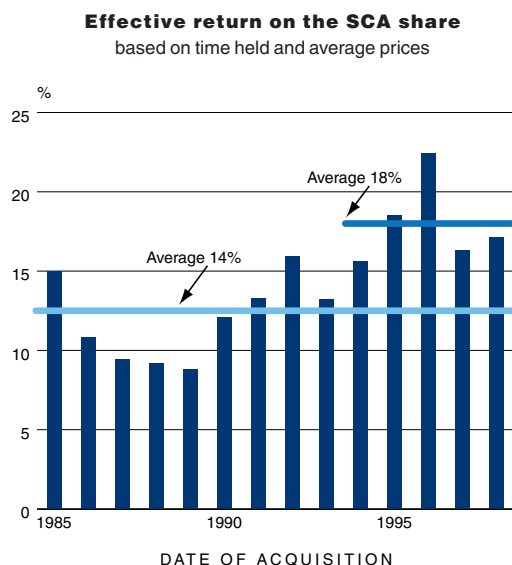
Opportunities will be created this year for Swedish companies to purchase their own shares. As a result, companies will be afforded much greater flexibility to adjust their capital structures, for example, hedge reward programs and supplement dividends to shareholders, among other options. The manner in which this possibility will be utilized is a subject for consideration by the Board of Directors.

Market outlook

The general economic trend remains strong in Europe and the US. Demand for the Group's products is favorable and price hikes been effected to offset cost increases for raw materials. The business climate is projected to remain strong during the year.

Stockholm, February 2000

Sverker Martin-Löf
President and CEO



The diagram illustrates the annual effective return, through 1999, based on the date of acquisition of the SCA share. For example, if the SCA shares were purchased at the average price in 1996, the effective return through 1999 amounted to 22%. 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 14% and 18% for the past five years.

SCA's cash flow targets

(SEK billion)	Target 1999	1999 excl. Fine Paper	Target 2000	Increase
Operating cash surplus	11.0	10.0	11.7	17%
Current capital expenditures	-4.0	-3.5	-3.9	12%
Operating cash flow	7.0	6.5	7.8	20%
Financial cash flow	-3.2		-3.4	
Cash flow from current operations	3.8		4.4	16%

The table presents SCA's cash flow targets for 2000. The sustained goal was adjusted upward from SEK 3.8 billion in 1999 to SEK 4.4 billion in 2000. In the increase shown for operating cash flow, Fine Paper was excluded in 1999.

Business concept

SCA's business concept is to offer customers high-quality, customized hygiene products, corrugated packaging and graphic papers. The objective is to achieve solid and stable profitability.

SCA's customers are private consumers (sales through retail outlets) as well as institutions, industry and the retail trade companies. Based on SCA's knowledge of customers' needs and of the properties of paper materials, the company develops and adapts products to meet needs in terms of moisture absorption (hygiene products), strength and logistics (packaging) and quality printing surfaces (publication paper and packaging).

SCA's products are designed to improve the quality of life for private individuals. For institutions and companies, SCA's products and services are designed to offer increased product quality, reliability, productivity and profitability.

SCA's business concept is focused strongly on minimizing the consumption of natural resources. About 95% of the company's products consist of renewable and recyclable materials. SCA uses equal amounts of recycled fibers and fresh wood fibers in its production.

Objectives

SCA aims to strengthen its leadership position in the European market and to maximize its profitability. It plans to continue to expand in Central and Eastern Europe and to develop and establish market positions in Asia and America in such fast-

growing product areas as tissue, incontinence and feminine hygiene products and packaging.

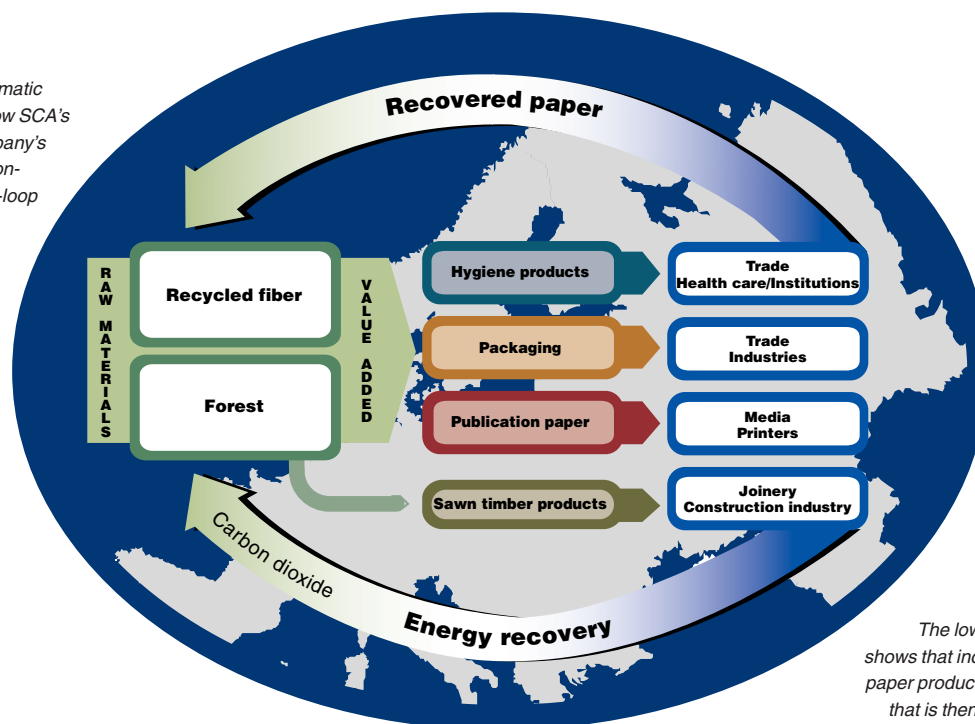
Strategy

SCA's strategy is to pursue active product development – in line with customers' needs – to increase the percentage of highly processed products as a means of consolidating a leading position in the market, notably in the hygiene-products and packaging businesses. This strategy constitutes the foundation for satisfactory and sustained profitability. The demands on SCA's profitability (see "Business control and financial objectives" on page 6), together with the business concept, form the base of the Group's business strategy.

A key element in this strategy involves creating synergies within SCA in such areas as optimal utilization of raw materials such as fresh wood fiber and recycled fiber, joint procurement of raw materials and energy, coordinated transport systems and sales channels, concentrated research and development resources, and a total approach to environmental issues. SCA's well-integrated industrial structure also creates such important competitive advantages as high product quality and low production costs.

THE SCA CLOSED LOOP

The illustration is a schematic presentation showing how SCA's operations and the company's value-added products constitute part of the closed-loop society.



The lower (energy-recovery) arrow shows that incineration of used wood and paper products generates carbon dioxide that is then used in the photosynthesis process of trees – in 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 rising dividend.

Financial evaluation of both current operations and strategic development plans is based on planning and control methods based primarily on cash flow.

MEASURING PROFITABILITY

To steer investment resources to the projects within the Group's core operations that generate the highest return, SCA must have a good understanding of which operations are profitable and which do not fulfill the Group's profitability requirements. Business-control systems is a collective term for the methods used to control operations and monitor profitability.

Like almost all other industrial companies, SCA has long relied on accounting-based business-control systems based on the statement of earnings and the balance sheet. The disadvantage of steering operations solely from reported statement of earnings and balance-sheet ratios is that these measures do not always provide a complete picture of the Group's profitability.

To provide a better picture of Group profitability, in the mid-1990s a business-control system based on cash flow was

developed, as a supplement to reported earnings. The capital markets' valuation of SCA is thus simplified as well, since a growing proportion of market players are using cash flow as the basis for their share valuation.

SCA's BUSINESS-CONTROL SYSTEM

SCA's business-control is based on the return shareholders require on an investment in SCA shares. This requirement, combined with the cost of the Group's borrowing and its debt/equity ratio, makes up the weighted average cost of capital for SCA. This in turn forms the basis on which the Group's target return is determined.

Target return is expressed in terms of cash flow from current operations – cash flow from operations after all current expenses are paid but before strategic investments and dividends.

Key ratios and financial goals

Cash flow figures are reported from 1997, the first year for which a cash-flow requirement was established.

	Result			Average result	Req.
	1997	1998	1999	3 yrs	2000
Cash flow from current operations					
Result (SEK bn)	4.9	4.3 ¹	6.7	–	–
Sustainable requirement (SEK bn)	3.0	3.2	3.8	–	4.4
Requirement increase (%/yr)	–	7	19	13	16
Result/Requirement (%)	162	134	176	157	–

	1995	1996	Result			Average result	Req.	
			1997	1998	1999	5 yrs	1999	2000
Rates of return								
Capital employed (%)	16	11	12	14	12	13	12	12
Shareholders' equity (%)	17	10	12	13	12	13	11	11
Financial measurements								
Debt/equity ratio (multiple)	0.8	0.8	0.9	0.8	0.7	0.8	0.7	0.7
Market-adjusted debt/equity ratio (multiple)	0.8	0.7	0.6	0.7	0.4	0.7	–	–
Debt payment capacity (%)	31	30	33	32	33	32	35	35

¹ Includes nonrecurring items of SEK 400 M.

* See page 73 for definitions of key ratios.

Based on this specific cash-flow requirements are applied to current operations and new strategic capital expenditures, and to acquisitions. Cash flow per business area and cash flow for the Group as a whole is followed up with respect to the established requirements.

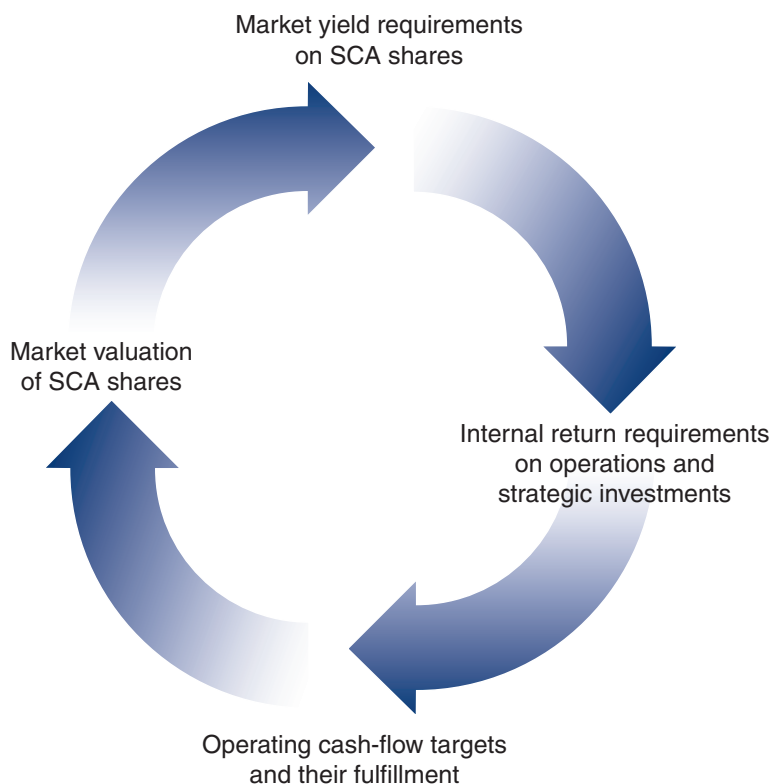
In response to the demand for greater cash flow generated by each new strategic investment, every year SCA revises (raises) the overall cash-flow requirement for the Group. SCA's ability to fulfill these requirements and the Group's growth form the basis of the market's valuation of SCA shares.

To ensure that daily control of SCA's operations complies with these requirements, the bonus system for business-area senior management and Group-staff functions is linked to the cash-flow requirements and the development of the yield on SCA shares relative to comparable companies (see Note 26).

Market return requirements

The objective is to give SCA's shareholders a return on investment that is competitive within the forest products industry. The goal for a return on the market value of SCA's shares is expressed as the sum of the long-term risk-free interest rate (at year-end 1999 about 5.5%) and a risk premium of 5.5%. The level of risk premium is adapted to the Company-specific risk, calculated in beta values (see SCA share, page 10). 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's beta value was approximately 0.9, bringing the year-2000 return requirement to 10.5%.

SCA's CONTROL MODEL



Strategic investments

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 value of existing investments, the economic life of these investments and the return that each unit should generate. Comparable requirements are imposed on new strategic investments in acquisitions of companies and new plants. 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, over the long term.

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.

For SCA's Forest Products business area (formerly Graphic Paper and Forest and Timber) investments were aimed primarily at securing a favorable cost position and expansion has been realized mainly through streamlining of existing operations. The cash surplus from this sector of the Group will accordingly be used for strategic investments to expand the hygiene products and packaging operations.

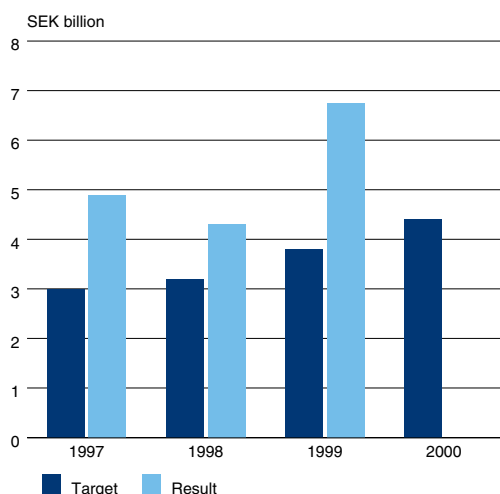
Cash-flow requirements

Cash-flow requirements are affected by strategic investments, divestments and inflation. In 1999, strategic investments totaling about SEK 13 billion were carried out which increased the cash flow requirement. SCA Fine Paper was deconsolidated on 1 October 1999, whereupon the cash-flow requirement from these operations is excluded. The cash-flow target was also increased to compensate for inflation in 2000, which is projected at 1.7%. At the same time, the target for sustainable cash flow from current operations was increased by SEK 0.6 billion (16%), to amount to SEK 4.4 billion at the beginning of 2000.

Dividend and growth

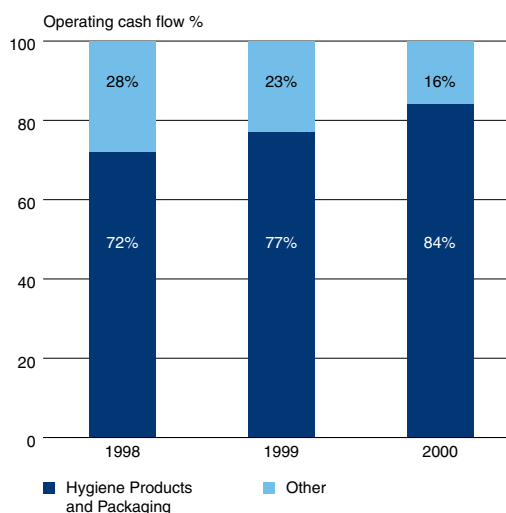
Shareholders' return requirements are met through dividends and the growth in the value of SCA shares. About one-third of cash flow from current operations over a business cycle is used for a dividend (direct return) and two-thirds for growth-generating strategic investments. In addition to self-financing from cash flow from current operations, scope for further strategic investments is created through additional borrowing at the same level of debt/equity ratio. The minimum requirement is that the profitability of these investments corresponds to the target Group return. The growth requirement in cash flow from current operations at the current level of target return then amounts to at least 7% per year. If, over the long term, the cash flow from current operations exceeds the possibility that can be applied to make profitable strategic investments, the

Cash flow from current operations: target and result



Cash flow from current operations in 1999 amounted to SEK 6.7 billion, clearly exceeding targeted cash flow goals.

Rebalancing the Group



The diagram illustrates the total operating cash flow generated by Hygiene Products and Packaging in relation to the other operations. The share generated by these two business areas rose during 1998 and 1999 and this trend is expected to continue in 2000.

dividend portion should be increased, resulting in a larger proportion of the return requirement being satisfied as a direct return. As a complement to the dividend, the possibility of purchasing own shares will be considered.

It is SCA's aim that the return on both current and future strategic investments will exceed return requirements. This will result in greater scope for expansion within given financial limits, which in turn helps to create increased growth in value.

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. Consequently, as operating risk decreases, financial risk may increase, without increasing the total risk profile. 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 targetted net debt, including pension obligations, currently amounts 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 debt payment capacity (cash earnings relative to net debt) is used to express SCA's ability to repay loans. The objective is that current cash earnings should amount to not less than 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 for the debt/equity ratio and should amount to between 30% and 35% of the Group's debt payment capacity. These target levels will be reviewed as SCA is steered toward operations with more stable earning capacity.

YIELD REQUIREMENTS

With the target debt/equity ratio and present levels of interest rates and taxes, the yield requirement for 1999 is calculated at 11% on the book value of shareholders' equity, and 12% on capital employed. In 2000, the requirements will be the same as in the preceding year. SCA intends to exceed these levels.

SCA share

The price of the SCA B share rose 51% in 1999.

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 U.S., which was established in 1995. In addition to those indexes linked directly to the Stockholm and London exchanges, SCA is included in such other indexes as the Dow Jones Global Indexes, Dow Jones Stoxx Index, Dow Jones Sustainability Index, FTSE Eurotop 300 and the Morgan Stanley Company Index Europe (MSCI-Europe).

In 1999, the volume of trading in SCA shares on the OM Stockholm Exchange rose to about 128 million shares (76), corresponding to a value of SEK 27 billion. The number of shares traded corresponded to 55% (39) of the total number of shares at year-end. Based on available statistics, the trading volume on the SEAQ International in London was 56 million shares (36). The number of shares traded corresponds to about 24% (18) of the total number of shares outstanding at year-end.

Share trend in 1999

The price of the SCA B share rose 51% in 1999. The last-paid price at year-end 1999 on the OM Stockholm Exchange was SEK 252, an all-time-high to date for the SCA share. This price corresponds to a market capitalization of about SEK 58 billion, which is an increase of about SEK 20 billion since 1998.

The SCA share rose sharply during the spring and summer and then declined somewhat in conjunction with the announcement of the new issue in August. However, this decline was regained during November and December.

The issue of 33 million shares during the autumn resulted in a calculated 5.6% dilution of the share price.

Foreign ownership represented 25% of share capital, an increase of 1 percentage point compared with 1998. Foreign ownership interests in SCA have more than doubled during the past five years.

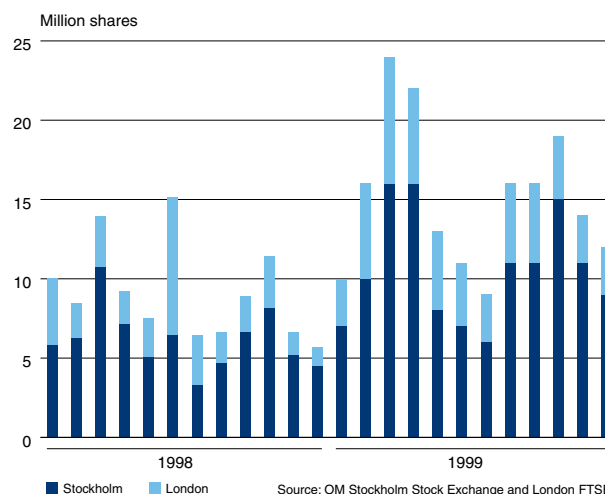
Nordnet

Through cooperation with the Internet broker NordNet, it is possible to trade in SCA shares on the SCA website at a low commission rate.

ADR program in the U.S.

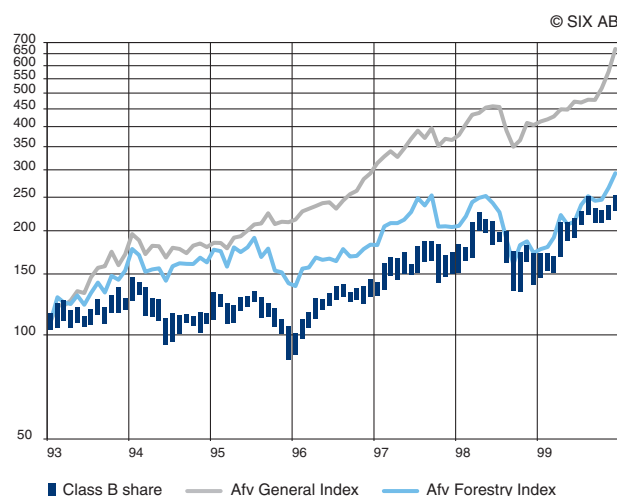
In order to make the SCA share more readily available to American investors, SCA established a Level 1 ADR Program in the U.S. in December 1995. This means that B shares are available as depositary receipts in the U.S. without any formal stock exchange registration. These receipts, which are listed in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

Share trading



The average turnover in 1999 was 15.3 million shares per month.

Price trend



SCA's B share rose 51% during 1999. On 30 December the price paid was SEK 252 per share, an all-time-high.

Data per share

All earnings figures include nonrecurring items and are adjusted for the new issue in 1999.

SEK per share unless otherwise noted	1999	1998	1997	1996	1995
Earnings per share after full tax:					
After dilution effects	16.85	16.11	13.20	10.11	16.57
Before dilution effects	16.94	16.16	13.20	10.11	16.57
Quotation for Series B shares:					
Average quotation	202.50	179.40	159.70	120.50	118.20
Year-end quotation, 30 December	252.00	167.10	168.50	130.70	97.20
Cash flow from current operations¹	31.45	18.46	23.17	20.11	23.62
Dividend	6.80 ²	6.14	5.43	4.96	4.48
Dividend growth rate, % ³	14	14	13	11	9
Direct return, %	2.7	3.7	3.2	3.8	4.6
P/E ratio ⁴	15	10	13	13	6
Price/EBIT ⁵	12	9	11	11	6
Beta value ⁶	0.79	0.94	0.93	0.95	1.19
Pay-out ratio after dilution effects, %	43 ²	38	41	49	27
Shareholders' equity after dilution effects	159	135	118	109	105
Shareholders' equity before dilution effects	148	136	118	110	106
Average number of shares after dilution effects	214.3	210.0	209.3	209.3	209.3
Number of registered shares, 31 December (in millions)	230.3	197.4	197.4	197.4	197.4
Number of shares after full conversion (in millions)	233.4	212.2	209.3	209.3	209.3

¹ See definitions of key ratios on page 73.

² Board proposal

³ Five-year rolling total

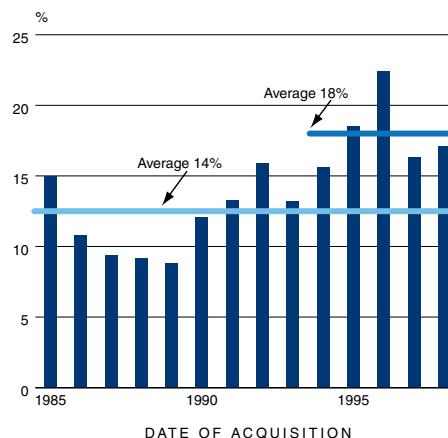
⁴ Year-end quotation divided by earnings per share after full tax and dilution effects.

⁵ Market value plus net debt (according to new definition) 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 1999, based on the date of acquisition of the SCA share. For example, if the SCA shares were purchased at the average price in 1996, the effective return through 1999 amounted to 22%. 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 14% and 18% for the past five years.

International stock market review

Exchange	Change in 1999, percent		Change in 1999, percent	
	Index		Paper/Forest Index	
Stockholm	Affärsvärlden	66	Affärsvärlden Forest	70
Helsinki	HEX Portfolio	66	HEX-Forest Index	93
New York	S&P 500 Composite	20	S&P Paper Forest	37
London	FTSE-100	18		

Ten largest shareholders

According to the VPC official share register for directly-registered and trustee-registered shareholders, as of 30 December 1999, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights. Approximately 64% (65) of the share capital was owned by Swedish institutions and about 25% (24) by foreign nominees.

	No. of votes	Interest		Interest	
		%	No. of shares	%	
AB Industrivärden	185,401,372	23	21,314,416	9	
AB Custos	153,296,910	19	15,329,691	7	
SHB*	84,929,474	11	13,966,031	6	
Fjärde AP-Fonden	47,329,825	6	16,907,431	7	
SEB	31,867,017	4	6,327,042	3	
Femte AP-Fonden	29,483,333	4	3,383,333	1	
Merita-Nordbanken*	23,862,781	3	13,103,749	6	
Skandia*	17,170,744	2	6,428,866	3	
AMF	10,985,840	1	9,598,724	4	
SPP	10,976,169	1	7,606,911	3	

* Including funds and pension foundations.

Source: VPC

Percent of foreign ownership

1995	1996	1997	1998	1999
12%	16%	20%	24%	25%

Foreign ownership in SCA has more than doubled during the past five years.

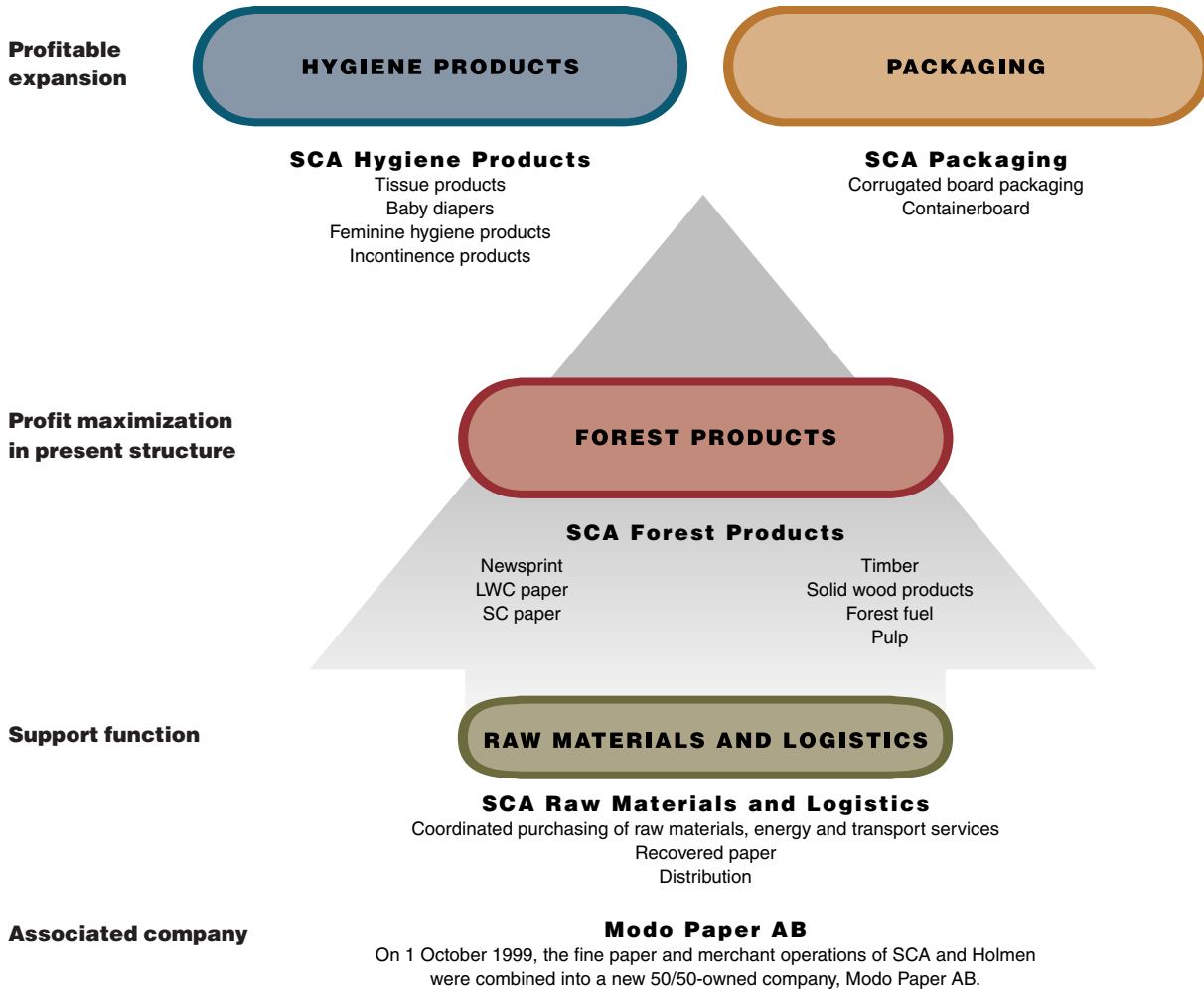
Ownership structure

Shareholding	No. of share-		No. of share-		No. of votes		%
	No. of shares	%	holders	%	No. of votes		
1-500	6,788,226	3.0	41,791	73.9	17,051,169	2.2	
501-1,000	5,104,883	2.2	6,974	12.3	12,508,958	1.6	
1,001-2,000	5,909,438	2.6	4,266	7.6	15,314,816	1.9	
2,001-5,000	6,735,659	2.9	2,207	3.9	17,249,999	2.2	
5,001-10,000	3,966,822	1.7	562	1.0	8,418,447	1.1	
10,001-20,000	3,752,632	1.6	266	0.5	7,124,626	0.9	
20,001-50,000	5,847,233	2.5	182	0.3	10,389,866	1.3	
50,001-100,000	6,174,432	2.7	88	0.2	12,736,773	1.6	
100,001-	186,020,599	80.8	182	0.3	688,710,451	87.2	
Total	230,299,924		56,518		789,505,105		

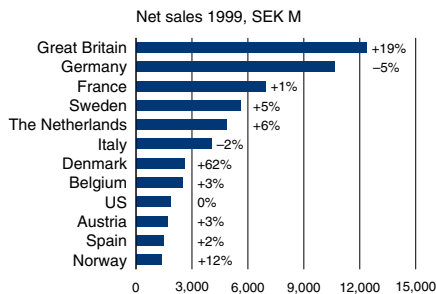
Source: VPC

Organization, products and markets

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.

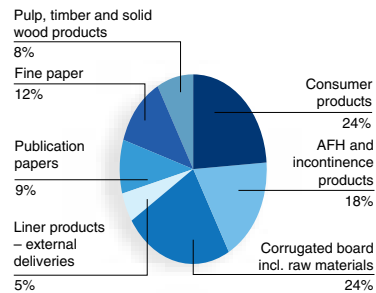


Group's 12 largest markets



SCA's 12 largest markets account for 86 percent of the Group's net sales. Slightly more than 90 percent of sales are outside Sweden. (Percentage indicates changes compared with 1998)

Net sales by product group 1999



Hygiene products account for 42% of the Group's net sales.

Operations in brief 1999

Group total¹

SEK 64,896 M
Net sales
SEK 7,335 M
**Operating profit
before goodwill
amortization**
SEK 54,616 M
**Average capital
employed**
SEK 8,707 M
**Operating
cash flow**
37,679
**Average number
of employees**

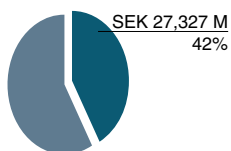
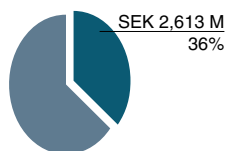
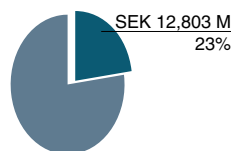
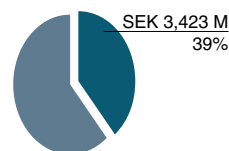
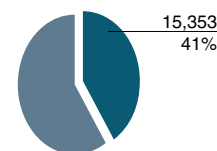
Revised reporting

To facilitate comparison, the year-end accounts for 1999 SCA reports operating profit for the business areas excluding goodwill amortization. Goodwill amortization for each business area is specified on page 70. Comparable to the treatment of goodwill amortization, capital employed is also reported for the business areas throughout excluding goodwill. Specification of the business areas' goodwill is shown on page 70.

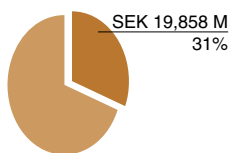
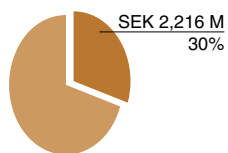
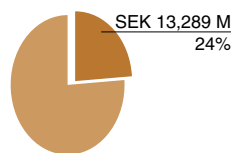
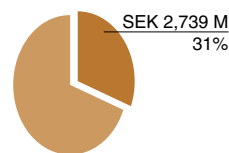
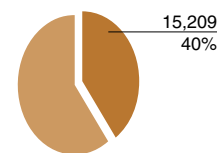
Historical data for cash flow is shown throughout in accordance with the principles SCA has applied since the 1999 six-month interim report.

The key figures affected by SCA's redefining of net debt, that is, that pension liabilities are included, are also adjusted.

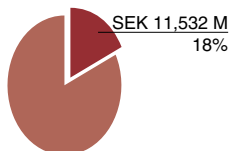
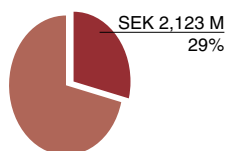
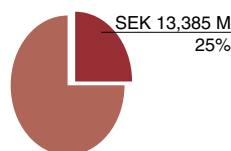
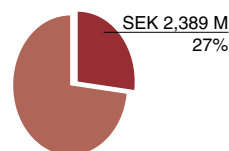
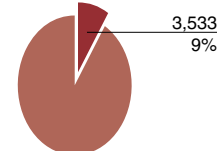
HYGIENE PRODUCTS

pages 14–21
Share of Group total

Net sales

Operating profit

Capital employed

Operating cash flow

**Average number
of employees**

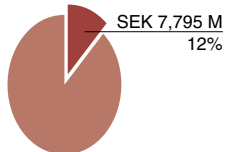
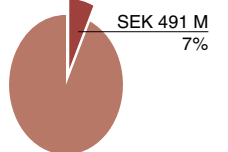
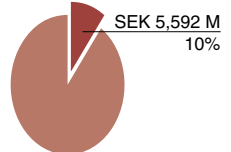
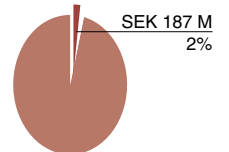
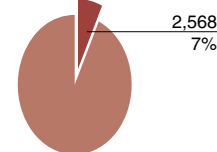
PACKAGING

pages 22–27
Share of Group total

Net sales

Operating profit

Capital employed

Operating cash flow

**Average number
of employees**

FOREST PRODUCTS

pages 28–32
Share of Group total

Net sales

Operating profit

Capital employed

Operating cash flow

**Average number
of employees**

Fine Paper

page 33
Share of Group total

**Net sales
(9 months)**

**Operating profit
(12 months)**

Capital employed

**Operating cash flow
(9 months)**

**Average number
of employees**

Raw Materials and Logistics

page 34

Coordinates 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

PRODUCT DEVELOPMENT AND ACQUISITIONS

Continued development of new, high-quality products.

Investment of SEK 2 billion in new production equipment was carried out.

Key ratios (SEK M)	1999	Group share %	1998 ¹
Net sales	27,327	42	26,164
Operating cash surplus	3,921	35	3,732
Change in working capital	-39		-773
Current capital expenditures, net	-531	26	-604
Other operating cash flow changes	72		-300
Operating cash flow	3,423	39	2,055
Operating profit ²	2,613	36	2,463
Operating margin, %	10		9
Capital employed ³	12,803	23	10,442
Return, %	20		24
Strategic investments			
– plants	1,997	76	1,617
– restructuring expenses	348	94	–
– company acquisitions	3,466	33	1,537
Average no. of employees	15,353 ⁴	41	13,826

¹ Cash flow adjusted in accordance with SCA's new cash flow analysis which is applied as of 1999.

² Before goodwill amortization.

³ Excluding goodwill.

⁴ Including SCA's share in joint venture companies.

Production capacities shown on page 75.

Senior executives

Stefan Angwald

President, Incontinence Products

Employed in SCA since 1976.

Previous employment: International Paint Ltd.

Håkan Johansson

President, AFH Tissue

Employed in SCA since 1978

Previous employment: Sales and Marketing Manager, Mölnlycke AB.

Alfred H. Heinzel

President, SCA Hygiene Products

Employed in SCA since 1988.

Previous employment: President of Laakirchen AG.



Stefan Angwald, Håkan Johansson, Alfred H. Heinzel, Nils Lindholm and Kurth Augustson.

PRODUCTION FACILITIES

Tissue

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

Incontinence products

Production of incontinence products for adults in Canada, France, Great Britain, Greece, the Netherlands, the Philippines, Sweden and U.S. as well as joint venture companies in Australia and Colombia.

Baby diapers and feminine hygiene products

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

Net sales and average number of employees	Net sales SEK M		Av. no. of employees
	1999	1998	1999*
Consumer products	15,727	15,313	9,598
AFH and incontinence products	11,600	10,851	3,072
Total	27,327	26,164	12,670

* Excluding employees in joint-venture companies and staff functions.

Deliveries, tons	1999	1998	Change %
Tissue			
Consumer products	628,100	565,400	11
AFH products	270,700	251,900	7

Nils Lindholm

Chief Financial Officer, SCA Hygiene Products

Employed in SCA since 1989

Previous employment: Finance Manager, Frigoscandia SA, Paris.

Kurth Augustson

President, Consumer Products

Employed in SCA since 1996.

Previous employment: President and CEO of Procordia Food & Beverages.

The Hygiene Products business area is one of Europe's leading manufacturers of tissue and fluff products for personal hygiene and other applications. Toilet tissue, household towels, handkerchiefs, facial tissue, napkins, baby diapers, feminine hygiene products and incontinence protection for private consumers are sold through retail outlets. Complete systems for tissue products for wiping and cleaning, as well as personal hygiene are sold to customers in companies and industries, hotels, restaurants and catering operations as well as institutions, known as the Away From Home (AFH) market. In addition to sales to private persons through retail outlets and pharmacies, incontinence products are sold primarily to the health and nursing care sectors.

The business area has sales in more than 40 countries, with Europe as its main market. SCA continuously launches innovative, new products and services to strengthen its competitiveness. Overall, SCA is Europe's largest supplier of hygiene disposables based on fiber. SCA also holds a world-leading position in incontinence products and is Europe's largest supplier of tissue.

Operating profit for the year increased to SEK 2,613 M. Despite declining product prices and rising raw material costs, earnings were improved, mainly due to a strong volume trend, particularly in the incontinence segment. Net sales rose 4%. Operating cash flow amounted to SEK 3,423 M.

MARKET

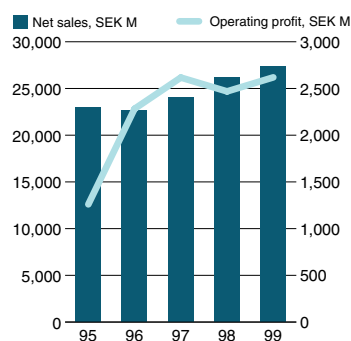
The world market for disposable hygiene products amounts to nearly SEK 400 billion in the production chain, of which Europe accounts for one third.

Sales of tissue and fluff products in Europe amount to approximately SEK 65 billion and SEK 55 billion, respectively. Market growth for tissue products amounts to about 3% annually. Among the fluff products, there is strong growth in incontinence products. Sales of baby diapers are rising in Central and Eastern Europe, while demand is increasing only marginal-



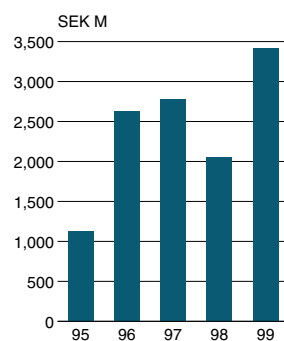
Tena Lady is sold on the retail market in most European countries. During 1999, sales of Tena Lady incontinence protection for mild incontinence were launched in Great Britain.

Net sales and operating profit



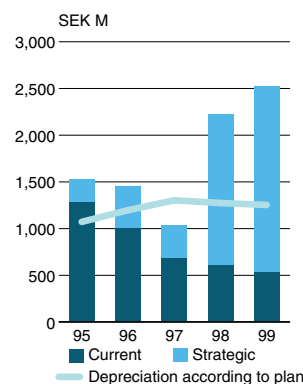
Operating profit rose to SEK 2,613 M.

Operating cash flow



Operating cash flow increased sharply to SEK 3,423 M.

Capital expenditures



Strategic capital expenditures in the prioritized Hygiene Products business area have risen sharply in the past two years.

ly in Western Europe. The same conditions reflect sales trends for feminine hygiene products.

American producers of hygiene products such as Procter & Gamble and Kimberly-Clark market their products mainly under their own brands. The Fort James tissue company, like SCA, sells its products under its own brands and retailers' brands (see diagram on page 20). New, higher-quality products are introduced continuously and constitute an increasingly important competitive weapon.

The market in Europe is dominated by the four suppliers mentioned above, but also includes a large number of small, local manufacturers.

Consumer market

The European retail market for disposable hygiene products is valued at SEK 90 billion. Growth is relatively modest, averaging about 2% annually. Demand of hygiene products is controlled largely by overall trends in consumer spending, with minor fluctuations since products meet basic personal needs.

Sales of tissue products are divided evenly between manufacturers' brands and the brands of retailers. Retailers' brands account for an average of 20–25% of total sales of baby diapers and feminine hygiene products. However, there are large variations between different countries and product categories.

The retail trade today is characterized by an increasing shift toward concentration and internationalization. Chain stores are showing greater interest in sales of high-quality hygiene products marketed under the retailers' own brands. In markets outside Europe and the United States, the retail sector is more fragmented. Branded products show strong growth in these regions.

Market for incontinence products

Incontinence products are used for protection against mild and more serious incontinence problems, defined as a person's lack of control over urinary and bowel functions, a condition that afflicts 5–7% of the world's population. These products offer the only means of control for the majority of people suffering from incontinence. The total global potential for incontinence products is strong, since relatively few persons suffering from incontinence now use or have access to these products.

The percentage of older persons, who often have incontinence problems, is increasing worldwide. In Europe and North America, the percentage of people who are older than 65 years is rising by 1–1.5% annually. The corresponding increase in Asia and Latin America is 2.5–3.5% per year.

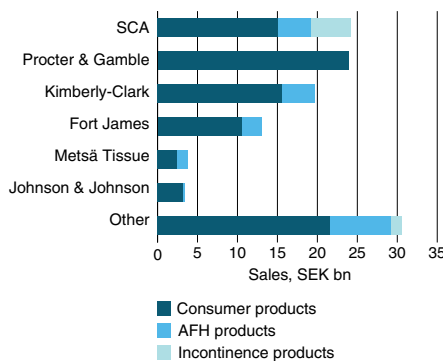
Incontinence products are distributed to hospitals and nursing facilities as well as to individual consumers through pharmacies and retail outlets, depending on the health insurance system in each country.

The market in Europe is valued at approximately SEK 11 billion and in North America at slightly more than SEK 10 billion. The institutional markets in Europe and North America grew slowly during 1999, while markets for mild incontinence products grew by 15–20%. Regions in Southeast Asia and Latin America show even stronger growth in parallel with greater awareness of the need for incontinence products, increased life expectancy and higher average household incomes.

The market is increasingly being consolidated to fewer international manufacturers of incontinence products.

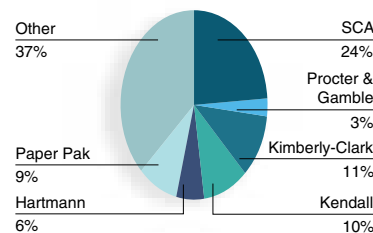
Important competitive tools include continuous launches of new high-quality products, information to customers and widespread coverage in individual markets.

**Tissue and fluff products
Competitors - Europe**



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

**Incontinence products
Market shares - the world**

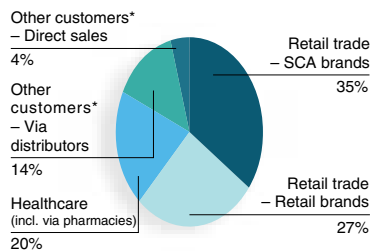


SCA has retained its position as the world's leading supplier of incontinence products.



SCA's full range of products for the AFH market is coordinated under the Tork brand name. This ensures a more cost-efficient marketing approach. Specific efforts are focused on the hotel, restaurant and catering as well as the industrial customer segments, which is showing favorable growth as a result of the increasingly stronger economic climate in Europe. The new Box 2000 holder system for the entire range of products was launched during the year.

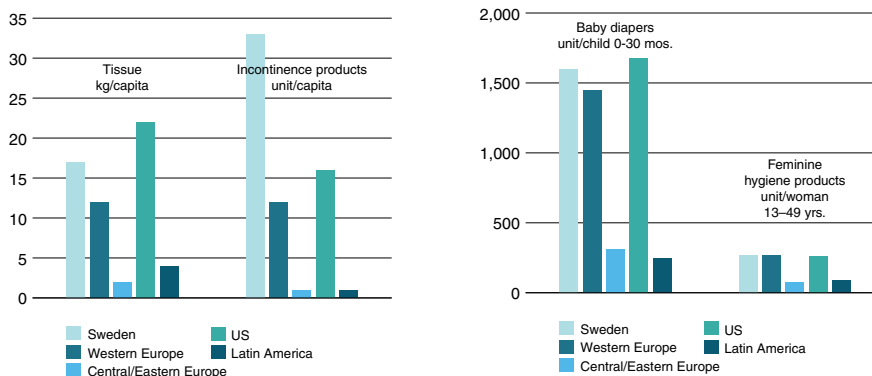
**Tissue and fluff products
Sales by customer segment
- Europe**



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

The 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.

AFH market

In the AFH market, mainly tissue products are sold to companies in the industrial, administration and service sectors, hotels, restaurants and catering (HoReCa), healthcare institutions and other public establishments. The products are distributed via wholesalers and service companies, and directly to individual customers. The AFH market in Europe, which accounts for about one-third of global sales of tissue products, is valued at slightly more than SEK 25 billion.

The dominant tissue products are hand towels and toilet tissue as well as products used for wiping and cleaning in industry.

Market growth amounts to about 3% annually, and is controlled largely by the economic climate. Awareness of good hygiene habits at work sites and in offices and public buildings is also a factor. HoReCa is showing the strongest growth today, supported by the growing number of people who dine outside their homes.

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. Tissue products sold as hand towels are capturing market shares from other systems, such as air-dry machines and textile hand towels.

SCA's STRATEGY AND MARKET POSITION

SCA will continue to strengthen its position as one of Europe's leading manufacturers of consumer-oriented hygiene products through organic growth and acquisitions. Expansion will take place mainly in such markets as Southern, Central and Eastern Europe, when favorable opportunities arise for acquisitions that meet SCA's CVA-requirements, either through full ownership or joint ventures. The latter primarily in Latin America and Asia. The objective is to increase sales and cash flow by 12% per year.

SCA's average share of the market for hygiene products in Europe in 1999 was about 20%. SCA has its strongest positions in the northern and central regions of Western Europe. Positions in other parts of Europe are being strengthened through acquisitions and organic growth.

Sales outside Europe rose 30% as a result of higher sales by existing units and sales by companies acquired in 1998.

SCA's market shares generally rose during 1999. Sales volume increased 8%, of which acquired companies accounted for 3%.

Comprehensive and continuous development of high-quality hygiene products and service and low production costs are key elements in SCA's strategy. In response to market demand, stronger focus has also been placed on the ability to offer the market both SCA brands and retailers brands.

Efforts were continued during the year to create a more effective network of production plants in Western Europe through rationalization measures and structural changes. The objective is to reduce costs and tied-up capital by concentrating

production to a limited number of strategic units. When the conversion is completed at the end of 2000, annual savings are expected to average nearly SEK 700 M annually. Production operations at six plants were either discontinued or substantially reduced during the year and transferred to other units in compliance with restructuring plans. In parallel, investments in new production equipment for remaining strategic plants amounted to approximately SEK 2 billion. One of the largest investment projects was a new TAD (Through Air Dried) tissue machine in Mannheim for household towels production. In addition, new converting facilities for handkerchiefs were installed. The production lines are concentrated mainly on the high-quality tissue products, including imprinted patterns, color printing and scented softeners.

Through transfers of production equipment from plants where operations have been discontinued or investments to increase capacity, the business area's production operations for baby diapers were expanded in France, the Netherlands and Sweden, in addition to production of tissue in Germany and Sweden. Production at most of the converting sites was also upgraded during the year. Investments were also made in a number of new international distribution centers to improve customer service. A new paper machine is currently being installed in Columbia.

As a result of the above rationalization and restructuring measures, the number of employees was reduced by about 1,000. A comparable number of employees were added to the company through the acquisitions carried out in 1999. Work continued during the year to integrate the merged organization (PWA/Mölnlycke) and to develop common core values.

Acquisitions

Several acquisitions were made during the year in compliance with SCA's growth strategy for Hygiene Products.

At the end of August 1999, SCA acquired AM Paper Group, a British manufacturer of tissue products, for SEK 2.55 billion. AM Paper, with 600 employees, is the UK's largest producer of household towels, toilet paper and facial tissue marketed under retailers' own brands. Production facilities include a new TAD-machine for the highest quality tissue products. The acquisition has doubled SCA's share of the tissue retail market in the UK from 14% to 28%.

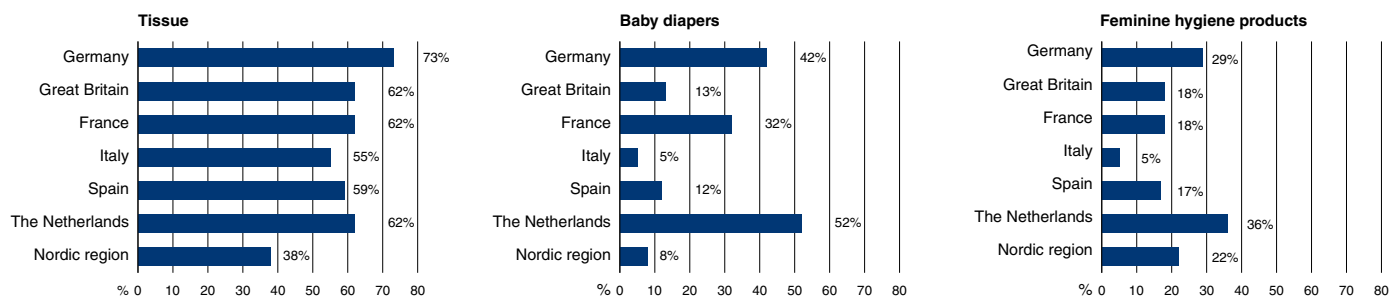
SCA acquired 19.3% of the shares and votes in Metsä Tissue, a Finnish hygiene products company. The company has annual sales of approximately SEK 5 billion and has operations in the Nordic countries, Germany and Poland, among other countries.

In October, SCA also acquired Panosa, a Spanish tissue company with 140 employees and sales in 2000 estimated at nearly SEK 430 M. Panosa produces tissue products sold under private labels by the Spanish retail trade. With a market share of 12%, Panosa is the fourth largest supplier of tissue products in Spain. The acquisition has virtually doubled SCA's market share for tissue products in Spain to about 26%. Combined



All of SCA's feminine hygiene products were improved during the year. All sanitary pads feature a new and softer outer covering. A special pad for overnight wear features added absorption and leakage protection. Panty liners were upgraded with materials that breathe better and absorb odor. SCA also launched the first panty liner designed specifically for string panties.

Retailers' brands, market shares



The percentage of retailers' own brands is highest in markets where the concentration of retail trade is the most advanced.

with SCA's established operations, annual sales in the Spanish market now amount to SEK 1.3 billion.

Another tissue company was acquired in Portugal, Nisa, which holds a 20% market share in the country. The company is one of the leading suppliers of tissue to the branded retail and AFH markets. In total, SCA is now the market leader in tissue on the Iberian Peninsula.

The remaining 50% of shares in Sancella, the jointly owned company in Taiwan, were also acquired during the year. Sancella, which is now a wholly owned subsidiary of SCA, sells and markets incontinence products in Taiwan and offers a platform for the Group's expansion in the region. A new production plant is currently under construction in the Philippines.

The profitability in all units acquired is projected to well exceed SCA's cash flow targets.

Consumer products

With a complete line of toilet and household towels, disposable handkerchiefs and facial tissue, as well as feminine hygiene products, baby diapers and incontinence products, SCA is the largest supplier of absorbent hygiene products to the European retail trade. Through joint ventures, SCA also has strong positions – particularly for feminine hygiene products - in more than 20 markets in Latin America, Australia and Africa. Sales volumes rose 5% during the year.

Approximately 60% of SCA's total sales of hygiene products are made via retailers. The products are marketed under SCA brand names, such as Zewa and Edet for toilet and household paper, Libero baby diapers and feminine hygiene products

that include Nana, Nuvenia, Bodyform, Nosotras and Libresse. SCA is also Europe's largest supplier of such products sold under retailers' brands.

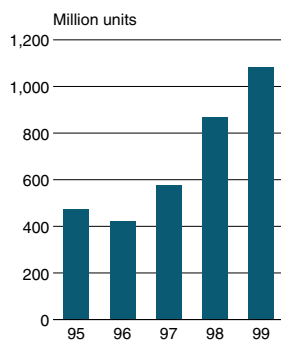
Several new and improved products were introduced in 1999. Sales of new household towels based on the TAD-technique at SCA's plant in Mannheim were launched under the Zewa and Edet brand names. The patterned paper features color printing, excellent absorption properties and wet strength (see page 36, Research and development). Improvements were also made in all feminine hygiene products. All sanitary pads feature a new and softer outer covering. A special nighttime product was introduced with improved absorption properties and leakage protection. The panty liner was also upgraded with a new material that breathe better and absorb odor. SCA also introduced the first panty liner designed specially for string panties.

Improvements in fit and comfort features were also introduced in baby diapers. Supported by a new advertising campaign that attracted widespread interest, SCA's Libero diapers recaptured the leading market position in the Nordic countries. The sale of baby diapers under retailer's own brands has increased significantly and SCA is now the largest supplier in Europe in this segment.

Incontinence products

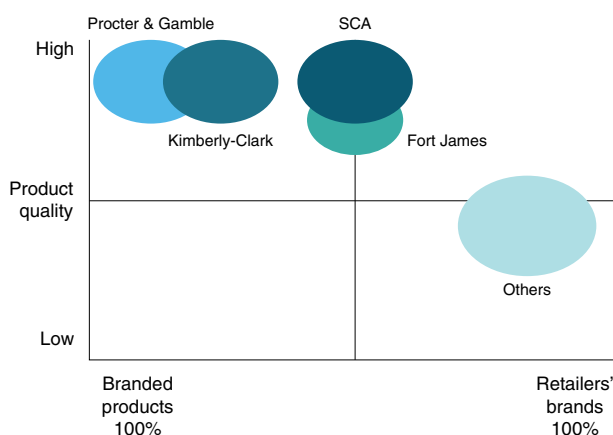
SCA is the world's leading supplier of incontinence products, which are marketed under the Tena brand. The product line comprises all types of products for protection against mild and more serious incontinence problems. The latter products are sold primarily for use in institutional and home-care programs,

Baby diapers – retailers' brands
SCA's sales in Europe



SCA's sales of baby diapers under the retailers' own brands increased significantly in past years.

Branded products or retailers' brands
Hygiene products – Europe



SCA applies a dual strategy, that is, the company produces branded products and products sold under the retailers' brands.

while products offering protection against mild incontinence are sold through pharmacies and the retail outlets. Backed by leading-edge product development, SCA will increase growth through establishment on new markets and in new customer segments in Asia, America and Africa as well as strengthen positions in existing markets in Europe. Sales rose 10% in 1999.

SCA's market shares are increasing in North American as well as in Europe through the launch of new products. Incontinence protection in the form of pant diapers, which was launched in 1998 in Europe, has rapidly secured strong positions in a number of European markets. The launch during 1999 of a new innovative product for heavy incontinence that is easier to put on and offers a more comfortable fit was well received on the market.

As a frontrunner in the sale of products for mild incontinence through retail outlets, SCA also launched new, improved products in the spring of 1999. Sales of Tena Lady for mild incontinence were launched in the British retail trade during 1999. Tena Lady is already sold through corresponding channels in most European countries. The product will be launched in other European countries and markets in other global regions in the near future.

Within SCA's cooperation with Uni-Charm, a Japanese hygiene-products company, positions in the rapidly growing Japanese nursing home market were strengthened.

AFH products

SCA and Kimberly-Clark are Europe's largest suppliers of tissue products for the AFH market. SCA's sales comprise a complete washroom concept consisting of paper hand towels, toilet tissue and soap with supplementary holders, as well as facial tissues and napkins. This range as well as products for cleaning and wiping are also sold to industry.

SCA's full-coverage product range has been coordinated under the Tork brand, resulting in a more cost-effective penetration of the market. Special efforts are being made in the hotel, restaurant and catering segments as well as industry, which show strong growth as a result of improved economic climate in Europe. In total, sales increased 6% in 1999.

Improved customer services and continuous product development are core elements in the business strategy. Box 2000, a new holder system for the entire range of products, was introduced during the year. The comprehensive information program called "Hygiene at work" was conducted in cooperation with a large number of customers. Other quality improvements were also made in paper towels and napkins, in parallel with increased production capacity to meet growing market demand. A complete new range of non-woven products for wiping, polishing and cleaning was launched in early 2000.



Several tissue companies were acquired during the year, including AM Paper Group in Great Britain, Panosa in Spain and Nisa in Portugal. The two latter advanced SCA to a market-leading position on the Iberian Peninsula.



Packaging

ACQUISITIONS AND INCREASED PROFITABILITY

SCA's acquisitions increase market share.

Customer service expanded.

Key ratios (SEK M)	Group share %	
	1999	1998 ¹
Net sales	19,858	15,035
of which, Intra-Group	326	275
Operating cash surplus	3,311	2,294
Change in working capital	216	-48
Current capital expenditures, net	-616	-510
Other operating cash flow changes	-172	66
Operating cash flow	2,739	1,802
Operating profit ²	2,216	1,510
Operating margin, %	11	10
Capital employed ³	13,289	10,742
Return, %	17	14
Strategic investments		
- plants	412	512
- restructuring expenses	23	-
- company acquisitions	6,368	881
Average no. of employees	15,209	9,895

¹ Cash flow adjusted in accordance with SCA's new cash flow analysis which is applied as of 1999.

² Before goodwill amortization.

³ Excluding goodwill.

Production capacities shown on page 75.

Net sales and average number of employees	Net sales SEK M		Av. no. of employees 1999
	1999	1998	
Corrugated board	16,288	11,614	13,092
Containerboard	6,369	6,227	2,030
Other, incl. intra-Group deliveries	-2,799	-2,806	87
Total	19,858	15,035	15,209

Production and deliveries

Produced volumes	1999		1998		Change %
	1999	1998	1999	1998	
Corrugated board (km ²)	3,388,700	2,820,500	20		
Kraftliner (tons)	703,000	666,000	6		
Testliner/fluting (tons)	1,564,000	1,502,000	4		

Deliveries	1999		1998		Change %
	1999	1998	1999	1998	
Corrugated board (km ²)	3,396,200	2,859,000	19		
Kraftliner (tons)	719,000	670,000	7		
Testliner/fluting (tons)	1,581,000	1,493,000	6		
of which, intra-Group*	1,225,000	1,124,000	9		

* 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 Austria, Czech Republic, Romania, Slovakia, Spain, Turkey and Southeast Asia.

Containerboard

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

Senior executives

Colin J. Williams

President, SCA Packaging
Employed in SCA since 1988
Previous employment:
Johnson&Johnson.

Rob Jan Renders

President, Containerboard Division
Employed in SCA since 1990.
Previous employment:
Managing Director SCA Packaging De Hoop mill.



Colin J. Williams, Rob Jan Renders, Gunnar Haglund and Anthony Thorne.

Gunnar Haglund

Chief Financial Officer, SCA Packaging
Employed in SCA since 1989.
Previous employment: Chief Financial Officer, SCA Graphic Paper.

Anthony Thorne

President, Corrugated Board Division
Employed in SCA since 1994.
Previous employment:
President of Shell Mexico.

The Packaging business area is one of Europe's leading producers of corrugated-board packaging. SCA offers customized transport and packaging solutions to its customers, featuring IT-based design technology, with local service close to customer facilities. Packaging is adapted to provide customers with a logistics solution by offering the best method of transporting, protecting and storing products along the entire supply chain, as well as displaying their products on the outer package. Customers are European food processing companies and producers of industrial products and consumer goods. Some 35 million packaging units daily, for products ranging from washing powder, vegetables and perfume to large automotive components, are delivered from SCA's more than 180 plants mainly in Europe and Asia.

Packaging also produces containerboard in the form of kraftliner, testliner and fluting. The paper grades are produced both from fresh wood fiber from the Group's own forest resources in Sweden and from recycled fiber, recovered by SCA paper collection facilities across Europe or through SCA Raw Materials and Logistics' supply network.

Operating profit for the year rose 47% to SEK 2,216 M. Acquisitions, product development and productivity improvements had a positive impact, while increases in the price of recovered paper suppressed earnings improvement somewhat. Operating cash flow amounted to SEK 2,739 M.

CORRUGATED BOARD

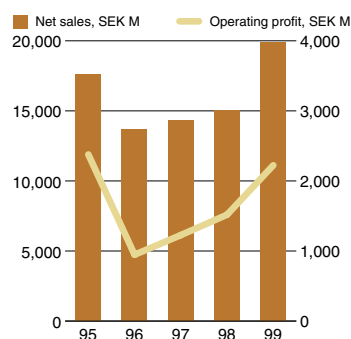
Market

The market for transport packaging increased in Europe during 1999, in line with economic growth, and is valued at approximately SEK 200 billion. Corrugated board is the dominant packaging material, with 60% of the market, and is holding its market share compared to other packaging materials, such as wooden crates, particularly for the transportation of fruit and industrial goods. The inroads made earlier by plastic containers in the market have slowed, while



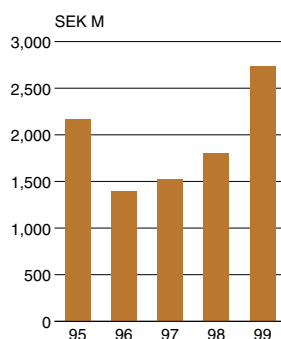
Each year SCA Packaging produces millions of pizza cartons, with deliveries to pizza's homeland, Italy, among other countries.

Net sales and operating profit



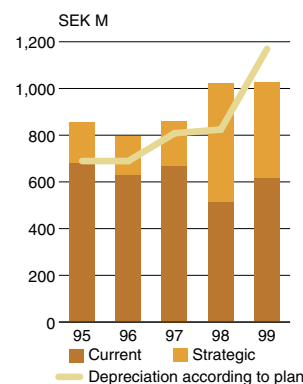
Operating profit rose with 47% to SEK 2,216 M compared with 1998.

Operating cash flow



Operating cash flow increased steadily in past years.

Capital expenditures



The share of strategic capital expenditures declined somewhat compared with a year earlier.



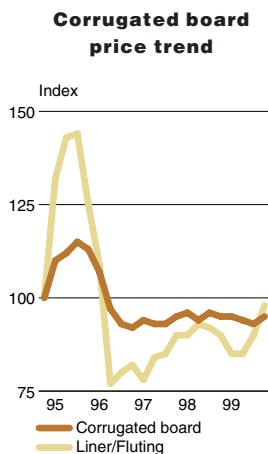
The French company Nicollet, specialists in packaging for fast-moving consumer goods, a segment in which SCA plans to expand in the future, was acquired during the year. Among other products, Nicollet is a major supplier of perfume packaging.

carton and metal packaging are maintaining stable market shares. Corrugated board packaging for heavier goods and fast-moving consumer goods are growing at a stronger pace than other types of corrugated board packaging.

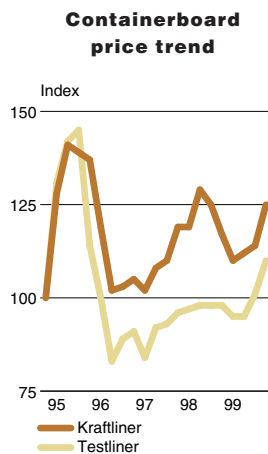
The Western European market is increasingly influenced by major buyers of packaging. Producers of such products as food and consumer goods are becoming more global, with increasing market presence in Central and Eastern Europe and Asia. These customers demand fast and reliable delivery, which requires that packaging be produced locally, near the customers' own facilities. By virtue of their order size, these major purchasers can exert pressure on prices, which means that creative design and low production costs are crucial for the packaging

supplier's profitability. Logistics is also shaped by the specific needs of the large supermarket chains.

The corrugated board packaging industry in Europe comprises more than 500 companies. The restructuring and consolidation of the industry, initiated primarily by SCA and Jefferson Smurfit, has enhanced the industry's ability to respond to customer development and increase profitability. Smaller packaging companies either focus on special product segments or try to form groupings with producers in other countries to secure their future. After the numerous major deals during 1998, the number of mergers and acquisitions was somewhat lower in 1999. However, SCA was one of the more active players with a total of four major acquisitions during the year,



Corrugated board prices were relatively stable despite major fluctuations in raw materials costs. (Index 100 = average 1994 prices)



Price increases for kraftliner, particularly testliner, gained major impact during the fourth quarter. (Index 100 = average 1994 prices)

and is one of the few companies to have achieved virtually total market coverage in Europe. Other events during the year were Mondi Minorco's purchase of Amcor Europe's corrugated board operations, and the alliance that was formed between KAPPA, D S Smith and SAICA. In North America, Weyerhaeuser acquired MacMillan Bloedel of Canada.

As a result of the continued high level of industrial production in Western Europe, demand for corrugated board increased during the year in most Western European markets. Central and Eastern Europe followed the same pattern. Economic recovery continued in Southeast Asia, while economic growth in China continued at the same high pace as previously.

SCA's strategy and market position

Packaging's strategy remains firmly focused on creative product development and increasing value to customers, while reducing the production costs and improve margins to achieve higher profitability and to continue expanding. SCA provides the sales tools and offer the logistics solutions that enhance the marketing of the customer's product. SCA's extensive use of advanced IT systems in production, packaging design and sales is a key element in achieving these goals.

SCA's efforts to develop packaging design and function and improve customer service have resulted in numerous prizes over the years. For the third consecutive year, SCA Packaging was selected as "best corrugated supplier of the year" in the UK. In total, SCA was awarded about 40 similar prizes in Europe in 1999.

In its production of corrugated board packaging, SCA is implementing a number of measures to increase efficiency and profitability in Europe, such as benchmarking the productivity of every major plant in relation to comparable units within the company. The best production plants are then evaluated as part of SCA's cooperation with the US packaging company Weyerhaeuser. These measures have already resulted in significant productivity improvements and increased profitability. As of 1999, the Japanese packaging company Rengo is also included in the benchmarking efforts.

Acquisitions

In line with the objective of increasing market coverage and the current market share to at least 20% in Western Europe, a number of acquisitions were effected during the year. The acquisitions are made subject to a requirement for rapid achievement of good profitability, in accordance with SCA's CVA model, and for increased market coverage.

The French packaging company Nicollet, which was acquired in August 1999, is a specialist producer of advanced and exclusive packaging for the consumer market. Nicollet has annual sales of more than SEK 1 billion, with 840 employees, and supplies packaging with high-quality printing to market products such as detergents, ready-made food, confectionery, biscuits and perfumes. Nicollet has three high-technology integrated packaging plants, making possible a high degree of flexibility in service.

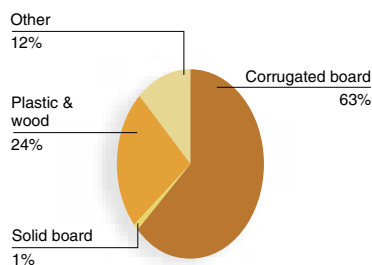
The Irish company Len-Pak, which has two sheet plants and annual sales of approximately SEK 120 M, was acquired in October. The company, with about 80 employees, produces both standard packaging and more advanced products. The synergies with SCA's existing facilities in Ireland are substantial.

The Danish packaging company Danisco Pack, with operations in Denmark, Germany and Norway, was also acquired during the year and will provide a strong complement to the previous acquisition in Denmark. The company has annual sales of SEK 1,840 M and produces 172 million m² of corrugated board and 200,000 tons of recycled paper annually, giving it a market share of 27% in Denmark. SCA is acquiring Danisco's four integrated corrugated board plants, two conversion units, several specialized units and a testliner mill, as well as a corrugated board plant and a sheet plant in Germany. Following its earlier acquisition of Danapak Papemballage in January 1999, SCA's total market share in Denmark amounts to 44%. Finally, the Spanish Lantero Group (SCA minority shareholding) acquired Cartogal, an integrated boxplant in northwest Spain.

All of these acquisitions are expected to well exceed SCA's cash flow targets.

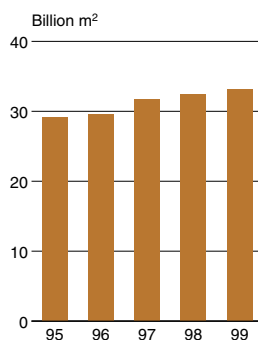
During the year, SCA increased its ownership interest in the Czech company Obalex from 33% to 49%.

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



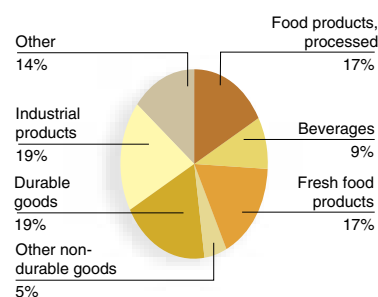
Corrugated board is the predominant packaging material.

**Total deliveries of
corrugated board in Europe**



Deliveries of corrugated board increased slightly more than 4 billion m² in the 1995–1999 period.

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



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



In cooperation with Ford, SCA Packaging has developed a logistics system for shipment of components to Ford's dealers and workshops throughout the world. Shipments are made in corrugated containers designed specifically for heavy goods.

SCA also increased its holding to 20% in Singapore-based packaging company Central Package, which has packaging units in Southeast Asia and China. SCA holds an option to increase its ownership holding to 51%. The company will provide an important base for the continued development of integrated packaging plants in the region. Central Package also assists SCA with the management of its Chinese plants in Shanghai and Wuhan, which SCA operates jointly with the US company Weyerhaeuser.

SCA has a well-developed strategy and capacity for integrating acquired companies into its existing structure while tapping the synergistic benefits. The earlier acquisition of Rexam provides a good example. Customer service was rapidly assured, costs were reduced and production activities were coordinated within a short time.

European operations were realigned during the year to facilitate adaptation to customer demand for specific types of packaging. Production of packaging for heavier goods was coordinated in a single unit in order to provide more effective customized logistics solutions and local service within a larger geographical area.

Within the framework of network cooperation with other business areas, coordinated by SCA Raw Materials and Logistics, significant cost savings have been achieved through coordinated purchasing of energy, transport, starch, printing ink and chemicals, among other items.

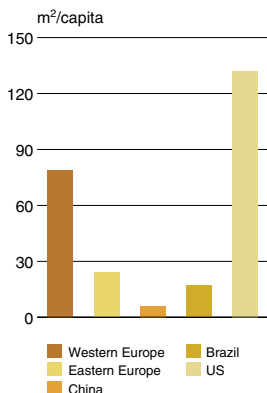
CONTAINERBOARD

Market

The paper component in corrugated board packaging, containerboard, is a global product that is traded on world markets. The supply of kraftliner, as well as its price, are influenced to a considerable extent by US deliveries to Europe and the Far East, while the price of testliner and fluting is strongly affected by the availability and price of recovered paper.

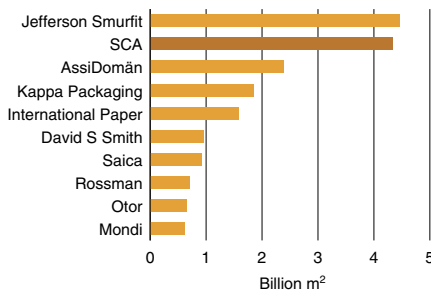
The five largest European producers of containerboard have a relatively strong position in the European market. The majority of companies supply containerboard to their own packaging production units, but also sell to external corrugated board producers.

Annual per capita consumption corrugated board



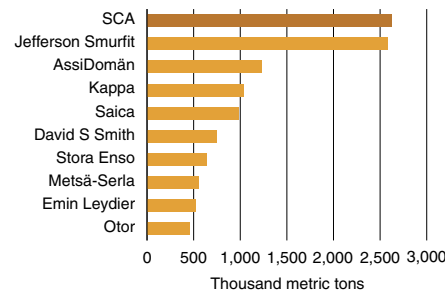
The prosperity and GDP of a country is closely linked to the consumption of corrugated board.

Corrugated board Competitors - Europe Production capacity



SCA is the second-largest corrugated board company in Europe.

Containerboard Competitors - Europe Production capacity



Through acquisitions, SCA rose from second place to become the leader among producers of containerboard in Europe during 1999.

Prices for kraftliner increased during 1999 as a result of reduced export supply from the US. Recovered paper prices rose in 1999.

Demand for containerboard increased during the year, resulting in price increases of 10–20% in most European markets.

SCA's strategy and market position

SCA Packaging is one of Europe's leading producers of containerboard, with two kraftliner mills in Sweden and nine testliner mills elsewhere in Europe. Total capacity is 2.61 million tons annually, with a market share of 15%. SCA sells containerboard to external customers as well as to SCA Packaging's plants. Internal transactions are at market price.

SCA produced 2.3 million tons of liner and fluting in 1999, of which 1.2 million tons were used internally (52%). External sales increased during the year. Modernization programs were implemented at the mills in Obbola, Sweden, and Witzhausen, Germany. The main purpose of the rebuilds was to improve product quality and increase the product range that SCA can offer to its customers in printability and lighter grades, for which demand is increasing.

Extensive improvements to the kraftliner mill at Munksund in Sweden were implemented during the year. A decision on improvements was made regarding the testliner mill in New Hythe in the United Kingdom. During the year, an agreement was reached with Vattenfall to build a power plant at the Munksund kraftliner mill mainly based on solid fuels. The plant will be owned and operated by Vattenfall.

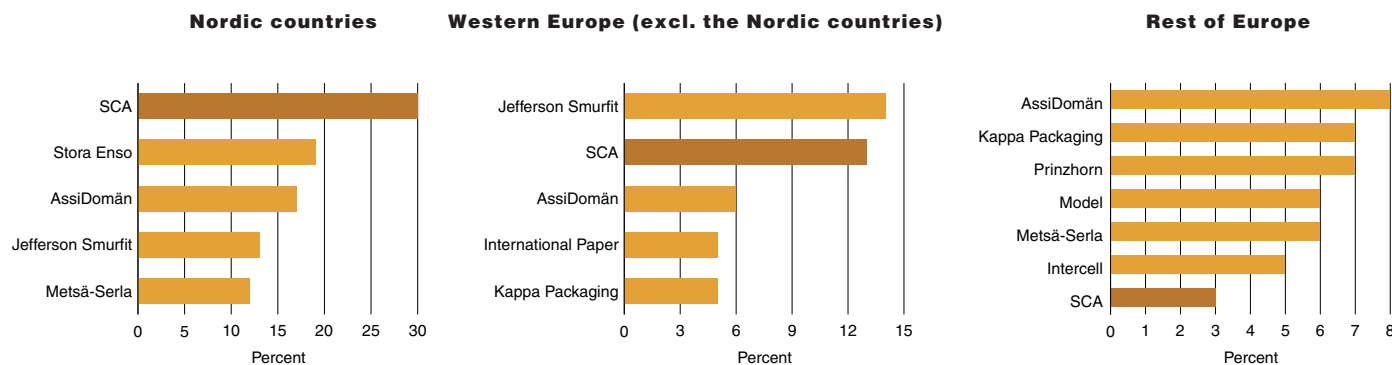
An environmental policy developed during the year, comprising an extensive information and training plan, will be implemented. One goal is that all mills will obtain ISO 14001 certification during 2000. In addition, an environmental audit was initiated at all major corrugated board plants.

Customer relations and communications programs are aimed at linking customers more closely to SCA's product and technical developments. Customers are invited to SCA's mills and research centers to discuss common issues.



In Switzerland, SCA Packaging has developed a cooperation with the Post Office to facilitate sending flowers to friends and acquaintances nationwide. The flowers are shipped in a protective corrugated packaging to the receiver.

SCA's market shares, corrugated board



SCA is the largest producer of corrugated board in the Nordic countries. In Western Europe, the company ranks second. During 1999, the company increased its market shares through company acquisitions in Denmark, France and Ireland. The goal is to achieve a market share in Europe of at least 20%.



Forest Products

Key ratios (SEK M)	Group share %		
	1999	1998 ¹	1998 ¹
Net sales	11,532	18	11,479
of which, Intra-Group	1,935		2,180
Operating cash surplus	3,169	29	3,076
Change in working capital	-50		-37
Current capital expenditures, net	-620	30	-492
Other operating cash flow changes	-110		-59
Operating cash flow	2,389	27	2,488
Operating profit ²	2,123	29	2,046
Operating margin, %	18		18
Capital employed ³	13,385	25	13,706
Return, %	16		15
Strategic investments			
– plants	206	8	119
– restructuring expenses	–		–
– company acquisitions	510	5	57
Average no. of employees	3,533	9	3,890

¹ Cash flow adjusted in accordance with SCA's new cash flow analysis which is applied as of 1999.

² Before goodwill amortization.

³ Excluding goodwill.

Production capacities shown on page 75.

Net sales and average number of employees	Net sales SEK M		Av. no. of employees 1999*
	1999	1998	
Pulp, timber and solid wood products	6,228	6,220	1,656
of which, Intra-Group	1,280	1,277	
Publication paper	6,677	6,620	1,795
of which, Intra-Group	93	84	
Total	11,532	11,479	3,451

* Excluding staff functions.

Senior executives

Anders Färnqvist

Chief Financial Officer, SCA Forest Products

Employee since 1991.

Previous employment: Group Controller, Priab AB.

Ole Terland

President, SCA Graphic Laakirchen AG

Employee since 1987.

Previous employment: Research Engineer, STFI.



Anders Färnqvist, Ole Terland, Kenneth Eriksson, Ola Hildingsson and Jerker Karlsson.

PRODUCTION FACILITIES

Publication papers

Production of LWC paper, SC paper and newsprint at three plants in Austria, Great Britain and Sweden.

Pulp, timber and solid wood products

Pulp in Östrand, Sweden.

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

Sawmills at Holmsund (Umeå), Lugnvik (Kramfors), Munksund (Piteå) and Tunadal (Sundsvall).

Produced volumes, tons	Change %		
	1999	1998	%
Newsprint*	530,000	524,000	1
SC paper	323,000	320,000	1
LWC paper	369,000	356,000	4

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

Deliveries, tons	Change %		
	1999	1998	%
Newsprint*	529,000	530,000	0
SC paper	326,000	318,000	3
LWC paper	371,000	351,000	6

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

Solid wood products	Change %		
	1999	1998	%
Produced volume, m ³	681,000	653,000	4
Deliveries, m ³	670,000	672,000	0

Wood consumption, million m ³ fub	1999	1998
SCA's Swedish forest products mills	5.84	5.75

Fellings, million m ³ fub	1999	1998
Felling		
– on own forest land	4.06	3.94
– as a % of wood consumption	70	69

Kenneth Eriksson

President, SCA Forest Products

Employee since 1979.

Previous employment:

President of Sunds

Defibrator AB.

Ola Hildingsson

Director, Sales and Marketing

Employee since 1985.

Previous employment: Division

Manager, Billerud.

Jerker Karlsson

Vice President, SCA Forest

Products

Employee since 1970.

Previous employment:

President of SCA Forest.

The Graphic Paper business area was combined with Forest and Timber into a common business area, Forest Products.

The reorganization created a more united and flexible organization that can better capitalize on the synergies. The new business area will be responsible for publication paper operations, forestry management, timber procurement, saw-mill operations and pulp production.

Operating profit during the year for the business area amounted to SEK 2,123 M, an increase of 4% compared with a year earlier. Operating cash flow amounted to SEK 2,389 M. Company acquisitions of SEK 510 M pertain mainly to redemption of the outstanding minority in Laakirchen.

Since Graphic Paper and Forest and Timber conducted operations as units for all of 1999, these operations are presented below based on the previous organization.

GRAPHIC PAPER

SCA has a broad range of high-grade, customized publication papers. Customers consist primarily of newspaper and magazine publishing companies as well as independent printing plants with high-quality demands in the European market. The primary applications areas are daily newspapers, consumer and trade magazines, catalogues and advertising materials. The range of publication papers comprises newsprint, SC and LWC papers.

In addition, SCA manufactures pulp used to produce publication papers and various grades of tissue products. The business area also produces dry-formed pulp in rolls to produce sanitary products.

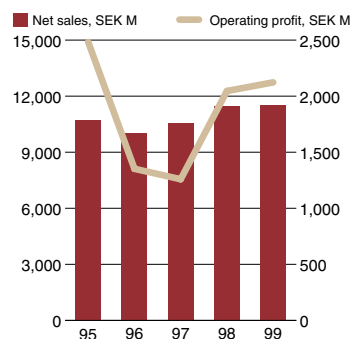
Market

The market for publication papers in Europe is valued at slightly more than SEK 100 billion. Growth amounts to about 3% annually. Newsprint accounts for approximately



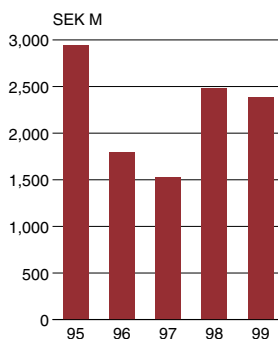
Newsprint experienced a strong year in 1999 in Europe, particularly in France, due to the upward trend in advertising as a result of the increasingly stronger economy. Demand was also bolstered by the higher frequency of supplements in conjunction with the millennium shift.

Net sales and operating profit



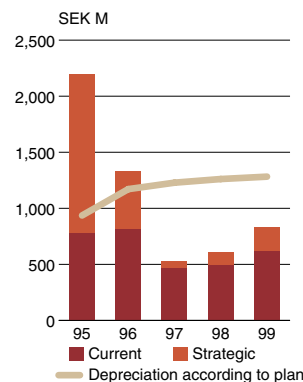
Operating profit in the forestry and pulp operations rose to SEK 817 M, while earnings within wood-containing publication papers fell somewhat to SEK 1,306 M.

Operating cash flow



Operating cash flow declined to SEK 2,389 M.

Capital expenditures



Current capital expenditures within Forest Products amounted to SEK 620 M.



SCA delivers LWC paper to 400 magazines in 46 countries. The increased specialization of magazines has resulted in a sharp rise in the number of publications.

SEK 40 billion, and the market for other uncoated and coated publication papers is valued at about SEK 60 billion.

Demand for publication papers is dependent on the volume of printed advertising materials and circulation of newspapers, magazines and other printed matter by publishing companies. Competition for advertisers' money has increased between different media (ranging from print, radio and TV to the Internet, direct mail and other media). For publication papers, this is reflected in stronger demands on runnability in printing presses and higher demands on image reproduction. In parallel, an increase has also been noted in the number of new publications in special interest areas such as IT, sports, health and increasing editions of special newspaper supplements.

The market for publication paper is largely regional, with several major suppliers in every region, despite a growing trend toward global ownership, particularly in newsprint production.

The publishing and printing businesses are also characterized by increased consolidation toward large global companies, although these sectors as a whole remain relatively fragmented.

Demand for newsprint was favorable during the year, with a favorable balance of market supply and demand. The millennium shift, which created an increase in productions of feature supplements and new newspapers during the last few months of the year, contributed to stronger demand. Demand for LWC paper and other coated publication papers was weak during the first half of the year, but increased later to reach approximately the same volumes reported in 1998.

Consumption of SC paper in Europe was high during the year, due in part to its replacement of LWC paper in certain

applications, with demand rising 5% compared with the preceding year. Demand for newsprint rose 3%, compared with 1998.

The price of SC paper was unchanged, while average prices for newsprint and LWC paper declined 3%, compared with 1998.

Norske Skog started up a new newsprint machine in France. Lang placed a new machine in operation for production of uncoated magazine paper in Germany, and Palm also started a newsprint machine during the year. Other players also announced new machines; Haindl in Germany is building a large LWC machine, and Perlen plans to build a smaller machine in Switzerland. Both machines are expected to begin production in 2000.

Pulp market conditions grew successively stronger during 1999, due to increased demand and reduced supplies. Asia accounted for the strongest increase in demand based on new paper capacity and strong recovery from the region's financial crisis. Operations were discontinued at several unprofitable pulp mills in the U.S., reducing supplies to the world market.

SCA's strategy and market position

SCA concentrates mainly on customers with high demands, focusing production on high-quality grades of pulp and publication papers. Its business strategy, accordingly, is based on continuous development of products that provide direct added value for the customer. Combined with high productivity and cost efficiency, the business area's goal is to become one of the most profitable suppliers of publication papers in Europe.

Development of new products in cooperation with customers has a high priority. At the Ortvisken paper mill in Sweden, the brightness of GraphoCote LWC paper was increased. During 1999, the proportion of LWC paper with low grammage weight was also increased, resulting in lower distribution costs for the customer. Increased customer demands on better printing surfaces with improved image reproduction have also been met by improvements in the pulping process at Ortvisken.

Many independent customers claim that GraphoGrande, an SC paper grade produced at the Laakirchen paper mill in Austria, offers the best quality on the market, and demand for GraphoGrande has risen continuously during recent years.

In 1999, SCA started deliveries of paper to free newspapers financed by advertising, a rapid-growth sector of the European market.

Working in cooperation with Burda, one of the leading publishing companies in Germany, SCA has developed a customer service system for administrative routines and logistics, spearheading the introduction of a new standard in the paper industry. The web-based solution offers customers new opportunities to download information about orders, inventories and deliveries. Information about delivery notices and quality certificates are also available as e-mail functions.

SCA's paper and pulp plants in Sundsvall, Sweden, gained environmental certification in accordance with the ISO 14001 international standard. The system also meets all requirements of EU directives concerning environmental management, EMAS. To meet wishes expressed by customers, the Ortvisken paper mill was also certified for chain-of-custody in compliance with standards established by the FSC (Forest Stewardship Council).

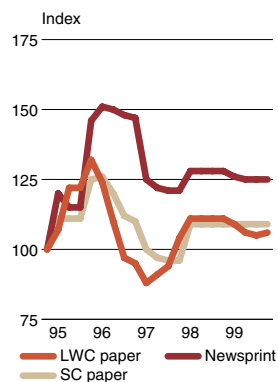
Major efforts were also focused during the year on a program to upgrade operations in order to create improved conditions for increased production and higher profitability.

All of SCA's pulp and publication paper mills reported new production records during the year.



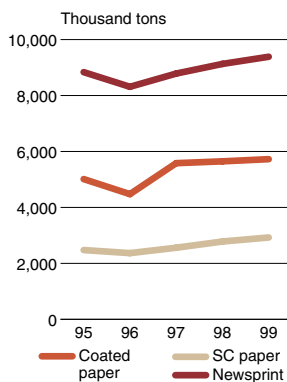
Deliveries of SC paper focused on major gravure printing customers in the magazine and catalog segment. Demand for SCA's SC paper has risen continually in recent years.

Price trend for newsprint, LWC and SC paper



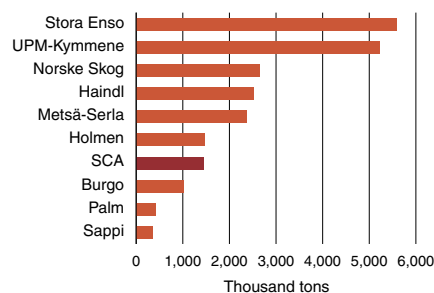
The price for SC paper was unchanged compared with a year earlier, while the average price for newsprint and LWC paper fell 3%. (Index 100 = average 1994 prices)

Demand for publication paper – Europe



Demand for coated publication papers was weak during the first half of 1999 but improved significantly during the second. Demand for SC paper and newsprint was stable and increased toward year-end.

Publication papers Competitors – Europe



SCA is not among the largest players in publication papers, but focuses on product quality, cost-efficient production and efficient logistics.



FOREST AND TIMBER

Operations continued to generate a strong cash flow. The sawmill in Munksund, Sweden was completed during the year. The production and sale of solid wood products certified in accordance with environmental standards of the Forest Stewardship Council (FSC) was initiated.

SCA owns substantial 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 used in the production of paper, packaging and hygiene products.

The sawmills' production is based mainly on timber from SCA's forests.

Market

The market for sawn timber in Western Europe amounts to approximately SEK 90 billion, or 75 million cubic meters, annually. The growth in volume in 1999 amounted to 2%. Major customer groups are wood-processing companies and joinery producers as well as building-product wholesalers and do-it-yourself stores that demand increased adaptation and product specialization.

Competition from such alternative construction and joinery materials as plastics and steel is severe. The percentage of wood used in the construction sector in the Nordic countries and Japan is increasing at the expense of steel and concrete.

Demand for sawn timber was firm in 1999. Prices rose slightly during the second half of the year but Swedish producers benefited from only a small part of the increases, due to the strong Swedish krona. Saw log prices declined during the year. Pulpwood prices were stable.

SCA's strategy and market position

SCA conducts cost-effective forestry operations and is continuously rationalizing its sawmill operations. In recent years SCA has substantially increased its production of so-called Developed Timber, solid wood products that are adapted to customers' specifications. The adaptation may involve kilning, sorting and length dimensioning for the joinery industry. Developed Timber accounted for 32% (28) of total production in 1999.

The Nordic countries and the rest of Western Europe, together with Japan, are SCA's principal markets for solid wood products.

SCA's redwood products are sold mainly to manufacturers of windows, doors, furniture, flooring, and wood panel for in-

terior use. Whitewood sawn timber, comprising such products as gluelam, specialized joists and a range of planed products for both the woodworking industry and private consumers, go primarily to the building sector.

During the autumn SCA became the first company in the industry to begin selling sawn timber products via the Internet via its www.scawoodshop.com website. Here, customers can make their purchases of sawn goods and monitor the status of an order and deliveries directly on the network.

The investment in the sawmill in Munksund, Sweden – one of the most modern in Europe – was completed during the year. The new technology that has been installed makes it possible to produce long series of custom-tailored solid wood products. The other sawmills have undergone continuing rationalization measures, involving reduced production and a focus on specific types of wood, among other changes.

During the year SCA began production of sawn timber by means of the so-called star-cut technique in the jointly owned Nova Wood company. This method, which was developed at the Royal Institute of Technology, produces sawn timber with significantly improved properties, compared with products sawn in the traditional manner.

SCA today has a strong raw-material base, with opportunities for large harvests from its own forests over the long term. Felling in company forests is kept at a high level, but within the framework of future production possibilities and taking into account environmental considerations and biological diversity. In the beginning of the year SCA's forestry operations were certified in accordance with the standards of the Forest Stewardship Council (FSC). Production of FSC-certified sawn timber products, primarily for the market in Great Britain, was begun during the year.

The improvement in efficiency of forestry operations continued during the year, resulting in further cost reductions.

The forest-fuel operations continued to develop well. This business is expanding, while profitability has been maintained, and now comprises processed forest fuel in the form of pellets that are produced in jointly owned plants in northern Sweden.



MODO PAPER

Modo Paper, in which SCA and Holmen each hold a 50% interest, produces office paper and graphic paper.

SCA's and Holmen's units within fine paper and merchanting were merged in the new, jointly owned company, Modo Paper, on 1 October 1999. The new group has an annual production capacity of some 1.8 million tons of paper, and is thus Europe's third largest fine paper company with a market share of almost 15%. Modo Paper concentrates on office paper and graphic paper.

The group includes production units in Sweden, Germany, France and Austria, as well as the paper merchants Modo Paper Trade with business in 22 countries.

Market

The market for fine paper is relatively fragmented, despite several mergers during the 1990s. Recurring problems due to excess supply and low capacity utilization have put pressure on margins in the industry, and further concentration can therefore be expected.

The consumption of fine paper in Western Europe amounted to almost 14 million tons in 1999, of which approximately 7.5 million tons consisted of uncoated paper and 6.5 million tons of coated paper. Consumption is currently growing at a rate of more than 4% per year. The growth rate is fastest within the coated reels and sheet segment and in uncoated (A4) office paper.

Strategy and market position

Modo Paper focuses on a number of strategic products: coated paper in large sheets and on reel, office paper in small format (A4), and uncoated large sheets. Investments within these segments will be made to improve the company's market position.

Exposure to the competitive market for uncoated fine paper on reel will be significantly reduced.

Modo Paper's aim is to make greater use of internally produced pulp in order to enable a higher capacity utilisation at the own pulp mills.

Modo Paper's customers consist primarily of commercial printers, fine paper merchants/distributors, users of office paper and paper converters. The most important markets are Germany, France, Great Britain and Scandinavia.

The extensive merchanting organisation is one of Modo Paper's strengths. The company is the third largest paper merchant in Europe.

Operations in 1999

Modo Paper's net sales for the whole year amounted to SEK 18,880 M, and its operating profit to SEK 902 M, on a pro forma basis.

The market for fine paper in Western Europe improved. Demand for coated fine paper rose by about 10% and for uncoated grades by some 5%. Office paper, one of Modo Paper's main products, is estimated to have increased by almost 6%. Fine paper imports to Western Europe from e.g. Southeast Asia increased to a lesser degree than expected. Prices rose by 10%. Capacity utilization at Modo Paper's mills averaged 92% and capital expenditure amounted to SEK 1,085 M, on a pro forma basis.

Production plants: Alizay, Hallein, Husum, Pont Sainte Maxence, Silverdalen, Stockstadt and Wifsta.

Raw Materials and Logistics

Coordinated purchasing and high demands placed on suppliers yield SEK 1.2 billion in savings during a three-year period.



Raw Materials and Logistics exploits and develops the synergies between the Hygiene Products, Packaging and Forest Products business areas.

Through networks within and between the Group's business areas, the Supply Chain Management concept is applied to optimize the procurement and management of raw materials, services and equipment. Since the actual flow through the entire production process accounts for 30–40% of the total cost of a product, major savings can be realized through this approach. A key element in this process is to cooperate with SCA's suppliers in developing and improving the goods and services that the Group purchases. In addition to reduced costs, this effort results in higher quality products for the customer and positive environmental effects.

Since its inception in 1997, the goal of the SCA Raw Materials and Logistics organization has been to reduce costs by SEK 1.2 billion during a period of three to four years. After three years, this goal has been achieved, with great potential for additional savings.

Raw Materials and Logistics is organized into two operating companies and support functions to carry out supply management within the Group.

SCA Recycling and SCA Transforest

SCA Recycling supplies the Group with recycled fiber through its own collection operations and via direct purchases on the market. As a supplier of recycled fiber to the Group's operations, SCA Recycling recycles a very broad range of recovered paper for production of hygiene products, packaging and publication paper.

The company is represented in eight European countries. In 1999, it handled 3.0 million tons of paper for recycling, corresponding to 9% of the European recovered-paper market. SCA Recycling plays an important role in the Group's closed-loop philosophy, a cornerstone of the SCA business concept and the marketing of its products.

SCA Transforest is responsible for handling the Group's land and sea transports between Scandinavia and the rest of Europe. Coordination of transport requirements have reduced costs considerably while improving punctuality and service. These measures have also succeeded in reducing the environmental impact of the transports.

Supply Management

The purchase of goods, services and equipment through SCA's approach to Supply Chain Management has reduced costs by about SEK 600 M during the past two years.

A total of 500 persons, particularly personnel within technology, research and development, have undergone special training to learn how to improve cooperation with suppliers.

Personnel then cooperate within a network with the purchasing managers in the SCA Group to ensure a more professional and coordinated interaction with the suppliers.

Based on SCA's criteria, only those suppliers that can contribute to reduced costs and continuous improvement of the raw materials will be retained in the future.

Energy

SCA is a major purchaser of energy in the European market, consuming 15 TWh annually. This 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 produces enough energy of its own to meet 50% of its total requirement.

The renegotiation of the contracts for the supply of electricity to SCA's large production units that was carried out on the deregulated European electricity market resulted in substantial savings. Deregulation in the British gas market also contributed.

The entire European gas market will probably be deregulated during 2000.

In total, energy costs have been reduced by slightly more than SEK 400 M during the past three years.

Supply Chain - Logistics

Work to improve logistics within the Group's Supply Chain Management activities has reduced costs by SEK 180 M during a three-year period. Corresponding training efforts and network building is carried out continuously. SCA's annual shipments of 15 million tons of products are mainly by sea.

SCA's degree of self-sufficiency 1999

Total wood consumption	Felling own forest	Degree of self-sufficiency	Total recycled fiber consumption	Own collection	Degree of self-sufficiency
7.11 million m ³	4.0 million m ³	56%	3.0 million tons ³	2.4 million tons ³	80% ³
Of which Sweden ² :					
5.8 million m ³	4.0 million m ³	69%			

¹ Fine paper operations excluded for 1999.

² Net consumption, less own sawmill chips.

³ Incl. Aylesford.

Integration of chemical pulp and liner products

Chemical pulp (excl. fine paper), tons 000s	1999		2000 ¹		
	1999	2000 ¹	1999	2000 ¹	
Capacity	670	670	Capacity	2,320	2,520
Consumption	925 ²	1,120 ²	Consumption	1,993	2,125
Net exposure	-255	-450	Net exposure	327	395

¹ Forecast.

² Excluding 50,000 tons special paper.

The tables illustrate the Group's raw material balance. The fine paper operations are excluded from the figures reported. As shown, the Group's net requirement for chemical pulp increases from about 250,000 tons to about 450,000 tons as a result of the rapid expansion of hygiene operations. The net surplus of liner products rises by about 70,000 tons.

Information Technology – IT

IT – AN INTEGRATED PART OF SCA’S DAILY OPERATIONS

SCA uses information technology to a great extent in all parts of its business. Comprehensive IT systems are used throughout the chain, from the development phase of a product to delivery of the finished product to the customer. CAD/CAM systems are often employed in the product development phase to achieve the best conceivable design of a product, based on customers’ wishes, environmental requirements and what is possible in terms of production technology and economically. They may also be applied to product tests in one of SCA’s laboratories.

The supervision and control of processes in the production phase requires many data processing systems. SCA’s modern paper machines have more data-processing power than a modern large passenger aircraft.

SCA’s daily relations with customers are increasingly IT-based. For example, SCA has introduced administrative data systems that monitor inventory levels and the consumption of SCA’s hygiene products in some nursing homes. As a result, the staff has more time to care for patients. Another example is an electronic marketplace for sawn timber where customers can make their purchases and follow the trend of the inventory and shipments directly via the network. The address is www.scawoodshop.com. A comparable system has been developed for graphic papers.

The Internet has also become an increasingly important channel of communications with customers and other target groups. SCA today has many websites for various sectors of its business. Some of them are:

- www.tena.com – a website that offers advice pertaining to incontinence problems and information on SCA’s range of products.
- www.libresse.com – where girls can ask questions about both feminine hygiene and boys.

- www.transforest.sca.se – an up-to-date newsletter from SCA Transforest, the Group’s transport company.
- www.scatork.com – product information and other information for hotels, restaurants and catering services, industrial and commercial companies, institutions and other large buyers of tissue products.

Basic information on SCA’s operations, with links to several business units, is provided on the Group’s corporate home page. Financial information is also offered here via a comprehensive investor relations service for shareholders and other sectors of the capital market. In 1999 SCA’s home page – www.sca.se – had approximately 240,000 visits, more than double the number in 1998.

Finally, external communications with other interests is to a high degree IT-based, as is the internal communications between SCA’s employees in approximately 40 countries.

IT security

The comprehensive use of information technology in all parts of SCA’s operations imposes high demands for IT security within the Group. The use of e-business and the Internet in relationships with customers imposes unusually high security requirements. SCA has a Groupwide security policy that takes into account all necessary aspects. In line with this policy, a large number of units are checked every year.

The year 2000

As a result of the comprehensive action program that was implemented prior to the new millennium, the changeover to the year 2000 did not result in any problems in production or in SCA’s other systems.



Research and development

SCA's research is focused on increasing the Group's competitiveness by offering customers added value in ever-better products, by increasing the efficient use of materials and energy in production, and by minimizing the environmental impact of Group products.

Customer-oriented research...

SCA continuously develops new and better products based on customers' demands and needs. This work is keyed to customers' wishes and demands at various stages of consumption: in connection with purchasing, use of the products, and following their use. Such factors as visible impression, "feel," function, handling and confidence in a product from an environmental and quality perspective have to be taken into account. Laboratory tests are an important part of the development work, but it is even more important to attempt to determine the benefit perceived by customers. SCA therefore works with prototypes that are tested in small so-called focus groups consisting of representative selections of customers. Use of the focus groups enables SCA to know what customers think of a product, as well as to gain knowledge with respect to differences in customer behavior patterns in different geographical markets. Large-scale market research is also conducted before a product is launched. In this phase of development work it is more a matter of confirming earlier findings, and SCA carries out hundreds of studies of this type every year.

...with an eye on the future

The competitiveness of the SCA Group depends on its ability to identify future customer demands and follow trends and life styles. There also have to be links between research, product development and production. In this area, SCA's research center in Sundsvall, Sweden, has been strengthened through the new research laboratory being located directly adjacent to the Mid-Sweden College. SCA is also cooperating with other companies in future-oriented development work. A number of attractive products have been identified in analyses of various scenarios for the future. What are involved here, among other things, are products adapted for the rapidly growing business via the Internet and for one of the most important markets of the future: the home.

SCA has expanded rapidly for a number of years and the Group has grown through acquisitions throughout the world. Several years ago, to utilize the collective expertise in the R&D organization in an optimal way, SCA formed a Groupwide R&D organization. Its task is to serve as a catalyst in the R&D program and to work closely with the Group's different business areas on projects from basic analysis to finished product. Creation of common platforms for customer- and market-controlled R&D programs (Customer Engineering) is an important part of the R&D group's work. Technology, marketing communications and production must work together if SCA is

to meet customers' needs in the best possible manner. The R&D group is also involved in the transfer of knowledge and experience between different business areas and between different functions within SCA, as well as in bridging and reducing the distance between research and the consumer. This is also largely a matter of conducting future-oriented analysis of the business environment and the market. It means following trends and technical developments and studying scenarios of the future in terms of both current operations and new business opportunities.

Patents

SCA applies for between 60 and 80 patents on new products or production processes every year. In addition, a number of new product innovations are also launched. By far the largest percentage of the patents pertain to the production process, but the number of hygiene-product patents is increasing, for example.

Number of patent applications

1995	1996	1997	1998	1999
67	66	75	77	60

New products

In the Hygiene Products business area the rate of innovation in fluff products has long been high. Now the number of new tissue products is also increasing rapidly as these products are being developed from common bulk goods to fast-moving consumer items. How the customer perceives the product and "feel" factors that cannot be measured but which must be observed in the R&D work is thereby becoming increasingly important. This trend also means that marketing programs in the tissue sector will increase.

The Hygiene Products business area's largest introduction in 1999 involved a new household paper with increased strength and greater absorption capacity. The enhanced product features – including the fact that the paper lints less – is also creating new areas of application. The new product is manufactured using the TAD technique that yields a fuller, softer paper with a more pleasant "feel" and a more attractive appearance. There is a distinct trend in which the "feel" experience is becoming increasingly important in the choice of tissue products.

The string panty liner is another example of a new product in the Hygiene Products business area. This is an example of a product that fills a need and which was developed in direct



Production and sales of household towels based on TAD technology was started during the year on SCA's new machine in Mannheim. TAD technology involves blowing hot air into the tissue to improve its properties. Among other improvements, it lints less than conventionally produced paper. As a result, the towels are suitable for window cleaning.

response to customers' wishes. With this product SCA is also capturing the important target group of teen-age girls at an early stage.

During the year a new panty diaper was introduced in the incontinence products field.

The Packaging business area adapts virtually every type of packaging to meet customers' requirements. Among other tools, a proprietary IT-based sales-and-design program, called Midas, provides a sophisticated method for designing and presenting customized packaging solutions.

In the production of containerboard, development efforts focused mainly on improving such quality properties as strength, appearance and printability. At SCA's Obbola paper mill in Sweden, the rebuild of a liner machine has facilitated production of a lighter weight paper with unchanged strength and resulted in more cost-efficient production.

Following several years of development work, SCA launched GraphoCote, a new, brighter LWC paper, in response

to market demand. Development was carried out in close cooperation between the research and production units and involved a number of pilot tests and full-scale trials. The new paper enhances color reproduction and provides for improved photo contrast. GraphoCote is fully in-line with SCA's focus on high-quality printing paper and is aimed primarily toward customers that publish magazines on high-quality paper.

Within the Developed Timber concept, the forestry operations are working on specifically adapting sawn timber to customer specifications and final applications. In cooperation with external partners in the Nova Wood company, SCA started wood product manufacturing during the year using a new, so-called star-cut technology. This new technique, developed at the Royal Institute of Technology in Stockholm, produces crack-free products that are stable in shape and are harder and more durable than normal cut timber. As a result, entirely new possibilities are created for painting and surface treatment and other industrial processing of wood.

Human resources

VALUE-BUILDING PERSONNEL STRATEGIES

Highly educated and committed employees are the key to success.

SCA's personnel policy is integrated in the Group's overall value-creation strategy. The primary aim is to meet the need for greater know-how, expertise and involvement on the part of all employees. Strategic planning in the human resources sphere will shape the labor force of the future, develop employee skills and meet the challenges facing the company when a new generation takes over. Other significant factors in this process include achieving a better understanding of SCA's financial objectives, and greater awareness of how the individual employee can contribute to value creation in the Group. Financial incentives will result in greater motivation, participation and involvement.

RECRUITMENT AND SKILLS

Skills development and recruitment are determined by the Group's strategic direction changes and the age structure as well as by changes in the company's business environment – particularly the rapid technical progress and developments in the IT sector.

A long-term strategy is required to raise the level of skills and expertise. Successful companies have proven that there is a direct correlation between education level and the quality of outputs in the form of productivity, efficiency and profitability. SCA works conscientiously with increasing the education level in pace with new recruiting. A high school education is currently a normal requirement for employment and the percentage of college-educated Group employees, currently about 9%, is growing steadily. Better-educated personnel is one of the key factors for the Group's continued progress.

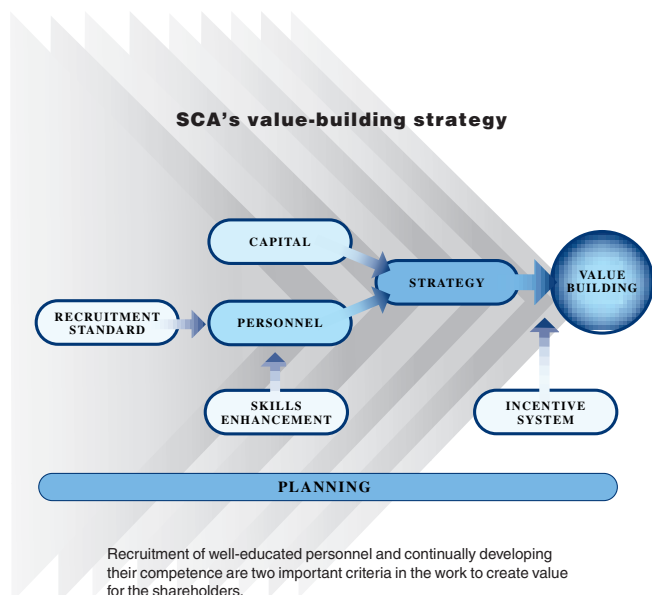
Active and close cooperation with universities and colleges is a key feature of the recruitment process. SCA has decentralized responsibility for these contacts. Each business group is responsible for the contacts with a number of universities and similar institutions and for upholding the interests of the entire Group.

SCA's globalization process is extending the recruitment base. The company explicitly aims to attract the most expert personnel, irrespective of nationality. Accordingly, most open positions within SCA are advertised on SCA's intranet and its website, www.sca.se.

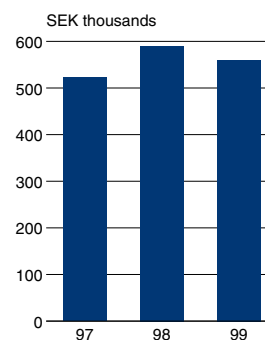
SCA's business areas conduct trainee programs to develop the skills of young employees. About 100 trainees are currently participating in various programs within the organization, gaining a broader understanding and greater experience of their current and future assignments at SCA.

New times – new requirements

In all, SCA invested more than SEK 150 M, corresponding to about SEK 4,400 per employee, during 1999 in further training and other measures to improve skills and expertise. Skills development within the Group is largely driven by increasing customer demands and the rapid pace of technological development. The impact of computer technology in the production process is substantial, even in areas in which it might not have been anticipated in the past. All forestry workers now use computers in one form or another, for example, and the Group's intranet is widely used. There are now some 15,000 individual e-mail addresses in the system, corresponding to almost half the total number of employees.



Value added per employee



Value added is a better measurement of the company's own operations than sales. The decline in value added in 1999 is due to a number of acquisitions in which the synergy effects have not yet attained full impact.



Training represents a significant proportion of total investment, as a result of the increasing sophistication of production processes. When the Ortvisken paper mill in Sweden installed a new machine for LWC paper in 1995, the total training cost was SEK 30 M, which corresponds to SEK 300,000 for each employee concerned, and 2% of the total investment cost. When the new diaper technology was introduced at Falkenberg in Sweden in 1997, the training amounted to SEK 3.6 M, representing 1.4% of the investment cost. The new TAD technology tissue machine at Mannheim in Germany called for a training program which cost SEK 10 M, corresponding to 1% of the investment cost. SCA also strives to achieve extensive flexibility in its production processes through personnel becoming multi-skilled and therefore able to master more functions.

In pace with SCA becoming an increasingly international company, there is a growing need for language training. SCA offers a broad selection of alternatives, from intensive courses to home-study courses. SCA also encourages its current employees to participate in external training programs.

Tomorrow's company

One of the key tools for ensuring continued successful development of the SCA Group is a well-conceived and goal-oriented leadership development program. A successful company must be managed by people who develop in pace with the company – and who are permanently forward looking.

To achieve its objectives, SCA needs to create an environment that stimulates an increase and a broadening of know-how at all levels of the organization as well as promoting mobility. This will provide a broader spectrum of attractive job and career opportunities in the Group. In the best manner, SCA wants to capitalize on the potential that exists among the Group's employees while the benefits are reflected in a smooth transfer of knowledge and greater possibilities to retain increasingly valuable personnel resources. Accordingly, SCA is exploring possibilities to provide a broader range of expertise through participants transferring between various business groups and different countries. The purpose is to prepare today's employees and managers for the challenges of tomorrow's company.

GREATER COMMITMENT THROUGH BETTER UNDERSTANDING

SCA employees create the conditions for the Group's value growth. All employees need to understand the Group's financial objectives fully if the company is to develop successfully.

Simulation model

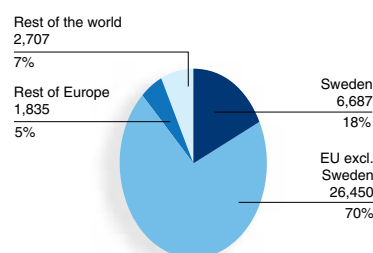
If individual employees are to participate in achieving SCA's financial objectives in an appropriate manner, it is essential that they clearly understand the impact of individual efforts and specific operations on the Group's overall profitability. As a result, SCA has developed a simulation model in the form of a business game, demonstrating in a simple, educational and tangible manner how events and decisions at the individual level affect the Group.

The model was tested and evaluated by various groups during 1999 – including Swedish trade union representatives – following considerable efforts devoted to the development of versions in various languages. In principle, the aim is that it should be possible to use the model throughout SCA's organization.

New incentive scheme

A new incentive system was introduced in 1999. This system is based on the Group's internal cash flow objectives and the development of the effective return on the SCA share in relation to comparable companies. Initially, some 60 senior executives at Group and business area levels are involved, but during the year an additional 130 employees were covered by the scheme. A specially appointed group in which all the business areas are represented is preparing for extension of the scheme to other parts of the organization. It will gradually replace the current incentive system and it is expected that two to three years will be required before the principles of the new incentive scheme will be implemented throughout the Group. The new value-based incentive system is flexible and can be formulated in various ways for different types of operations, depending on the relevant measurement factors. The basic principles are identical, however (see Note 26).

Employees by region 1999



Average number of employees totaled 37,679. The percentage of employees outside Sweden was 82%.

Environment

GROWTH WITH ENVIRONMENTAL CONSIDERATION

Efficient production processes and minimum environmental impact are guiding principles in SCA's environmental work.

SCA's products comprise up to 95% renewable materials. SCA is also developing new methods for attaining the best possible performance in the finished product while using smaller amounts of raw materials. The production of products results in emissions and consumes energy. For SCA, it is important to reduce emissions of substances that could affect the environment and to ensure that energy is used as efficiently as possible.

Environmental work within the Group is managed and coordinated by an Environmental Council comprising representatives of the highest management level within the Group and its business areas.

The Dow Jones Sustainability Group Index is the result of a global survey that ranks 3,000 companies in 33 countries in terms of sustainable development. The survey focuses on the companies' ability to combine financial growth with a successful environmental program and a strong sense of responsibility regarding social issues related to the company's operations. SCA, together with seven other Swedish companies and some 200 non-Swedish companies, was selected as one of the leading companies.

SCA's products

Renewable materials such as wood, wood fiber and recycled fiber comprise 95% of SCA's products. A relatively small portion of the company's products consists of oil-based and inorganic materials.

SCA conducts extensive research aimed at reducing the amount of raw materials used in production while simultaneously improving product performance. An example is provided by the company's corrugated-board packagings, which now have improved properties in terms of strength despite consuming smaller quantities of raw materials in production.

SCA assesses its products' environmental impact from a total perspective, using life-cycle assessments. These assessments

affect the choice of raw materials, production processes and methods of transportation. In addition, they provide knowledge about the most advantageous choices, from an environmental viewpoint, regarding the use and final disposal of the products.

Environmental investments and future costs

Each year, SCA makes substantial investments to protect the environment, improve energy efficiency and comply with legislation. During the past five years, SCA has invested a total of SEK 2.2 billion for this purpose. Examples of this type of investment are SEK 400 M in a new bleach plant in Östrand, Sweden, and SEK 50 M for a new biological wastewater treatment plant at the Obbola Mill in Sweden.

An inventory of the Group's production plants to investigate the possible need for clean-up measures did not reveal any reason to plan for more than limited costs in the future.

Certification

SCA's environmental work is one of the fundamental criteria that persuade customers to choose the Group's products, and is thus crucial for competitiveness.

SCA has environmentally certified all its forestry operations in accordance with ISO 14001 (the international standard for environmental management systems) and its management of its own forest holdings in accordance with Forest Stewardship Council (FSC) criteria. A considerable portion of production processes are certified in accordance with ISO 14001 or registered in accordance with EMAS (the European Union's eco-management and environmental audit scheme). Within the Group, 23 plants are certified in accordance with ISO 14001 and/or EMAS registered. SCA aims to certify all its pulp and paper mills before the end of 2000.

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 strategy

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

Forestry and nature conservation

SCA owns 2.3 million hectares of land, of which 1.8 million hectares are used for timber production. The forests have developed favorably and both the total inventory of standing timber and the sustainable long-term harvesting level continue to increase.

SCA's forestry operations are aimed at a sustainable high level of timber production and the preservation of biological diversity. SCA applies the approach known as ecological landscape planning to large continuous areas of land in order to preserve biological diversity. Inventories of the forest lands are supplemented by surveys of areas of high nature value, which are either entirely excluded from forestry operations or managed using specially adapted methods. In the remainder of the forest areas, SCA applies forest management methods incorporating extensive nature-conservation measures. SCA invests SEK 75-80 M in nature conservation measures each year within its forestry operations.

Transport

The raw materials that are transported to SCA's production plants each year are transported over relatively short distances. The finished products that are delivered to SCA's customers are often shipped over longer distances. The major portion of SCA's transportation is procured from external suppliers.

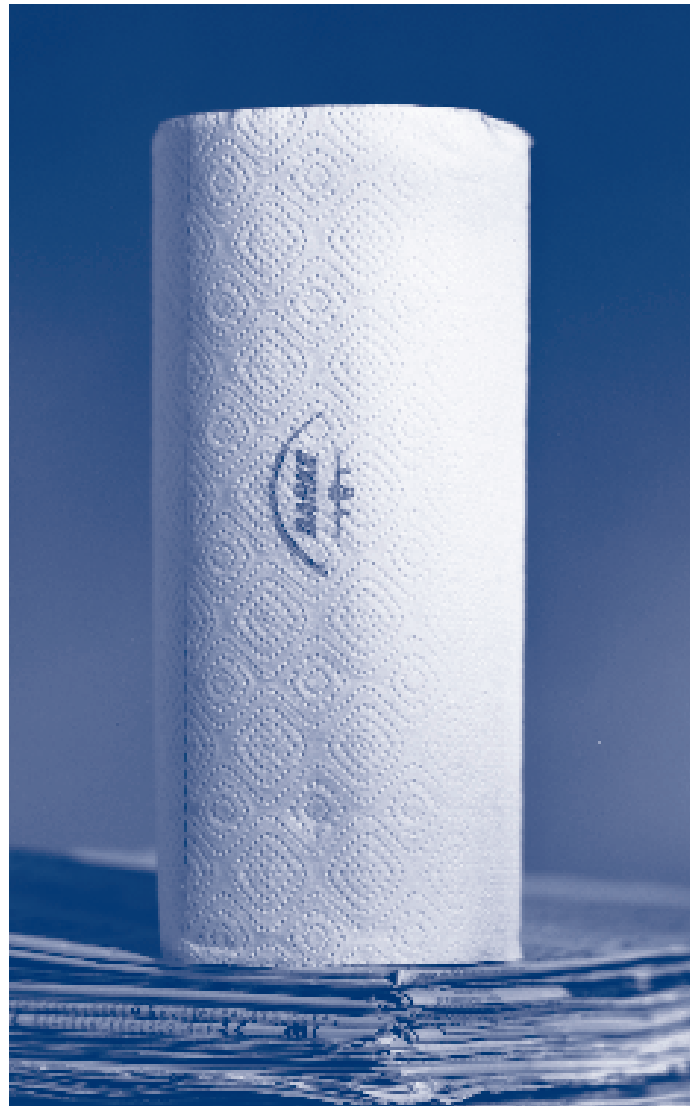
About 70% of SCA's total transport operations are carried out using ships, 23% using trucks and 7% using rail transport.

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. A start has also been made on the installation of catalytic converters for cleaning exhaust emissions on the Group's fleet of vessels.

Energy

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

SCA prioritizes the use of renewable energy in the form of biofuels and the efficient production of electrical power and piped natural gas. This reduces the amounts of oil and coal transported and used, which in turn reduces the environmental impact. The combined power and heat generation capacity is highly developed at SCA's pulp and paper mills. A review is currently being conducted of the further development potential of efficient co-generation power and the possibilities for increasing the combustion capacity of biofuel.



Danke brand household towels, which are sold in Germany, are produced from 100% recovered paper. All of SCA's tissue products in the Nordic consumer market carry the Swan environmental label.

More information about SCA's environmental work can be found in the Group's Environmental Report for 1999, which can be ordered by e-mail: enviro@graphic.sca.se, or by fax +43-7613 8800 208, or read on SCA's homepage: www.sca.se

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 changes in foreign exchange rates and interest rate levels, refinancing and counterparty risks.

ORGANIZATION AND ACTIVITIES

SCA's financial activities are centralized to capitalize on economies of scale and synergy effects in the financial sector. Financial activities are coordinated within the treasury organization, which comprises the wholly owned subsidiaries AB SCA Finans and SCA Coordination Center N.V. These companies handle external financial transactions and function as the Group's in-house banks for financial transactions in foreign currency, interest 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 7,643 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 1999, flows representing a maximum of 10.3 months and a minimum of 4.0 months were hedged against SEK. At year-end 1999, flows representing 7.0 months were hedged, corresponding to a volume of SEK 4,459 M.

Currency	Transaction flows SEK M	Capital employed SEK M	Net debt SEK M
EUR	2,851	22,808	9,153
GBP	1,699	10,662	6,020
DKK	745	2,153	2,194
USD	837	1,990	812
Other	1,511	1,718	1,485
SEK	-7,643	19,462	4,409
Total	0	58,793	24,073

Foreign assets

Capital employed in foreign currencies at 31 December 1999 amounted to SEK 39,331 M. The distribution between different currencies is shown in the table below.

In accordance with SCA's policy for financing of foreign assets, capital employed is matched by borrowings and forward contracts so that the booked debt/equity ratio is unaffected by foreign exchange rate fluctuations. In combination with this policy, SCA strives to optimize capital structure based on the tax situation the Group has in each country, which means that a higher debt/equity ratio was selected in certain countries. Overall, this means that, at the current currency distribution and debt/equity ratio, about 50% of the foreign capital employed must be matched.

On 31 December 1999, foreign assets were matched by loans in foreign currencies corresponding to SEK 19,663 M, equivalent to a matching ratio of 51%.

Certain countries in which SCA has investments are characterized by high inflation or other economic instability (see Accounting principles, page 53). Capital employed in such countries at year-end 1999 amounted to SEK 2,472 M, corresponding to 4% 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. With the exception of SEK, SCA maintains a balance between revenues and expenses in all major currencies.

SCA Group earnings are also affected indirectly by foreign exchange rate trends for USD, CAD and EUR, since forest industry companies in North America and Finland are major exporters.

Region	Capital employed SEK M	%
Western Europe	55,320	94
North America	866	2
Total	56,186	96
Central Europe + Russia	954	2
Asia	496	1
South America	862	1
Others	295	0
Total	2,607	4
Total capital employed	58,793	100

	Net sales %	Operating expenses %
EUR	52	49
GBP	19	17
SEK	11	21
USD	6	5
DKK	4	3
NOK	2	1
Other	6	4
Total	100	100

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 term.

Management of the Group's interest-rate exposure is a centralized function, whereby the central treasury organization is responsible for identifying and managing this exposure. During 1999, the average fixed-interest term was approximately 5 months. At year-end the fixed interest term was 3.7 months.

REFINANCING RISKS AND LIQUIDITY

At 31 December 1999, gross debt amounted to SEK 28,881 M. After the addition of pension liabilities of SEK 1,029 M and deduction for liquid funds, interest-bearing receivables and capital investment shares, net debt was SEK 24,073 M.

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

SCA applies a centralized approach to management of Group financing, which means that the treasury organization 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 amounted to 3.2 years. Liquid funds and unutilized committed credit facilities amounted to SEK 8,879 M at year-end, which corresponded to 14% of Group sales in 1999.

The issue volume in the European bond market rose sharply during 1999. However, SCA was able to achieve more favorable price terms in the bank market. SCA's medium-term refinancing needs were met in 1999 through a seven-year syndicated credit facility of EUR 700 M (SEK 5,982 M). During the year, short-term borrowing possibilities were extended by in-

creasing the borrowing framework for SCA's Swedish commercial paper program from SEK 8,000 M to SEK 10,000 M. Establishment of the common European currency facilitated issues direct in euro under the Belgian commercial paper program established initially in 1997. The program was increased during the year from BEF 5,000 M (SEK 1,059 M) to EUR 400 M (SEK 3,419 M).

The Polish commercial paper program arranged in 1998 to finance working capital in SCA's Polish operations was increased from PLN 100 M (SEK 205 M) to PLN 200 M (SEK 410 M).

During 1999, SCA established a comprehensive cash-pool structure for managing the euro currency. The structure facilitates an efficient cash management while float periods and transaction costs are minimized.

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 that reflect the risk of increased exposure to foreign currency and interest-rate fluctuations.

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

At 31 December 1999, credit exposure in derivative instruments amounted to SEK 2,245 M.

RISK MANAGEMENT AND INSURANCE

SCA's Risk Management function (RM) is responsible for the Group's insurable risks. 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 restricted as a result of continuous improvements in the level of loss protection.

Redemption structure for interest-bearing debt

Year	SEK M
2000	5,270
2001	3,864
2002	6,474
2003	6,050
2004	2,407
2005–	4,816
Total	28,881

The average maturity period at year-end was 3.2 years.

Board of Directors' report*

CHANGE IN SCA GROUP STRUCTURE

In conjunction with the fine paper and merchanting operations being merged with Holmen's corresponding operations into the new company Modo Paper AB (owned equally by SCA and Holmen), the Graphic Paper business areas was streamlined to publication papers, that is, newsprint, SC and LWC paper.

In order to utilize the major shared knowledge and to further develop the industrial connection between the forest and sawmill operations and the pulp production and graphic operations, these two business areas were combined into a new business area, Forest Products. Consequently, SCA comprises three distinct business areas: Hygiene Products, Packaging and Forest Products.

CAPITAL EXPENDITURES AND ACQUISITIONS

Current capital expenditures of SEK 2,046 M and strategic capital expenditures amounting to SEK 2,615 M were made during the year. Hygiene Products accounted for SEK 1,997 M, Packaging for SEK 412 M and Forest Products for SEK 206 M of strategic capital expenditures.

Projects within Hygiene Products included new tissue capacity in Mannheim where investments for expansion during the year amount to about SEK 800 M, of which SEK 500 M was for the new TAD machine. Restructuring projects involving the corrugated board operations in Germany and England are under way in Packaging. In the Forest Products business area, the new sawmill in Munksund was completed.

SCA's acquisitions during 1999 are presented below in the business area sections. In total, acquisitions in 1999 amounted to SEK 10,400 M. Major acquisitions are specified below.

Hygiene Products

The Hygiene Products business area acquired the British tissue company AM Paper Group Ltd in August 1999 for about SEK 2,550 M on a debt-free basis. The company has about 600 employees. The acquisition was consolidated in the Group from September 1999.

In summer and autumn 1999, 19.3% of the shares in Finnish Metsä Tissue was acquired for about SEK 600 M.

Packaging

In the beginning of 1999, Rexam Plc's corrugated board operations were acquired. The purchase price was about SEK 2,600 M. The operations have sales of about SEK 2,600 M.

Denmark's third largest packaging company, Danapak Papemballage, was acquired in January 1999 for SEK 636 M. The company has annual sales of about SEK 650 M. Both Rexam and Danapak are consolidated from the beginning of the year.

The French packaging company Nicollet, with annual sales of slightly more than SEK 1,000 M and 840 employees, was acquired in August for SEK 1,035 M. Nicollet is consolidated in the Group from 1 August 1999.

The Danish packaging company Danisco Pack was acquired in November for SEK 1,785 M. Danisco has annual sales of SEK 1,900 M, with 1,260 employees. Danisco's units in Great Britain were not included in the purchase. The company is included in the Group from the fourth quarter of 1999.

Forest Products

The remaining shares outstanding in Laakirchen AG were acquired in 1999 for SEK 469 M.

DIVESTMENTS

During 1999, SCA and Holmen merged their operations with fine paper and merchanting to a new jointly owned company, Modo Paper AB. The capital employed in the units within SCA that were transferred amounted at 30 September 1999 to SEK 6.2 billion. SCA's net debt declined by SEK 2.9 billion. No earnings effects arose in SCA in conjunction with the transfer. As of 1 October, Modo Paper is treated as an associated company and is reported as a share in earnings. The book value of SCA's shareholding in the newly formed company amounted to SEK 3.4 billion at 31 December 1999.

RESTRUCTURING

In conjunction with the integration between the former SCA Mölnlycke and the acquired tissue and fluff operations within PWA, the so-called network project was launched. It was aimed at optimizing the total production systems within the hygiene operations. In all significant respects the network project is based on the goal that the production of each separate product category shall be carried out at as few plants as possible in order to increase productivity.

Implementation of the network project extends through 2000. The assessment is that the network project should result in annual cost-savings of about SEK 700 M, with full effect from and including 2001. In principle, the project costs, excluding investments, are covered by existing restructuring provisions.

PENSION LIABILITIES

Effective in 1999, SCA calculates 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 future salary increases and inflation. SCA has completed a full review of all pension schemes in the Group.

* 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).

SCA also formed, effective in 1999, a pension foundation whose main purpose is to secure the retirement pensions of Swedish salaried employees in accordance with the ITP plan. Payment to this foundation, about SEK 1.1 billion, was made at the end of December 1999.

PREPARATIONS FOR INTRODUCTION OF THE EURO

SCA is affected by the introduction of the euro since a relatively large percentage of its business is conducted within the EMU area. Some 52% of SCA's sales take place within the EMU area, 19% in Great Britain and 9% in Sweden and the Group capital employed is distributed as follows: 39% in the EMU, 33% in Sweden and 18% in Great Britain.

During 1999, SCA's subsidiaries in the EMU initiated the change over to the euro as the reporting currency.

Use of the euro as an invoicing currency within the EMU area has been limited to date for SCA. However, the euro is used as an invoicing currency internally within the SCA Group.

SCA's employees in the EMU received their wages and salaries paid in local currencies. However, the net amount is shown in euro on the payroll statement.

All IT systems affected by the switch to euro were reviewed and can handle the euro as a transaction currency.

In preparation for the changeover to the euro, the consolidated statement of earnings and the balance sheets for 1999, 1998 and 1997 have been translated to euro and ECU. In translations, the year-end rate of 8.55 (9.47; 8.70) was used in the balance sheet and the average rate of 8.80 (8.93; 8.62) in the statement of earnings and cash flow statement.

ENVIRONMENTAL IMPACT

SCA conducts operations in eleven licensed facilities and nine required to submit reports in accordance with the environmental code in Swedish legislation. These licensed and reportable operations account for 18% of the company's net sales.

Seven licenses cover production of pulp and paper. These operations affect the environment through discharges to the air and waterways, solid waste and noise. Four licenses cover production of sawn timber products. These operations impact on the environment through noise and discharges into the air and waterways.

The operations required to submit reports pertain to production of corrugated boxes (three plants), EPS packaging (three plants), fiber packaging (one plant), display packaging (one plant) and fluff products (one plant).

Production of corrugated boxes, EPS packaging, fiber packaging and display packaging affects the external environment through discharges into the air and waterways and solid waste.

Production of fluff products affects the external environment through solid waste.

OTHER

The tax authority in Göteborg decided in 1998 not to permit SCA to deduct for a capital loss incurred in 1996 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, supported by external tax expertise, the decision of the tax authority has no legal grounds and it was appealed. Against this background, SCA is not making any provision for the tax authority's claim in the 1999 accounts.

In 1995, the EC Commission started a cartel investigation at several European producers of publication papers. In March 1999 the Commission completed a Statement of Objections that was issued to the companies considered to have breached prevailing competition rules. All of the objections relate to alleged improprieties in the newsprint area. The Statement of Objections covers a total of ten alleged breaches of the EU's competition rules. SCA is affected by five of these. Based on current information, the Commission's ruling is expected in spring 2000, at the earliest. Considering SCA's assessment of the Group's position regarding liability and the uncertainty prevailing regarding the result of any court case of this type, it is not considered that there is sufficient cause for any provisions being made with regard to the Commission's future ruling.

To ensure a continued high pace in the growth process within Hygiene Products and Packaging, SCA's Extraordinary General Meeting in September resolved to implement a new issue. The issue was one the largest to date on the OM Stockholm Exchange. The subscription period for the new issue expired on 22 October 1999. The new issue generated proceeds of SEK 4.6 billion.

At the end of December, 1.9 million shares in AB Industrivärden were sold to two Swedish funds to secure the pensions of SCA employees. The sale resulted in a capital gain of SEK 170 M. This amount has been set aside pending clarification of the financial reporting rules for Swedish pension funds in accordance with IAS.

DIVIDEND

Payment of a dividend of SEK 6.80 (6.14; 5.43) per share to the shareholders, amounting to a total of SEK 1,566 M, is proposed. The average dividend growth during the most recent five-year period, including the dividend proposed for 1999, has amounted to 14% per year.

See also Proposed disposition of earnings on page 68.

Cash flow statement

CONSOLIDATED

	1999		1998		1997	
	SEK M	EUR M ¹	SEK M	ECU M ¹	SEK M	ECU M ¹
OPERATIONS						
Net sales	64,896	7,371	61,273	6,858	58,595	6,794
Operating expenses	-53,900	-6,122	-50,953	-5,703	-49,251	-5,710
Operating surplus	10,996	1,249	10,320	1,155	9,344	1,084
Adjustment for significant non-cash items	105	12	-360	-40	118	14
Operating cash surplus	11,101	1,261	9,960	1,115	9,462	1,098
Changes in						
– Current receivables	-1,145	-130	-596	-67	-535	-62
– Inventories	-323	-37	5	1	-125	-15
– Operating liabilities	1,242	141	-341	-38	127	15
Change in working capital	-226	-26	-932	-104	-533	-62
Current capital expenditures, net	-2,046	-232	-2,058	-230	-2,207	-256
Other operating cash flow changes	-122	-14	-291	-33	-91	-10
OPERATING CASH FLOW	8,707	989	6,679	748	6,631	770
Financial items	-1,212	-138	-1,259	-141	-1,111	-129
Income taxes paid	-951	-108	-1,279	-143	-731	-85
Other	196	22	-266	-30	61	7
CASH FLOW FROM CURRENT OPERATIONS	6,740	765	3,875	434	4,850	563
STRATEGIC INVESTMENTS AND DIVESTMENTS						
Restructuring expenses	-370	-42	–	–	–	–
Plants	-2,615	-297	-2,248	-252	-983	-114
Company acquisitions	-10,400	-1,181	-2,793	-313	-3,431	-398
Total strategic investments	-13,385	-1,520	-5,041	-565	-4,414	-512
Divestments	2,885	328	1,511	169	46	5
Cash flow from strategic investments and divestments	-10,500	-1,192	-3,530	-396	-4,368	-507
CASH FLOW BEFORE DIVIDEND AND NEW ISSUE	-3,760	-427	345	38	482	56
New issue	4,579	520	–	–	–	–
Dividend to shareholders	-1,304	-148	-1,145	-128	-1,092	-127
NET CASH FLOW*	-485	-55	-800	-90	-610	-71
* Supplementary information in accordance with recommendation of the Swedish Financial Accounting Standards Council on reporting cash flow (RR7):						
Net cash flow	-485	-55	-800	-90	-610	-71
Change in debt	247	28	1,097	123	846	98
Change in cash and bank balances	-238	-27	297	33	236	27
Cash and bank balances at beginning of period	1,819	192	1,582	182	1,393	163
Change in cash and bank balances	-238	-27	297	33	236	27
Currency effect on cash and bank balances	49	26	-60	-23	-47	-8
Cash and bank balances at close of period	1,630	191	1,819	192	1,582	182

NET DEBT

	1999		1998		1997	
	SEK M	EUR M ¹	SEK M	ECU M ¹	SEK M	ECU M ¹
Net debt, 1 January	-21,370	-2,257	-19,018	-2,186	-17,462	-2,047
Net cash flow	-485	-55	-800	-90	-610	-71
Net debt in acquired operations	–	–	-325	-36	–	–
Pension provisions	-2,573	-292	–	–	–	–
Currency effects etc.	355	-213	-1,227	55	-946	-68
Net debt, 31 December	-24,073	-2,817	-21,370	-2,257	-19,018	-2,186

¹ The average exchange rate of 8.80 (8.93; 8.62) was applied in translation to euro and ECU.

DISCUSSION AND ANALYSIS, CASH FLOW STATEMENT

- Cash flow from current operations improved significantly and was the best ever recorded. The established cash flow goals were clearly exceeded.
- Company acquisitions and strategic capital investments amounted to SEK 13,015 M, of which SEK 6,780 M is attributable to Packaging and SEK 5,463 M to Hygiene Products.

Operating cash flow

Operating cash flow amounted to SEK 8,707 M (6,679; 6,631). An increase in working capital reduced cash flow by SEK 226 M (932; 533). Current capital expenditures amounted to SEK 2,046 M (2,058; 2,207).

Cash flow from current operations

Cash flow from current operations, defined as cash flow before strategic investments, dividends and new issue, amounted to SEK 6,740 M (3,875; 4,850), or SEK 31.45 (18.46; 23.17) per

share. Accordingly, SCA clearly surpassed its established cash flow goals.

Cash flow from strategic capital investments and divestments

Expansion investments in plants and machinery as well as company acquisitions amounted to SEK 13,015 M (5,041; 4,414). Company acquisitions during the year totaling SEK 10,400 M, of which SEK 6,368 M in Packaging and SEK 3,466 M in Hygiene Products, included the purchase of packaging companies in Great Britain, Denmark and France and a small company in Ireland. Acquisitions also include major purchases in the hygiene products operations in Great Britain, acquisition of a minority interest in Finnish Metsä Tissue and smaller acquisitions in Portugal and Spain. The redemption of the minority interest in Laakirchen is included in Forest Products.

Strategic capital expenditures in plant and machinery totaled SEK 2,615 M

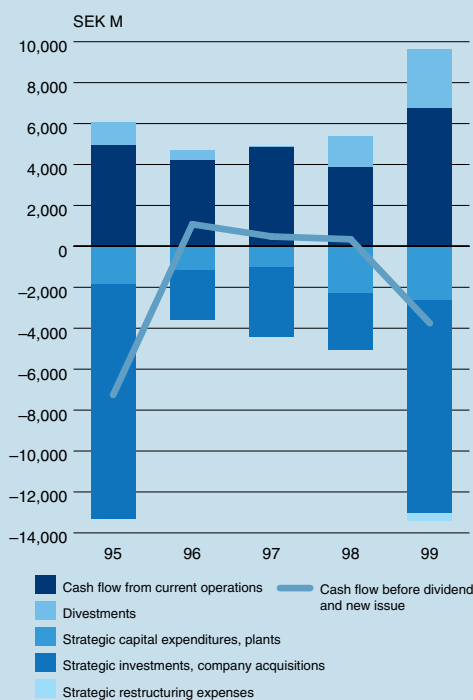
(2,248; 983), with Hygiene Products accounting for SEK 1,997 M and Packaging for SEK 412 M.

Divested units during the year, SEK 2,885 M (1,511; 46), pertain to the deconsolidation of the fine paper operations.

Net debt

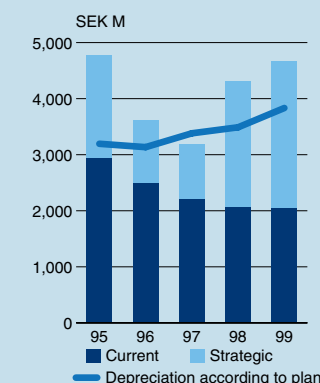
Net debt at year-end amounted to SEK 24,073 M, which is SEK 2,703 M higher than at 1 January 1999. Of this change, SEK 2,573 M is attributed to SCA including pension liabilities in net debt as of 31 December 1999. The remaining portion is the net of cash flow from current operations of SEK 6,740 M, expenditures for strategic investments and divestments amounting to SEK 10,500 M, dividend to shareholders of SEK 1,304 M, new issue in the fourth quarter of SEK 4,579 M, after deduction for issue costs, and the positive effects of currency movements of SEK 355 M.

Cash flow



Despite cash flow from current operations rising sharply, cash flow before dividend and new issue declined due to company acquisitions.

Capital expenditures



Strategic capital expenditures rose during 1999 while current capital expenditures declined somewhat compared with 1998.

Analysis of value development

SEK M	1999	1998 ¹	1997 ¹
Net sales	64,896	61,273	58,595
Operating cash surplus	11,101	9,960	9,462
% of net sales	17	16	16
Current capital expenditures, net	-2,046	-2,058	-2,207
% of net sales	3	3	4
Change in working capital	-226	-932	-533
Other operating cash flow changes	-122	-291	-91
Operating cash flow	8,707	6,679	6,631
Tax payment, etc ²	-1,351	-1,694	-1,064
Free cash flow	7,356	4,985	5,567
per share, SEK	34.33	23.74	26.59
Interest payment after taxes	-616	-1,110	-717
Cash flow from current operations	6,740	3,875	4,850
per share, SEK	31.45	18.46	23.17
Strategic investments and divestments	-10,500	-3,530	-4,368
per share, SEK	-49.00	-16.81	-20.86
Cash flow before dividend	-3,760	345	482

¹ Adjusted to reflect SCA's new cash flow analysis.

² Taxes attributable to operating profit.

Statement of earnings

CONSOLIDATED

	1999		1998		1997	
	SEK M	EUR M ¹	SEK M	ECU M ¹	SEK M	ECU M ¹
Net sales	64,896	7,371	61,273	6,858	58,595	6,794
Change in inventories	702	80	470	53	334	39
Work performed and capitalized	159	18	103	12	65	8
Other operating revenues	376	43	350	39	430	50
	66,133	7,512	62,196	6,962	59,424	6,891
Operating expenses						
Raw materials and consumables	Note 1					
Other external costs						
Personnel costs						
Depreciation of tangible and intangible assets	Note 2					
Other operating expenses						
Total operating expenses						
Share in earnings of associated companies	Note 3					
OPERATING PROFIT						
Financial items	Note 4					
Income from shares and participations						
Interest income and similar profit/loss items						
Interest expense and similar profit/loss items						
Total financial items						
EARNINGS AFTER FINANCIAL ITEMS						
Taxes	Note 5					
Minority interest	Note 6					
NET EARNINGS FOR THE YEAR						

BY BUSINESS AREA

SEK M	Net sales			Operating profit		
	1999	1998	1997	1999	1998	1997
Hygiene Products	27,327	26,164	24,018	2,613	2,463	2,611
– Consumer products	15,727	15,313	14,084	1,108	1,046	1,158
– AFH and incontinence products	11,600	10,851	9,934	1,505	1,417	1,453
Packaging	19,858	15,035	14,282	2,216	1,510	1,219
Forest Products	11,532	11,479	10,555	2,123	2,046	1,259
– Pulp, Timber and Solid wood products	4,948	4,943	4,991	817	724	816
– Publication paper	6,584	6,536	5,564	1,306	1,322	443
Fine paper, paper merchandising	7,795	10,276	9,597	491	528	438
Other	1,685	1,647	1,862	–108	285	384
Divested units		144	1,804	–	3	29
Intra-Group deliveries	–3,301	–3,472	–3,523	–	–	–
Goodwill amortization	–	–	–	–602	–407	–372
TOTAL	64,896	61,273	58,595	6,733	6,428	5,568

¹ The average exchange rate of 8.80 (8.93; 8.62) was applied in translation to euro and ECU.

DISCUSSION AND ANALYSIS, STATEMENT OF EARNINGS

- Earnings after financial items amounted to SEK 5,521 M (5,169; 4,457), up 7% compared with 1998. Comparable figures, excluding non-recurring items, was SEK 5,521 M (4,769; 4,032). This result was the highest in the Group's history, 16% higher than a year earlier.
- Earnings per share after taxes amounted to SEK 16.85 (16.11; 13.20).

Net sales

Net sales amounted to SEK 64,896 M (61,273; 58,595), an increase of 6% compared with 1998. Adjusted for de-consolidation of the fine paper operations, the increase was about 12%. The increase was highest in Packaging, but Hygiene Products also rose. The increases are attributable mainly to company acquisitions. Currency movements only affected net sales marginally. The value of deliveries to customers outside Sweden amounted to 91% (91; 90) of net sales.

Operating profit

Operating profit amounted to SEK 6,733 M (6,428; 5,568). Adjusted for nonrecurring items amounting to SEK

400 M in 1998, operating profit rose 12% compared with a year earlier.

Operating profit in Hygiene Products improved 6% compared with 1998. Company acquisitions, higher volumes and somewhat lower raw material costs offset somewhat lower product prices and higher production costs due to ongoing restructuring programs. Currency movements had no effect on operating profit.

Operating profit in Packaging rose 47% compared with 1998, of which 38% is attributable to company acquisitions. In the liner operations, somewhat lower average paper prices and increased raw material costs were offset by lower energy costs and larger volumes. As a result of the lower paper prices, earnings increased for corrugated board operations and margins improved.

Earnings after financial items

Group earnings after financial items amounted to SEK 5,521 M (5,169; 4,457). Excluding nonrecurring items in the preceding year of SEK 400 M, the improvement was 16%. The effect of foreign exchange movements on earnings was marginal. Financial items amounted to an expense of SEK 1,212

M (1,259; 1,111), where lower interest rates during the year offset a higher net debt. Among other factors, the higher net debt is the result of company acquisitions, which were only partly financed by a new issue of about SEK 4.6 billion. Proceeds from the new issue were received on 22 October.

Net earnings and income tax

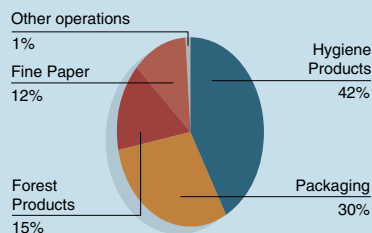
Net earnings amounted to SEK 3,602 M (3,379; 2,759). Minority interest amounted to SEK 70 M (110; 361). Total taxes amounted to SEK 1,849 M (1,680; 1,337), of which taxes payable were SEK 1,037 M (920; 688), changes in deferred taxes SEK 750 M (726; 619) and taxes attributable to share in earnings of associated companies SEK 62 M (34; 30). The tax rate was 33% (33; 30).

Key ratios

Return on capital employed before taxes was 12% (14; 12). Excluding nonrecurring items, return was 12% (13; 11). Return on shareholders' equity was 12% (13; 12). Earnings per share after full tax and dilution amounted to SEK 16.85 (16.11; 13.20). The interest coverage ratio was 5.6 (5.1; 5.0).

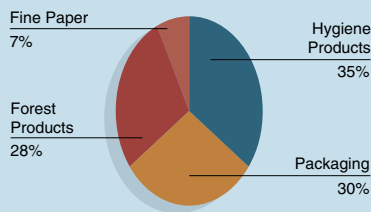
Definitions of key ratios, see page 73.

Net sales by business area 1999
(excluding intra-Group deliveries)



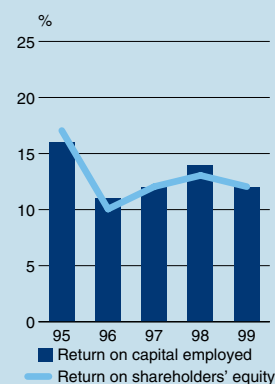
The Hygiene Products and Packaging business areas combined account for 72% of net sales, an increase of 6 percentage points compared with a year earlier.

Operating profit by business area 1999
(adjusted for central items)



The Hygiene Products and Packaging business areas combined account for 65% of operating profit, an increase of 5 percentage points compared with 1998.

Return on capital employed and shareholders' equity



Return on capital employed declined to 12% and return on shareholders' equity to 12%.

Balance sheet

CONSOLIDATED

	31 Dec. 1999		31 Dec. 1998		31 Dec. 1997			
	SEK M	EUR M ¹	SEK M	ECU M ¹	SEK M	ECU M ¹		
ASSETS								
FIXED ASSETS								
Intangible assets	Note 7							
Goodwill	10,431	1,221	6,134	648	5,083	584		
Patents, trademarks and similar rights	904	106	1,021	108	1,095	126		
	11,335	1,327	7,155	756	6,178	710		
Tangible assets	Note 8							
Buildings and land	16,867	1,973	18,838	1,989	17,693	2,034		
Machinery and equipment	27,098	3,171	26,427	2,791	24,916	2,864		
Construction in progress	606	71	1,547	163	569	65		
	44,571	5,215	46,812	4,943	43,178	4,963		
Financial assets								
Shares and participations	Note 9, 10		5,057	592	1,022	108	870	100
Other long-term receivables			102	12	158	17	125	14
Capital investment shares	Note 9, 11		967	113	1,112	117	1,112	128
Interest-bearing receivables			311	36	373	39	258	29
	6,437	753	2,665	281	2,365	271		
Total fixed assets	62,343	7,295	56,632	5,980	51,721	5,944		
CURRENT ASSETS								
Inventories	Note 12							
Accounts receivable	10,202	1,194	10,043	1,061	9,006	1,035		
Other current receivables	Note 13		2,312	270	2,590	273	1,940	223
Short-term investments			2,929	343	1,132	120	676	78
Cash and bank balances			1,630	191	1,819	192	1,582	182
Total current assets	22,871	2,676	21,741	2,296	18,984	2,182		
TOTAL ASSETS	85,214	9,971	78,373	8,276	70,705	8,126		
EQUITY, PROVISIONS AND LIABILITIES								
SHAREHOLDERS' EQUITY								
Note 15								
Nondistributable equity								
Share capital	2,303	270	1,974	208	1,974	227		
Restricted reserves	14,845	1,737	11,787	1,245	11,426	1,313		
	17,148	2,007	13,761	1,453	13,400	1,540		
Distributable equity								
Retained earnings	13,383	1,578	11,264	1,168	8,494	973		
Net earnings for the year	3,602	409	3,379	378	2,759	320		
	16,985	1,987	14,643	1,546	11,253	1,293		
Total shareholders' equity	34,133	3,994	28,404	2,999	24,653	2,833		
MINORITY INTEREST								
	587	69	1,386	146	1,496	172		
PROVISIONS								
Provisions for pensions	Note 16		1,029	120	3,386	358	3,237	372
Provisions for deferred tax liabilities	Note 5		6,063	710	6,353	671	5,450	626
Other provisions	Note 17		1,540	180	1,167	123	1,765	203
Total provisions	8,632	1,010	10,906	1,152	10,452	1,201		
LIABILITIES								
Interest-bearing debt	Note 18		28,881	3,379	25,806	2,725	22,647	2,603
Accounts payable			6,732	788	6,330	669	5,884	676
Other interest-free liabilities	Note 19		6,249	731	5,541	585	5,573	641
Total liabilities	41,862	4,898	37,677	3,979	34,104	3,920		
TOTAL EQUITY, PROVISIONS AND LIABILITIES	85,214	9,971	78,373	8,276	70,705	8,126		
CONTINGENT LIABILITIES								
	Note 20		345		460		484	
ASSETS PLEDGED	Note 21		1,175		1,454		1,291	

¹ The year-end exchange rate of 8.55 (9.47; 8.70) was applied in translations to euro and ECU.

DISCUSSION AND ANALYSIS, BALANCE SHEET

Assets and capital employed

The Group's total assets increased by about SEK 6,800 M during the year. The increase in goodwill is a consequence of company acquisitions during the year within Hygiene Products and Packaging. The deconsolidation of the fine paper operations reduced assets at the same time as shares and participations increased by SEK 3.4 billion as a result of SCA's participation in Modo Paper AB. As a result of the strengthening of the Swedish krona, currency effects reduced the value of total assets.

Capital expenditures amounted to SEK 4,661 M (4,306; 3,190). These included SEK 2,615 M (2,248; 983) in strategic capital expenditures, that is, major expansions and transition to new technologies. The balance, SEK 2,046 M (2,058; 2,207) is attributable to current capital expenditures, that is, maintenance investments.

The value in SEK of the Group's foreign net assets amounted at year-end to SEK 25,755 M (27,456; 22,439). Capital employed, which is defined differently as of 31 December 1999 (that is, without deduction for pension liabilities), rose SEK 4,247 M to SEK 58,793 M (see table below). The decline in assets in EUR and increase in SEK is due mainly

to deconsolidation of the fine paper operations, in which the shareholding in Modo Paper AB is an asset in SEK. The distribution of capital employed by currency is shown below.

Capital employed by currency

(with comparable principles)

SEK M	31 Dec. 1999		31 Dec. 1998		31 Dec. 1997	
		%		%		%
EUR	22,808	39	27,220	50	23,234	48
SEK	19,462	33	15,371	28	14,864	31
GBP	10,662	18	7,660	14	7,698	16
DKK	2,153	4	16	0	18	0
USD	1,990	3	1,985	4	878	2
CHF	559	1	612	1	82	0
Others	1,159	2	1,682	3	1,630	3
Total	58,793	100	54,546	100	48,404	100

Financing

As of year-end 1999, pension liabilities are included in SCA's definition of net debt. Pension liabilities at year-end were SEK 1,029 M.

SCA's gross debt amounted to SEK 28,881 M (25,806; 22,647) at year-end. The average term of SCA's gross debt was 3.2 years. Liquid assets and unutilized committed credits amounted at year-end to SEK 8,879 M, which corresponds to 14% of net sales.

Net debt amounted to SEK 24,073 M at 31 December, an increase of SEK

2,703 M compared with the beginning of the year. Of this change, SEK 2,573 M arises as a result of SCA including pension liabilities in net debt.

Minority interest amounted at year-end to SEK 587 M (1,386; 1,496). The decline is attributable mainly to SCA's redemption of the outstanding minority interest in Laakirchen.

Shareholders' equity

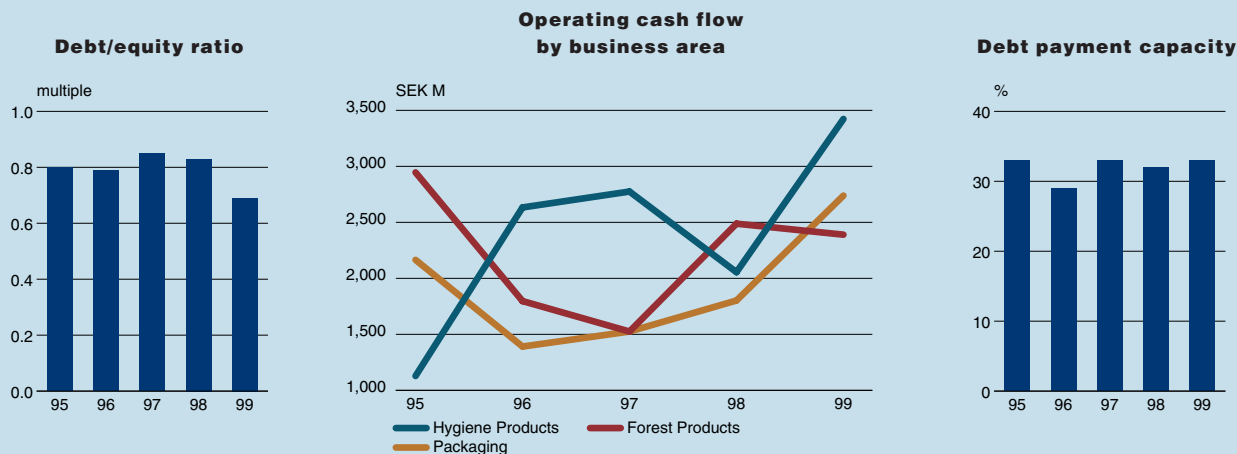
Shareholders' equity increased during 1999 by SEK 5,729 M, totaling SEK 34,133 M at year-end. The increase was attributable to the following factors:

SEK M	
Net earnings for the year	3,602
Dividend	-1,304
New issue	4,579
Other changes	-1,148
Total	5,729

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

Key ratios

Debt/equity multiple was 0.69 (0.83; 0.85). The comparable years are recalculated based on the current definition of net debt.



Debt/equity ratio was significantly lower than a year earlier.

Operating cash flow developed very positively during 1999 for the Hygiene Products and Packaging business areas.

Debt payment capacity rose slightly in 1999.

Parent Company

CASH FLOW STATEMENT

SEK M	1999	1998
Operating surplus	-2,498	-202
Other cash flow from operations	3,355	2,521
Company acquisitions and divestments	-4,588	-2,773
Tax payment	97	95
New issue	4,579	
Dividend to shareholders	-1,283	-1,135
Net cash flow	-338	-1,494

STATEMENT OF EARNINGS

SEK M	1999	1998
Revenues	50	61
Operating expenses		
Other external costs	-140	-148
Personnel costs	-119	-111
Depreciation of tangible assets	Note 2 -37	-35
Other operating expenses, net	Note 1 -2,289	-4
Total operating expenses	-2,585	-298
OPERATING PROFIT	-2,535	-237
Financial items	Note 4	
Income from shares and participations, Group companies	3,549	1,201
Interest income and similar profit/loss items	215	123
Interest expense and similar profit/loss items	-466	-448
Total financial items	3,298	876
EARNINGS AFTER FINANCIAL ITEMS	763	639
Appropriations	162	161
Taxes	Note 5 301	97
NET EARNINGS FOR THE YEAR	1,226	897

BALANCE SHEET

SEK M		31 Dec. 1999	31 Dec. 1998
ASSETS			
FIXED ASSETS			
Tangible assets	Note 8		
Buildings and land		3,967	3,878
Machinery and equipment		4	5
Construction in progress		54	-
		4,025	3,883
Financial assets			
Shares and participations	Note 9, 10	29,161	24,573
Interest-bearing receivables		63	69
		29,224	24,642
Total fixed assets		33,249	28,525
CURRENT ASSETS			
Receivables from subsidiaries		4,475	2,411
Other current receivables	Note 13	33	39
Short-term investments		-	251
Cash and bank balances		2	12
Total current assets		4,510	2,713
TOTAL ASSETS		37,759	31,238
EQUITY, PROVISIONS AND LIABILITIES			
SHAREHOLDERS' EQUITY	Note 15	23,615	18,964
UNTAXED RESERVES	Note 14	272	434
PROVISIONS		104	135
LIABILITIES			
Interest-bearing debt	Note 18	1,789	1,727
Liabilities to subsidiaries		11,814	9,909
Accounts payable		9	14
Other interest-free liabilities	Note 19	156	55
Total liabilities		13,768	11,705
TOTAL EQUITY, PROVISIONS AND LIABILITIES		37,759	31,238
CONTINGENT LIABILITIES	Note 20	22,937	18,977
ASSETS PLEDGED	Note 21	543	527

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 interest

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

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

Taxes

Deferred tax is estimated and reported in accordance with the so-called balance sheet method. In accordance with this method, deferred tax is calculated based on the difference between the taxable value and the reported value of assets and liabilities. However, tax on differences between the reported value 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. Valuations are at the tax rate prevailing at the closing date. In the balance sheet, the estimated liability is reported to the

tax authorities as current. Deferred tax liabilities are reported as provisions.

The tax expenses reported for the year include the tax that is payable on the taxable income for the year, changes in deferred taxes and the tax on the share of 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, 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 and amortization of goodwill. Non-distributed 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 to a certain extent 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, 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 economic lives of the assets.

The following depreciation rates are used on property and plant:

	%
Pulp and paper mills and sawmills	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.

Pension liabilities

Pension liabilities are calculated in accordance with the applicable international accounting recommendation (IAS 19, Employee benefits). Accordingly, the calculation of pension liabilities takes into account such factors as anticipated future wage increases and inflation.

The IASC is currently studying the issue of how Swedish pension funds should be reported in accordance with IAS 19. Pending a final decision from the IASC and the Swedish Financial Accounting Standards Council, the Swedish pension funds have been treated in the same way as other pension funds within the Group, that is, as an off-balance-sheet item.

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 0 M (400; 425).

Operating expenses include R&D expenses amounting to SEK 753 M (784; 751) for the Group.

Other operating expenses in the Parent Company include SEK 2,094 M in write-downs of shares in subsidiaries.

Leasing

Future payment undertakings in the Group as of 31 December 1999 for operational leasing contracts are distributed as follows:

	SEK M
2000	371
2001	367
2002	259
2003	259
2004	259

Costs during the year for leasing of assets amounted to SEK 370 M.

Auditing expenses

Auditing expenses in 1999 can be specified as follows

SEK M	Group	Parent Company
<i>Öhrlings PricewaterhouseCoopers</i>		
Auditing assignments	33	1
Other assignments	15	7
<i>Other auditors</i>		
Auditing assignments	3	-
Other assignments	1	-
Total	52	8

Note 2 Depreciation of tangible and intangible assets

SEK M	Group			Parent Company	
	1999	1998	1997	1999	1998
Buildings	513	515	519	2	2
Land	54	52	65	33	32
Machinery and equipment	3,117	2,912	2,788	2	1
Subtotal	3,684	3,479	3,372	37	35
Goodwill	602	407	372	-	-
Patents, trademarks and similar rights	155	127	99	-	-
Total	4,441	4,013	3,843	37	35

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 54.

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 178 M (121; 67).

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

Note 4 Financial items

SEK M	Group			Parent Company	
	1999	1998	1997	1999	1998
<i>Income from shares and participations in Group companies</i>					
Dividends from subsidiaries	-	-	-	3,549	1,201
<i>Income from shares and participations in other companies</i>					
Dividends from other companies	76	69	70	-	-
<i>Interest income and similar profit/loss items</i>					
Interest income, external	158	182	210	0	0
Interest income, subsidiaries	-	-	-	127	94
Other financial income, external	88	29	-	-	-
Other financial income, subsidiaries	-	-	-	88	29
<i>Interest expense and similar profit/loss items</i>					
Interest expense, external	-1,436	-1,502	-1,362	-118	-135
Interest expense, subsidiaries	-	-	-	-271	-282
Other financial expenses, external	-98	-37	-29	-77	-31
Total	-1,212	-1,259	-1,111	3,298	876

Note 5 Taxes

Group, SEK M	1999	1998	1997
Current taxes	1,037	920	688
Deferred taxes	750	726	619
Taxes attributable to shares in earnings of associated companies	62	34	30
Tax expenses	1,849	1,680	1,337

Tax expenses account for 33 (33; 30)% of earnings before taxes. The difference between reported tax expenses and taxes charged to consolidated earnings before taxes calculated with local tax rates for Sweden (28%) is explained below (solely for 1999):

Tax expenses	33%
Tax expenses with local tax rates in Sweden	28%
Difference	5%

Note 5 Taxes, cont.

The difference is explained by:

Local tax rates in other countries	8%
Taxes related to other periods	-3%
Nondeductible amortization on goodwill	3%
Other tax-free/nondeductible items	-2%
Other	-1%

Current tax expenses

Group, SEK M	1999
Income tax for the period	1,042
Adjustment for prior periods	-5
Current taxes	1,037

Current tax liabilities (shown in Note 19)

The changes in current tax liabilities during the period are explained below (solely for 1999).

Opening balance	204
Adjustment for prior periods	-5
Taxes paid	-951
Income tax for the period	1,042
Other changes	158
Translation differences	-112
Closing balance	336

Deferred taxes

The changes in deferred tax liabilities during the period are explained below (solely for 1999).

Opening balance	6,353
Adjustment for prior periods	-183
Deferred taxes for the period	933
Other changes	-739
Translation differences	-301
Closing balance	6,063

Other changes include a decline due to the effects of acquisitions and divestments amounting to SEK negative 906 M.

Parent Company

Parent Company's reported taxes comprise the share of the Group's Swedish taxes attributed to the Company.

Note 6 Minority interest

Interest, %	31 Dec. 1999	31 Dec. 1998	31 Dec. 1997
SCA Laakirchen AG, Austria	-	22	24
Uni-Charm/Mölnlycke B.V.	60	60	60
Thai Klinipro Co. Ltd	-	-	51
SCA Hygiene Products AG	4	4	6
Sodipel SARL	12	12	12
SCA Graphic Paper Polska SP.Z.O.O.	45	45	-

Minority interest in net earnings are reported in the statement of earnings in an amount of SEK 70 M (110; 361), specified as follows

SEK M	1999	1998	1997
Minority interest in:			
- earnings after financial items	89	152	565
- income taxes	-19	-42	-204
Minority interest	70	110	361

BALANCE SHEET**Note 7 Intangible assets**

Group, SEK M	Goodwill			Patents, trademarks and similar rights		
	1999	1998	1997	1999	1998	1997
Acquisition value, 1 Jan.	8,706	7,141	6,378	1,928	1,790	1,879
Capital expenditures	5,310	779	552	84	115	41
Sales and disposals	-102	-	-9	-17	-65	-197
Reclassifications	-434	-	4	434	39	12
Translation differences	-471	786	216	-301	49	55
Accumulated acquisition value, 31 Dec.	13,009	8,706	7,141	2,128	1,928	1,790
Amortization, 1 Jan.	-2,572	-2,058	-1,700	-907	-695	-669
Sales and disposals	75	-	46	35	11	78
Reclassifications	319	-	-5	-319	-	-4
Amortization during the year	-602	-407	-372	-155	-127	-99
Translation differences	202	-107	-27	122	-96	-1
Accumulated amortization, 31 Dec.	-2,578	-2,572	-2,058	-1,224	-907	-695
Residual value according to plan, 31 Dec.	10,431	6,134	5,083	904	1,021	1,095

Note 8 Tangible assets

Group, SEK M	Buildings			Land			Machinery and equipment			Construction in progress		
	1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997
Acquisition value, 1 Jan.	13,986	12,566	12,442	6,290	5,861	5,446	47,256	42,404	39,410	1,547	569	306
Capital expenditures	1,550	824	173	361	382	469	7,126	3,682	3,558	594	1,412	392
Sales and disposals	-2,483	-178	-400	-930	-323	-220	-5,781	-1,411	-991	-196	0	-78
Reclassifications	244	20	22	-4	66	32	945	369	24	-1,210	-455	-51
Translation differences	-784	754	329	-135	304	134	-2,059	2,212	403	-129	21	-
Accumulated acquisition value, 31 Dec.	12,513	13,986	12,566	5,582	6,290	5,861	47,487	47,256	42,404	606	1,547	569
Depreciation, 1 Jan.	-3,909	-3,299	-2,889	-590	-535	-474	-20,729	-17,488	-15,416	-	-	-
Sales and disposals	532	96	94	17	17	4	2,674	569	883	-	-	-
Reclassifications	15	-7	61	2	-	-	8	7	-65	-	-	-
Depreciation during the year	-513	-515	-519	-54	-52	-65	-3,117	-2,912	-2,788	-	-	-
Translation differences	195	-184	-46	16	-20	-	875	-905	-102	-	-	-
Accumulated depreciation, 31 Dec.	-3,680	-3,909	-3,299	-609	-590	-535	-20,289	-20,729	-17,488	-	-	-
Write-ups, 1 Jan.	-	-	-	3,100	3,100	3,100	-	-	-	-	-	-
Accumulated write-ups, 31 Dec.	-	-	-	3,100	3,100	3,100	-	-	-	-	-	-
Writedowns, 1 Jan.	-39	-	-	-	-	-	-100	-	-	-	-	-
Writedowns for the year	-	-39	-	-	-	-	-	-100	-	-	-	-
Accumulated writedowns, 31 Dec.	-39	-39	-	-	-	-	-100	-100	-	-	-	-
Residual value according to plan, 31 Dec.	8,794	10,038	9,267	8,073	8,800	8,426	27,098	26,427	24,916	606	1,547	569

Parent Company, SEK M	Buildings		Land		Machinery and equipment		Construction in progress	
	1999	1998	1999	1998	1999	1998	1999	1998
Acquisition value, 1 Jan.	59	58	1,083	1,043	11	7	-	-
Capital expenditures	-	2	139	45	1	4	54	-
Sales and disposals	-	-1	-15	-5	-	0	-	-
Accumulated acquisition value, 31 Dec.	59	59	1,207	1,083	12	11	54	-
Depreciation, 1 Jan.	-30	-29	-334	-302	-6	-5	-	-
Sales and disposals	-	1	-	-	-	-	-	-
Depreciation during the year	-2	-2	-33	-32	-2	-1	-	-
Accumulated depreciation, 31 Dec.	-32	-30	-367	-334	-8	-6	-	-
Write-ups, 1 Jan.	-	-	3,100	3,100	-	-	-	-
Accumulated write-ups, 31 Dec.	-	-	3,100	3,100	-	-	-	-
Residual value according to plan, 31 Dec.	27	29	3,940	3,849	4	5	54	-

Note 9 Financial assets

SEK M	Shares and participations					Capital investment shares		
	1999	Group 1998	1997	Parent Company 1999	1998	1999	Group 1998	1997
Acquisition value, 1 Jan.	1,022	870	604	25,675	22,907	1,084	1,084	838
Investments	4,042	481	336	6,682	2,770	-	-	1,084
Sales	-49	-48	-26	-	-2	-145	-	-838
Net increase in associated companies during the year	120	30	34	-	-	-	-	-
Reclassifications to joint venture or subsidiary	-1	-336	-	-	-	-	-	-
Other reclassifications	-	-39	-68	-	-	-	-	-
Translation differences	-75	64	-10	-	-	-	-	-
Accumulated acquisition value, 31 Dec.	5,059	1,022	870	32,357	25,675	939	1,084	1,084
Write-ups, 1 Jan.	-	-	-	140	140	29	29	29
Accumulated write-ups, net, 31 Dec.	-	-	-	140	140	29	29	29
Write-downs, 1 Jan.	-	-	-	-1,242	-1,242	-1	-1	-1
Write-downs during the year	-2	-	-	-2,094	-	-	-	-
Accumulated write-downs, 31 Dec.	-2	-	-	-3,336	-1,242	-1	-1	-1
Residual value according to plan, 31 Dec.	5,057	1,022	870	29,161	24,573	967	1,112	1,112

Note 10 Shares and participations

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

SEK M	Group		Parent Company		
	1999	1998	1997	1998	
Subsidiaries	-	-	-	29,085	24,497
Associated companies	4,286	773	741	-	-
Other companies	771	249	129	76	76
Total	5,057	1,022	870	29,161	24,573

For specification, see page 65.

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

1999*Subsidiaries*

Parent Company book value of shares in subsidiaries rose SEK 4,588 M which constitutes mainly a capital contribution to AB SCA Finans.

Associated companies

The increase is attributable mainly to the shareholding in Modo Paper AB, SEK 3,430 M, being reported as an associated company.

Other companies

Other companies includes the shareholding in Metsä Tissue.

1998*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.

1997*Associated companies*

Among other acquisitions, Productos Familia S.A. and operations in the packaging field in China and India were acquired during the year.

Note 11 Capital investment shares

Group, SEK M	Number	Book value
AB Industrivärden	12,507,924	967
Total	12,507,924	967

During 1999, 1,885,000 shares were divested to two Swedish foundations for securing pensions of SCA employees.

Of the holding in AB Industrivärden, 7,319,268 shares are intended 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 827 M.

Note 12 Inventories

Group, SEK M	1999	1998	1997
Raw materials and consumables	1,979	1,493	1,603
Work in progress	334	379	476
Finished goods	2,483	3,224	2,912
Spare parts and warehouse supplies	815	897	519
Felling rights	187	164	270
Total	5,798	6,157	5,780

Note 13 Other current receivables

SEK M	Group			Parent Company	
	1999	1998	1997	1999	1998
Bills receivable	595	831	403	-	-
Prepaid expenses and accrued income	610	660	634	21	32
Other receivables	1,107	1,099	903	12	7
Total	2,312	2,590	1,940	33	39

Note 14 Untaxed reserves in Parent Company

Untaxed reserves in the Parent Company include an SEK 158 M (316; 475) allocation to tax equalization reserve and SEK 114 M (118; 120) in accumulated depreciation in excess of plan.

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
1999								
Balance, 1 Jan.	1,974	1,870	783	1,375	8,337	-578	14,643	28,404
New issue	329	4,250	-	-	-	-	-	4,579
Translation differences	-	-	-	-	-	-1,453	-190	-1,643
Exchange rate differences on hedging instruments	-	-	-	-	-	485	-	485
Transfer between distributable and nondistributable shareholders' equity	-	-	33	-	-217	-	184	0
Equity in associated companies	-	-	-	120	-	-	-120	0
Adjustment of equity participations	-	-	-	-170	-	-	170	0
Other	-	-	10	-	-	-	-	10
Dividend paid	-	-	-	-	-	-	-1,304	-1,304
Net earnings for the year	-	-	-	-	-	-	3,602	3,602
Balance, 31 Dec.	2,303	6,120	826	1,325	8,120	-1,546	16,985	34,133
1998								
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
1997								
Balance, 1 Jan.	1,974	1,870	687	1,308	8,730	-1,545	9,882	22,906
Translation differences	-	-	-	-	-	607	-181	426
Exchange rate differences on hedging instruments	-	-	-	-	-	-346	-	-346
Transfer between distributable and nondistributable shareholders' equity	-	-	50	-	28	-	-78	0
Equity in associated companies	-	-	-	37	-	-	-37	0
Dividend paid	-	-	-	-	-	-	-1,092	-1,092
Net earnings for the year	-	-	-	-	-	-	2,759	2,759
Balance, 31 Dec.	1,974	1,870	737	1,345	8,758	-1,284	11,253	24,653

The Share premium reserve, Legal reserve, Equity proportion reserve, Translation differences and Other restricted reserves amount in total to SEK 14,845 M (11,787; 11,426) and are reported as Restricted reserves. Distributable equity includes a positive translation difference of SEK 352 M (542; negative 223).

Note 15 Shareholders' equity, cont.

Parent Company, SEK M	Share capital	Share premium reserve	Legal reserve	Write-up reserve	Distributable equity	Total
1999						
Balance, 1 Jan.	1,974	1,870	441	806	13,873	18,964
New issue	329	4,250	–	–	–	4,579
Dividend paid	–	–	–	–	–1,283	–1,283
Group contribution	–	–	–	–	119	119
Other	–	–	10	–	–	10
Net earnings for the year	–	–	–	–	1,226	1,226
Balance, 31 Dec.	2,303	6,120	451	806	13,935	23,615

SCA's share capital consists of 230,299,924 shares with a par value of SEK 10 each. The issues, etc., for the period 1990–1999 are presented below. For additional information on the SCA share, see page 10.

Issues, etc. 1990–1999

Since 1990, the share capital and number of shares, have increased through new issues and conversions 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 –	–	–	–
1999 New issue 1:6	32,899,989	329.0	4,579.0

SCA's share capital, 31 December 1999

	No. of votes	No. of shares	Nominal amount SEK M
A shares	10	62,133,909	621.3
B shares	1	168,166,015	1,681.7
Total		230,299,924	2,303.0

At full conversion of convertible debentures outstanding at 31 December 1999 and warrants outstanding, the number of B shares would increase by a maximum of 171,282,917.

Note 16 Provisions for pensions

SCA has pension plans in those countries where the Group has substantial operations. In many cases, these pension plans cover all employees and provide benefits based on the average remuneration and period of employment the employees have at or near retirement (so-called defined benefit pension plans).

The total pension costs for the most important defined benefit pension plans are shown below.

SEK M	1999
Current service cost, excluding premiums paid by employees	293
Past service cost	–5
Interest expense	578
Estimated return on pension assets	–539
Accrual accounting of gains and losses on changed actuarial assumptions	3
Pension cost	330

Note 16 Provisions for pensions, cont.

The actual return on pension fund assets during 1999 was SEK 1,629 M.

The following table shows the book value stated in the balance sheet for the main defined benefit pension plans, divided between fully or partially funded pension plans and non-funded pension plans.

	Fully or partially funded pension plans	Non- funded pension plans	Total
December 31, 1999			
Defined benefit obligation	8,499	2,036	10,535
Market value of fund assets	-11,249	-	-11,249
Funded status	-2,750	2,036	-714
Net gains and losses not included in earnings	1,464	86	1,550
Pension liability, net Pension plans reported according to local rules	-1,286	2,122	836
			193
Provision for pensions			1,029

Gains and losses based on changed actuarial assumptions and the actual return on pension assets in excess of the estimated amount are evenly distributed across the employees' estimated remaining period of employment, to the extent that the total gain or loss falls outside a band corresponding to 10% of the higher of either the pension obligation or the market value of the pension fund assets.

Net gains and losses not included in earnings, as at 31 December 1999, fall outside the band by approximately SEK 400 M (gains). This effect is distributed across the employees' estimated remaining period of employment, which is currently about 16 years.

The transition to a new method of calculating pension liabilities and pension costs had only a marginal effect on operating profit for 1999.

Main actuarial assumptions (weighted average)

	31 Dec. 1999	31 Dec. 1998
Market interest rate	5.93%	4.96%
Estimated return on pension fund assets	7.20%	6.34%
Future pay increases	3.26%	3.04%
Future cost-of-living increases	2.12%	1.69%

Note 17 Other provisions

This includes restructuring reserves of SEK 662 M (892; 1,582). Provisions were withdrawn during 1999 and 1998 for the ongoing restructuring program, primarily within the Hygiene Products business area, in accordance with decisions in prior years. Other provisions of SEK 593 M were reclassified from pension liabilities.

Other allocations are mainly provisions for undertakings in conjunction with divestments of operations.

Note 18 Interest-bearing debt

SEK M	Group		Parent Company		
	1999	1998	1997	1999	1998
Amortization within one year	153	986	376	2	2
Loans maturing within one year	5,117	5,643	3,791	-	-
Total short-term interest-bearing debt	5,270	6,629	4,167	2	2
Bond loans	1,406	1,338	846	7	15
Convertible loans	296	292	38	295	290
Other long-term loans	21,909	17,547	17,596	1,485	1,420
Total long-term interest-bearing debt	23,611	19,177	18,480	1,787	1,725
Total	28,881	25,806	22,647	1,789	1,727

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

Assets have been pledged as security for SEK 122 M (1,208; 1,145) of these long- and short-term loans.

Redemption structure for interest-bearing debt

Year	SEK M
2000	5,270
2001	3,864
2002	6,474
2003	6,050
2004	2,407
2005 and later	4,816
Total	28,881

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		
	1999	1998	1997
EUR	9,302	13,344	10,663
GBP	7,781	5,247	4,546
SEK	6,925	4,740	6,846
DKK	2,344	29	50
USD	869	1,102	556
CHF	352	262	39
Other	1,308	1,082	-53
Total	28,881	25,806	22,647

Note 18 Interest-bearing debt, cont.

Convertible loans

SEK M	1999	1998	1997
1990 GBP 10,516,384 at 10%	31	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 1999 was SEK 150.20.			
1998 SEK 296,933,616 at 0%	264	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 at December 31 1999 was 255.80.			
Total loans issued by Parent Company	295	290	36
Bond loan issued by SCA Group Holding B.V. 1989 ECU 101 M at 4.25%	1	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 1999 was SEK 122.70.			
Total loans issued by Group	296	292	38

Conversion of the 1990 GBP loan means that a maximum of 205,788 Class B shares will be issued. The amount of the loan decreased during 1999 through repayments that did not involve conversion of debentures into shares.

Conversion of the 1998 convertible debenture loan means that a maximum of 1,160,804 Class B shares will be issued. In addition, 1.5 warrants were issued for each convertible, which means that another 1,741,206 Class B shares could be issued. The estimated premium, SEK 46 M, is reported in restricted shareholders' equity as a reserve.

Conversion of outstanding portions of the 1989 ECU loan means that a maximum of 9,104 B shares will be issued.

Note 19 Other interest-free liabilities

SEK M	Group			Parent Company	
	1999	1998	1997	1999	1998
Accrued expenses and prepaid income	3,521	3,058	3,072	56	40
Current tax liabilities	336	204	447	95	-
Other operating liabilities	1,787	1,873	1,681	2	3
Total interest-free current liabilities	5,644	5,135	5,200	153	43
Long-term interest-free liabilities	605	406	373	3	12
Total	6,249	5,541	5,573	156	55

Accrued expenses and prepaid income

SEK M	Group			Parent Company	
	1999	1998	1997	1999	1998
Accrued social costs	455	586	446	9	6
Accrued vacation pay liability	466	451	447	6	6
Accrued financial expenses	337	289	236	17	16
Other items	2,263	1,732	1,943	24	12
Total	3,521	3,058	3,072	56	40

Note 20 Contingent liabilities

SEK M	Group			Parent Company	
	1999	1998	1997	1999	1998
Discounted bills	12	109	143	-	-
Guarantees for					
- employees	4	15	48	3	3
- associated companies	186	10	64	-	-
- customers and others	31	146	95	-	-
- subsidiaries	-	-	-	22,925	18,966
Other contingent liabilities	112	180	134	9	8
Total	345	460	484	22,937	18,977

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 that 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.

SCA entered into lease-out/lease-in transactions during 1996 with American banks as counterparties pertaining to the two LWC plants in Ortvikén, 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 an AAA rating. SCA carries the credit risk against the depository banks, but this is considered, as a result of the structure of the agreements, to be insignificant. Should the rating of a depository 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 depository 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 financial 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 so-called 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.

Note 20 Contingent liabilities, cont.

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.

The Parent Company's increase in guarantees for subsidiaries is due to higher interest-bearing debt for SCA Finans.

Note 21 Assets pledged

SEK M	Group			Parent Company	
	1999	1998	1997	1999	1998
Real estate mortgages	980	1,176	1,156	481	481
Chattel mortgages	46	7	9	20	–
Other mortgages	149	271	126	42	46
Total	1,175	1,454	1,291	543	527

Certain of these assets have been pledged as security for debt amounting to SEK 122 M (1,208; 1,145) at year-end.

Note 22 Tax assessment values

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

SEK M	Group			Parent Company	
	1999	1998	1997	1999	1998
Buildings	3,843	4,363	4,407	11	12
Land and other property	8,077	7,329	10,457	7,264	6,576
Total	11,920	11,692	14,864	7,275	6,588

The decline in tax value between 1997 and 1998 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 23 Value of forest land

	1999	1998	1997	1996	1995
Book value, SEK M	4,702	4,582	4,570	4,187	4,156
Taxed forestry value, SEK M	6,777	6,779	10,209	9,588	7,140

Note 24 Number of employees and wages, salaries and remuneration

	1999 ¹	1998	1997
Average number of employees			
<i>SCA Group total</i>	37,679	32,082	33,399
of whom, women	20%	21%	22%
<i>Sweden</i>	6,687	7,209	7,493
of whom, women	21%	21%	23%
of which, Parent Company	66	59	49
of whom, women	41%	41%	47%
Number of municipalities	26	26	26
<i>Abroad</i>	30,992	24,873	25,906
of whom, women	20%	21%	22%
Number of countries	41	27	22
SEK M	1999	1998	1997

Wages, salaries and remunerations*Parent Company*

Board of Directors ² , President and VPs	18	18	16
of which, variable salary	3	3	2
Other employees	37	30	27
Total, Parent Company	55	48	43

Subsidiaries

Boards of Directors, Presidents and VPs	195	144	163
of which, variable salary	38	20	17
Other employees	10,543	9,314	8,905
Total, subsidiaries	10,738	9,458	9,068

Group total	10,793	9,506	9,111
of which, Boards of Directors, Presidents and VPs	213	162	179
of which, variable salary	41	23	19

SEK M	1999	1998	1997
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Statutory and contractual payroll expenses

<i>Parent Company</i>	39	47	59
of which, pension costs ³	22	31	29

<i>Subsidiaries</i>	3,071	2,961	2,718
of which, pension costs	721	683	653

Group total	3,110	3,008	2,777
of which, pension costs ⁴	743	714	682

¹ Including SCA's share in joint-venture companies.

² Includes SEK 2.0 M (2.0; 1.6) Board fees approved by the Annual General Meeting.

³ SEK 18 M (15; 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 68 M (67; 100).

⁴ SEK 39 M (49; 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 234 M (228; 237).

Note 25 Executive management conditions of employment

The Chairman of the Board of Directors, who previously held the position of Chief Executive Officer (CEO), received contractual pension payments during 1999, and as Board Chairman of SCA he received a Board fee of SEK 750,000 (750,000).

During 1999, the CEO received SEK 6,026,610 (5,613,647), car benefits (fuel excluded) and housing benefits as well as a Board fee from SCA Hygiene Products AG of SEK 113,746 (79,821). In the case

Note 25 Executive management conditions of employment, cont.

of the CEO, as well as other senior executives in the Group, all are parties to a bonus agreement which is described in detail in Note 26. The bonus system, in regard to the CEO, has during 1999 resulted in a bonus corresponding to 29.9 (30)% of the base salary, and a bonus corresponding to 30% of the base salary (10% earned during each of the years, 1997, 1998 and 1999).

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 (104,908) in 1999 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.

Note 26 New executive incentive system

As of 1 January 1999 a new incentive system for SCA's senior executives was implemented. With the new system, a strong link was established between the individual's possibility for a bonus and the value appreciation for the SCA share that accrues to the shareholders. The program involves some 60 executives at Group and business area level and replaces previous incentive programs that 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 shares develops during a three-year period in relation to the value development of SCA's competitors in Sweden and abroad and on the stock exchange as a whole. For the CEO and the presidents of Hygiene Products, Packaging and Forest Products 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 covered 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 fol-

lowing will apply during a transition period for the years 1999 and 2000. For 1999, the same applied as previously, that is, a maximum result of 10% of the base salary. For 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 shares and value development of SCA's competitors as well as the stock exchange as a whole. Bonuses for 1999 and 2000 will be paid in the form of SCA shares: For 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 maximum outcome for the current program has been secured with regard to increase in the SCA share price.

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. For 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.

Note 27 Part-ownership and option program

In 1998, employees in ten countries were offered the chance to invest in so-called options convertibles in order to become part-owners in SCA with a limited amount of risk. Subscription could occur in blocks of not less than SEK 9,756 (1 lot) and not more than SEK 487,800 (50 lots). In total, approximately 12,000 employees subscribed for options totaling SEK 296 M. The program will be in effect for five years. Each subscription lot consists of 36 convertibles and 54 options, each carrying the right for conversion/subscription to one Class B share in SCA. Conversion can be effected during the period 2 June – 25 August 2003, while subscription through exercise of the warrants can be effected during the period 1 October 1998 – 25 August 2003. Conversion price/subscription price was set at SEK 271. After adjustment for new issues in 1999, each convertible carries rights to 1.06 shares and each warrant to subscribe for 1.06 shares. The new conversion/exercise price is SEK 255.80 per share.

In 1999, senior executives in the Group were invited to participate in a five-year option program. Custos, Industrivärden and Skandia issued a total of 942,000 call options, of which 100,000 were subscribed by the CEO and between 1,000 and 60,000 options were subscribed by the 83 other senior executives in Sweden and abroad. The price of the options was established at SEK 20 per option, which was the market price. Each call option grants the right, from 26 April 2004 through 28 May 2004, to acquire one B share in SCA at a redemption price of SEK 283. After adjustment for the new issue in 1999, each call option carries rights to acquire 1.06 shares at an exercise price of SEK 266.79 per share. The exercise price will be adjusted if dividend growth deviates from the assumed level of 13% annually.

Specification to Note 10

Parent Company shareholdings in subsidiaries 31 Dec. 1999

Company name	Org. no.	Registered office	No. of shares	Capital %	Book value, SEK M
<i>Swedish subsidiaries:</i>					
SCA Research AB	556146-6300	Göteborg	1,000	100	0.1
AB SCA Finans	556108-5688	Stockholm	420,750	100	4,650.1
SCA Holding AB	556313-1621	Stockholm	10,374,430	100	341.4
SCA Hedging AB	556237-4867	Stockholm	50,000	100	60.0
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					29,084.8

Group holdings of share and participations in associated companies 31 Dec. 1999

Company name	Org. no.	Registered office	No. of shares/ participations	Capital %	Book value, SEK M
SCA Weyerhaeuser Packaging Holding Co Asia Ltd		Hong Kong	158,720	50	91.0
SCA Packaging India Ltd		India	7,731,882	50	32.5
Centrale Eerbeek		Eerbeek		50	33.3
Staper Ltd	1130403	Aylesford	100,000	50	5.2
Welpa Wellpappenfabrik Ges.m.b.H	FN 108934	Vienna		48	7.2
Allesta AG		Altbüron	300	48	12.3
Packaging Italy		Arcore		40	24.3
Atkasan		Izmir	44,625	35	3.2
Obalex S.R.O.		Jilove u Decina	66,000	33	77.1
Kaplamin Ambalaj Sanayi ve Ticaret AS		Izmir	8,750,000	29	60.5
Ova SCA Packaging Ambalais Ticaret AS		Tarsus	3,783,000	29	25.9
Lantero Carton		Madrid	10,000	25	193.4
SCA Packaging Ambalaj ve Ticaret AS		Altinova	2,064,600	34	28.0
Selkasan Kagit ve Paketleme Malzemeleri		Manisa	9,277,800	16	37.2
Imalati Sanayi ve Ticaret AS		Stockholm	28,000	29	4.4
IL Returpapper		Singapore		11	70.1
Central Package Private Ltd.		Singapore		11	70.1
Bio Energi i Norrland AB	556129-8885	Härnösand	300	43	9.7
Les Bois de la Baltique SA		Rochefort	75,000	33	19.8
AB Släden	556094-8001	Östersund	66,666	33	7.1
Modo Paper AB	556552-6158	Stockholm	5,000,000	50	3,430.1
Paredes	B955 509 609	Genas	43,747	35	55.3
GAE Smith	1075198	Leicester	44,300	50	44.8
Sundsvallshamn AB	556015-8072	Sundsvall	27,000	45	8.2
Other associated companies					4.9
Group holdings of shares and participations in associated companies					4,285.5

The difference between the book value in the Group and the Group's share in the associated company's shareholders' equity amounts to SEK 128 M.

Specification to Note 10, cont.

Group holdings of shares and participations in other major companies 31 Dec. 1999

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
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	FN 171841H	Laakirchen	100
Aylesford Newsprint Holdings Ltd	2816412	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 Absondfabriken AB	556239-3719	Härryda	100
– SCA Hygiene Products AFH AB	556239-3693	Göteborg	100
– SCA Hygiene Products Inc.	421987	Ontario	100
– SCA Hygiene Products A/S	30877	Alleröd	100
SCA Hygiene Products Spa.	1490500129	Busto Arsizio	100
– SCA Hygiene Products Kft	13-09-063186	Nagykuta	100
– SCA Mölnlycke Ltd	47636	Dunmanway	100
– SCA Mölnlycke Holding B.V.	185911	Ar Zeist	100
SCA Hygiene Products AG	020.3.917.992-8	Regensdorf	100
SCA Hygiene Products s.r.o.	48536466	Prague	100
SCA Mölnlycke Sp.z.o.o.	Depatm.B.2367	Warsaw	100
OY SCA Hygiene Products AB	FI01650275	Helsinki	100
SCA Mölnlycke AE	MAE13446/01AT7B/86/190	Nea Ionia	100
– SCA Hygiene Products A/S	915620019	Tönsberg	100
– SCA Mölnlycke Lda	PT 503237612	Linda-a-Velha	100
– SCA Mölnlycke o.o.o.	7704173838	Moscow	100
– SCA Hygiene Products spol.s.r.o.	31723837	Gemerská-Hôrka	100
– SCA Hygiene Products S.A.	A-28451383	Madrid	100
– SCA Mölnlycke Holdings Inc	58-2011277	Delaware	100
– SCA UK Holdings Ltd	366535	Aylesford	100
AM Paper Ltd.	3444286	Manchester	100
SCA Hygiene Products Ltd.	577116	Dunstable	100
– Productos Sanitarios Sancela S.A.	890937981-1	Medellin	49
– Uni-Charm Mölnlycke KK	660779	Tokyo	50
– Sancela SA de CV	SAN-790424-8KI	Mexico City	49
– Uni-Charm Mölnlycke BV	330631	Hoogezand	40
– SCA Hygiene Products Taiwan	16093200	Taipei	100
– Sancell SA	950464	Charguia	49
SCA Group Holding Deutschland GmbH	HRB4014	Mettman	100
SCA Hygiene Products AG	HRB42709	Munich	96
– SCA Hygiene Products Holding GmbH	HRB10455	Raubling	100
SCA Hygiene Products GmbH	HRB3248	Mannheim	100
SCA Hygiene Products GmbH	HRB5301	Wiesbaden	100
– SCA Hygiene Products S.A.	475581948	Linselles	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 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 Containerboard Deutschland	HRB3097	Traunstein	100

Specification to Note 10, cont.

Group holdings of shares and participations in other major companies 31 Dec. 1999

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	153373	Gent	100
SCA Packaging Italia Spa		Arcore	100
SCA Packaging Sweden AB	556036-8507	Värnamo	100
SCA Packaging France SA	B 858800386	Eragny	100
SCA Packaging UK	53913	Aylesford	100
SCA Finance BV		Eerbeek	100
SCA Packaging Benelux BV		Eerbeek	100
SCA Packaging De Hoop BV	8000416	Eerbeek	100
SCA Recycling Holding AB	556513-8590	Stockholm	100
SCA Recycling Holding BV	33287945	Amsterdam	100
SCA Recycling Belgium NV	608601	St Stevens Woluwe	100
SCA Recycling France SA	B404148439	Suresnes	100
SCA RML Europe NV	593097	Zaventem	100
SCA Recycling UK Ltd	214967	Aylesford	100
Italmaceri Srl	737369	Torino	50
SCA Coordination Center NV	547534	Brussels	100
SCA Reinsurance Ltd	168575	Dublin	100

The complete statutory specifications are included in the Annual report submitted to the National Swedish Patent and Registration Office. This specification for the years 1997–99 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 16,985 M.

Distributable shareholders' equity at the Parent Company:

retained earnings	12,708,755,481
earnings for the year	1,226,041,946
<hr/> Total	<hr/> 13,934,797,427

The Board of Directors and the President recommend:

to the shareholders, a dividend of SEK 6.80 per share	1,566,039,483
retained earnings to be carried forward	12,368,757,944
<hr/> Total	<hr/> 13,934,797,427

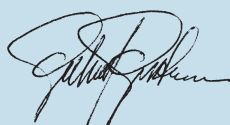
Stockholm, 23 February 2000



Bo Rydin
Chairman



Christer Gardell



Gerhard Gustavsson



Sören Gyll



Tom Hedelius



Tjell-Åke Hägglund



Lars Ramqvist



Clas Reuterskiöld



Alf Söderlund



Sverker Martin-Löf
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 1999. 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. As a basis for our opinion, 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. We have also examined whether any Board member or the President 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 in accordance with Swedish GAAP.

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

Stockholm, 23 February 2000

Öhrlings PricewaterhouseCoopers AB



Bertil Edlund
Authorized Public Accountant

Quarterly data

BUSINESS AREAS

Net sales (SEK M)	1999				1998			
	IV	III	II	I	IV	III	II	I
Hygiene Products	7,275	6,764	6,679	6,609	6,951	6,490	6,395	6,328
<i>Consumer products</i>	4,284	3,894	3,774	3,775	4,081	3,820	3,714	3,698
<i>AFH and incontinence products</i>	2,991	2,870	2,905	2,834	2,870	2,670	2,681	2,630
Packaging	5,587	4,862	4,664	4,745	3,832	3,725	3,650	3,828
Forest Products	3,087	2,892	2,812	2,741	2,952	2,805	2,830	2,892
<i>Pulp, Timber and Solid wood products</i>	1,304	1,272	1,187	1,185	1,217	1,154	1,288	1,284
<i>Publication paper</i>	1,783	1,620	1,625	1,556	1,735	1,651	1,542	1,608
Fine paper, paper merchenting ¹	–	2,558	2,616	2,621	2,659	2,576	2,411	2,630
Other operations	383	440	487	375	365	467	404	411
Divested units	–	–	–	–	3	1	–1	141
Intra-Group deliveries	–670	–913	–869	–849	–844	–830	–832	–966
Total net sales	15,662	16,603	16,389	16,242	15,918	15,234	14,857	15,264
Operating surplus (SEK M)	1999				1998			
	IV	III	II	I	IV	III	II	I
Hygiene Products	1,117	948	907	905	925	919	887	952
<i>Consumer products</i>	624	449	406	424	431	457	460	471
<i>AFH and incontinence products</i>	493	499	501	481	494	462	427	481
Packaging	1,075	823	793	699	523	580	592	575
Forest Products	896	797	742	709	806	780	729	735
<i>Pulp, Timber and Solid wood products</i>	377	328	227	211	264	244	245	293
<i>Publication paper</i>	519	469	515	498	542	536	484	442
Fine paper, paper merchenting ¹	–	228	236	222	215	226	246	283
Other operations	–35	–13	–51	–2	7	1	–27	366
Total operating surplus	3,053	2,783	2,627	2,533	2,476	2,506	2,427	2,911
Operating profit (SEK M)	1999				1998			
	IV	III	II	I	IV	III	II	I
Hygiene Products	747	649	602	615	597	616	619	631
<i>Consumer products</i>	380	260	218	250	253	245	285	263
<i>AFH and incontinence products</i>	367	389	384	365	344	371	334	368
Packaging	737	550	505	424	327	401	405	377
Forest Products	625	552	488	458	575	518	474	479
<i>Pulp, Timber and Solid wood products</i>	278	255	141	143	196	164	161	203
<i>Publication paper</i>	347	297	347	315	379	354	313	276
Fine paper, paper merchenting ¹	136	125	122	108	100	114	140	174
Other operations	–33	–19	–40	–16	–30	–16	–34	365
Divested units	–	–	–	–	–1	–1	–	5
Operating profit before goodwill amortization	2,212	1,857	1,677	1,589	1,568	1,632	1,604	2,031
Goodwill amortization*	–188	–147	–132	–135	–108	–100	–102	–97
Total operating profit	2,024	1,710	1,545	1,454	1,460	1,532	1,502	1,934
– of which nonrecurring items	–	–	–	–	–	–	–	400
* Goodwill amortization:								
Hygiene Products	45	27	19	19	14	16	14	15
Packaging	63	40	31	37	11	5	10	4
Fine paper, paper merchenting	–	1	1	0	0	0	1	0
Common	80	79	81	79	83	79	77	78
Group	188	147	132	135	108	100	102	97
Margins (%)	1999				1998			
	IV	III	II	I	IV	III	II	I
Operating surplus margin								
Hygiene Products	15	14	14	14	13	14	14	15
<i>Consumer products</i>	15	12	11	11	11	12	12	13
<i>AFH and incontinence products</i>	17	17	17	17	17	17	16	18
Packaging	19	17	17	15	14	16	16	15
Forest Products	29	28	26	26	27	28	26	25
<i>Pulp, Timber and Solid wood products</i>	29	26	19	18	22	21	19	23
<i>Publication paper</i>	29	29	32	32	31	32	31	27
Fine paper, paper merchenting ¹	n.a.	9	9	8	8	9	10	11
Operating margin excl. goodwill amortization								
Hygiene Products	10	10	9	9	9	9	10	10
<i>Consumer products</i>	9	7	6	7	6	6	8	7
<i>AFH and incontinence products</i>	12	14	13	13	12	14	12	14
Packaging	13	11	11	9	9	11	11	10
Forest Products	20	19	17	17	19	18	17	17
<i>Pulp, Timber and Solid wood products</i>	21	20	12	12	16	14	13	16
<i>Publication paper</i>	19	18	21	20	22	21	20	17
Fine paper, paper merchenting ¹	n.a.	5	5	4	4	4	6	7

¹ As of 1 October 1999, fine paper operations are reported as a share in earnings of Modo Paper AB, but is included in net sales, operating profit, etc. for earlier periods. Accordingly, the margins for the fine paper operations are not shown for the fourth quarter of 1999.

GROUP

Earnings (SEK M)	1999				1998			
	IV	III	II	I	IV	III	II	I
Net sales	15,662	16,603	16,389	16,242	15,918	15,234	14,857	15,264
Operating surplus	3,053	2,783	2,627	2,533	2,476	2,506	2,427	2,911
Depreciation according to plan	-1,186	-1,078	-1,093	-1,084	-1,043	-1,006	-966	-998
Share in earnings of Modö Paper AB ¹	136	-	-	-	-	-	-	-
Share in earnings of other associated companies	21	5	11	5	27	32	41	21
Operating profit	2,024	1,710	1,545	1,454	1,460	1,532	1,502	1,934
Financial items	-313	-315	-258	-326	-343	-338	-298	-280
Earnings after financial items	1,711	1,395	1,287	1,128	1,117	1,194	1,204	1,654
- of which nonrecurring items	-	-	-	-	-	-	-	400
Income taxes	-555	-497	-425	-372	-356	-426	-376	-522
Minority interest	-24	-15	-21	-10	-30	-19	-29	-32
Net earnings after tax	1,132	883	841	746	731	749	799	1,100
Earnings per share, SEK	5.10	4.19	4.01	3.55	3.47	3.56	3.82	5.26

Margins (%)¹	1999				1998			
	IV	III	II	I	IV	III	II	I
Operating surplus margin	19.5	16.8	16.0	15.6	15.6	16.5	16.3	19.1
Operating margin, excl. goodwill amortization	14.1	11.2	10.2	9.8	9.9	10.7	10.8	13.3
Operating margin	12.9	10.3	9.4	9.0	9.2	10.1	10.1	12.7
Financial net margin	-2.0	-1.9	-1.6	-2.0	-2.2	-2.2	-2.0	-1.8
Profit margin	10.9	8.4	7.8	7.0	7.0	7.9	8.1	10.9

¹ As of 1 October 1999, fine paper operations are reported as a share in earnings of Modö Paper AB, but is included in net sales operating profit, etc. for earlier periods. Accordingly, the margins for the fine paper operations are not shown for the fourth quarter of 1999 and the Group's margins are not fully comparable over time.

Group by country

	Net sales				Average no. of employees				Salaries	
	SEK M	SEK M		of whom, women		of whom, women		SEK M	SEK M	
	1999	%	1998	%	1999*	%	1998	%	1999*	1998
Sweden	5,606	9	5,353	9	6,687	21	7,209	21	1,964	2,027
EU excl. Sweden										
Great Britain	12,361	19	10,401	17	6,928	17	4,453	16	2,130	1,349
Germany	10,642	16	11,239	18	5,818	15	6,281	16	1,885	2,195
France	6,936	11	6,880	11	3,598	21	2,969	28	934	738
The Netherlands	4,845	8	4,582	8	2,559	11	2,701	13	801	700
Italy	4,049	6	4,119	7	1,377	19	1,404	24	440	350
Denmark	2,594	4	1,605	3	1,955	31	139	50	347	60
Belgium	2,474	4	2,394	4	1,244	21	872	30	491	437
Austria	1,680	3	1,635	3	2,135	14	2,368	13	785	856
Spain	1,497	2	1,470	2	457	30	360	25	93	83
Finland	737	1	735	1	129	56	176	53	36	48
Greece	507	1	555	1	168	40	238	42	38	46
Ireland	464	1	671	1	18	17	19	16	4	5
Portugal	303	0	282	0	64	43	29	31	5	23
Luxembourg	55	0	72	0	-	-	-	-	-	-
Total EU, excl. Sweden	49,144	76	46,640	76	26,450	19	22,009	20	7,989	6,890
Rest of Europe										
Norway	1,378	2	1,226	2	279	44	461	37	120	144
Switzerland	947	1	757	1	385	22	400	23	168	128
Poland	849	1	983	2	552	28	501	42	52	36
Hungary	553	1	498	1	242	37	240	45	22	18
Czech Republic	241	0	213	0	77	61	90	54	8	8
Turkey	103	0	127	0	-	-	-	-	-	-
Slovakia	83	0	85	0	300	31	305	33	11	11
Other	417	1	421	1	-	-	-	-	-	-
Total rest of Europe	4,571	6	4,310	7	1,835	32	1,997	36	381	345
Rest of the world										
US	1,840	3	1,838	3	415	39	414	40	271	158
Canada	603	1	492	1	205	27	216	40	64	65
Japan	194	0	86	0	-	-	-	-	-	-
Other	2,938	5	2,554	4	2,087	29	237	45	124	21
Total rest of the world	5,575	9	4,970	8	2,707	31	867	41	459	244
SCA GROUP	64,896	100	61,273	100	37,679	20	32,082	21	10,793	9,506

* Including SCA's share in joint-venture companies.

Ten-year comparison

SEK M	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Statement of earnings										
Net sales	64,896	61,273	58,595	55,405	65,317	33,676	33,420	32,137	32,760	31,122
Operating profit ¹	6,733	6,428	5,568	4,581	7,350	1,810	2,172	8,608	2,605	3,338
Hygiene Products	2,613	2,463	2,611	2,277	1,254	676	1,012	781	662	533
Packaging	2,216	1,510	1,219	939	2,370	910	680	462	607	626
Forest Products	2,123	2,046	1,259	1,352	2,483	–	–	–	–	–
Graphic Paper	–	–	–	–	–	495	35	-313	186	507
Forest and Timber	–	–	–	–	–	869	515	375	468	481
Fine Paper and paper merchant	491	528	438	-235	739	–	–	–	–	–
Other operations	-108	285	384	436	299	193	-11	197	224	191
Divested units	–	3	29	100	210	175	204	777	776	837
Goodwill amortization	-602	-407	-372	-288	-301	-288	-287	-248	-200	-105
Nonrecurring items ²	–	–	–	–	296	-1,220	25	6,577	-118	268
Financial income	322	280	280	319	296	252	217	319	320	469
Financial expenses	-1,534	-1,539	-1,391	-1,327	-1,915	-1,002	-1,179	-1,899	-1,740	-1,404
Earnings after financial items	5,521	5,169	4,457	3,573	5,731	1,060	1,210	7,028	1,185	2,403
Income taxes	-1,849	-1,680	-1,337	-1,144	-1,915	-423	-79	-796	-150	-838
Minority interest	-70	-110	-361	-312	-352	-82	-60	-32	-134	-59
Net earnings for the year³	3,602	3,379	2,759	2,117	3,464	555	1,071	6,200	901	1,506
Balance sheet										
Fixed assets (excl. financial receivables)	61,065	55,147	50,351	48,599	46,822	31,336	30,983	30,613	30,820	32,903
Receivables and inventories	18,311	18,790	16,726	15,461	16,435	10,606	10,409	10,775	11,022	12,252
Financial receivables	1,278	1,485	1,370	1,072	1,128	131	175	212	247	–
Short term investments	2,930	1,132	676	1,469	1,692	1,873	1,296	3,435	672	2,216
Cash and bank balances	1,630	1,819	1,582	1,393	2,053	982	1,388	1,064	806	1,058
Total assets	85,214	78,373	70,705	67,994	68,130	44,928	44,251	46,099	43,567	48,429
Shareholders' equity	34,133	28,404	24,653	22,906	22,024	19,590	19,963	18,284	11,144	11,350
Minority interests	587	1,386	1,496	3,331	3,493	853	916	807	688	586
Provisions ⁴	8,632	10,906	10,452	9,441	–	–	–	–	–	–
Interest-bearing debt	28,881	25,806	22,647	21,396	22,439	13,559	13,673	15,510	19,281	21,818
Operating- and other interest-free liabilities	12,981	11,871	11,457	10,920	20,174	10,926	9,699	11,498	12,454	14,675
Total shareholders' equity and liabilities	85,214	78,373	70,705	67,994	68,130	44,928	44,251	46,099	43,567	48,429
Capital employed ⁵	54,616	47,400	44,840	43,311	47,408	31,780	31,459	29,581	30,918	24,217
Net debt, incl. pension provisions	24,073	24,756	22,254	20,615	20,363	–	–	–	–	–
Net debt, excl. pension provisions	–	–	–	–	–	10,573	10,814	10,799	17,556	18,407
Cash flow analysis⁶										
Operating cash flow	8,707	6,678	6,631	5,959	6,533	2,422	2,689	2,930	2,329	–
Cash flow from current operations	6,740	3,875	4,850	4,210	4,772	1,174	1,313	1,388	633	–
Cash flow before dividend	-3,760	345	482	2,006	-3,673	504	2,285	5,278	1,738	–
Current capital expenditures	2,046	2,058	2,207	2,489	2,927	1,377	1,479	1,461	1,495	2,518
Strategic capital expenditures	2,615	2,248	983	1,126	1,849	1,599	74	316	462	2,108
Acquisitions	10,400	2,793	3,431	1,558	7,698	821	520	383	1,928	6,899
Key ratios⁷										
Equity/assets, %	41	38	37	39	37	46	47	41	28	25
Interest coverage, multiple	5.6	5.1	5.0	4.5	4.5	2.4	2.3	5.5	1.8	3.6
Debt payment capacity, incl. pension provisions, %	33	32	33	30	31	–	–	–	–	–
Debt/equity ratio, incl. pension provisions, multiple	0.69	0.83	0.85	0.79	0.80	–	–	–	–	–
Debt/equity ratio, excl. pension provisions, multiple	–	–	–	–	–	0.52	0.52	0.57	1.44	1.54
Return on capital employed, %	12	14	12	11	16	6	7	29	8	14
Return on shareholders' equity, %	12	13	12	10	17	3	6	47	8	14
Operating margin, %	10	11	10	8	11	5	6	27	8	11
Net margin, %	6	6	5	4	5	2	3	19	3	5
Capital turnover rate, multiple	1.19	1.29	1.31	1.28	1.38	1.06	1.06	1.09	1.06	1.29
Operating cash flow per share, SEK	31.45	18.46	23.17	20.11	23.62	5.61	6.55	6.99	3.09	–
Earnings per share, SEK	16.85	16.11	13.20	10.11	16.57	2.78	5.49	31.37	4.69	7.67
Dividend, SEK per share	6.80 ⁸	6.14	5.43	4.96	4.48	3.54	3.21	2.93	2.93	2.93

¹ Operating profit has been distributed (pro forma) for 1995–1999.

² Not reported separately in 1996–1998.

³ Earnings in Sweden have been charged with 28% deferred tax in 1994–1999 and 30% in 1990–1993.

⁴ The provisions are included in operating- and other interest-free liabilities in 1990–1995.

⁵ Calculation of average return on capital employed and shareholders' equity is based on five measurements during 1993–1999, four measurements in 1991 and 1992 and two measurements in earlier years.

⁶ Data for 1995–1998 adjusted in accordance with SCA's new cash flow analysis applied as of 1999.

⁷ Key ratios are defined on page 73.

⁸ 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. Goodwill is included in the Group's capital employed as a consolidated asset as of 1999. As of 31 December 1999, pension liabilities are included in net debt.

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 and other noninterest-bearing liabilities.

Goodwill is included in capital employed by the Group as a consolidated asset.

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% rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden.

Net debt

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

FINANCIAL MEASUREMENTS

Equity/assets ratio

The equity/assets ratio corresponds to shareholders' equity plus minority interest expressed as a percentage of total assets.

Debt/equity ratio

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

Interest coverage ratio

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 is expressed as cash earnings in relation to average net debt.

Operating surplus

Operating surplus is expressed as operating profit before depreciation/amortization of tangible and intangible fixed assets and share in earnings of associated companies.

Operating cash flow

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

Cash flow from operations

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

Strategic investments

Strategic investments are designed to increase the company's 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.

Gross margin

Operating surplus as a percentage of net sales.

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 after tax as a percentage of average shareholders' equity.

OTHER MEASUREMENTS

Value added per employee

Operating profit plus salaries, wages and payroll expenses divided by the average number of employees.

Earnings per share in SEK

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

SEK M	1999	1998	1997
Net profit for year	3,602	3,379	2,759
Reversal of interest expense, after tax, on option and convertible loans, SEK M	9	6	3
Total	3,611	3,385	2,762
Average no. of shares after full dilution, millions	214.3	210.0	209.3
Earnings per share after taxes and full dilution, SEK	16.85	16.11	13.20

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 household towels, and wiping products for institutions, companies, hotels, etc.

Non-woven products – Non-woven material comprising natural and/or manufactured fibers. In the AFH market, non-woven is used mainly for industrial wiping and polishing.

TAD (Through Air Drying) – Hot air is blown into the tissue to improve its properties.

Packaging

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 – Outer layers of paper with intermediate layer of fluting/folded paper (see liner and fluting).

Corrugated board plant (also called sheet feeder) – 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.

Forest Products

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

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.

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

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

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

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

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

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

Solid wood products – Wood sawn into various dimensions/sizes: planks, joists, etc.

Raw Materials and Logistics

Recycled fiber – Fiber based on recovered paper.

Recycled paper – Used papers collected for recycling.

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

Other

CAD/CAM – Computer Aided Design/Computer Aided Manufacturing.

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

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. One MW is one million watts.

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

RMS – SCA's resource-management system.

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	Tissue	Corrugated board	Kraftliner	Testliner	Fluting	Newsprint	SC paper	LWC paper	Market pulp ⁵⁾	CTMP pulp	Total pulp and paper	Sawn timber m ³	Recovered paper ⁹⁾
Hygiene Products	Lilla Edet	SE	100										100		
	Nättraby ***	SE	30										30		
	Tilburg	NL	32										32		
	Friesland ***	NL	8										8		
	Stembert	BE	67										67		
	Le Theil	FR	58										58		
	Roanne	FR	30										30		
	Svetogorsk	RU	28										28		
	Mannheim 1,2) **	DE	329										329		
	Mainz-Kostheim **	DE	105										105		
	Ortmann ***	AT	118										118		
	Prudhoe	GB	88										88		
	Chesterfield	GB	31										31		
	Skelmersdale	GB	32										32		
	La Riba	ES	24										24		
	Panosa ³⁾	ES	31										31		
Benaventes	PT	9										9			
Cavite	PH	10										10			
Total			1,130										1,130		
Packaging		Asia ⁴⁾		46									46		
		BE		137									137		
		DK		171									171		
		FR		205									205		
		EI		6									6		
		IT		457									457		
		NL		108									108		
		PL ⁵⁾		9									9		
		RU ⁵⁾		3									3		
		CH		37									37		
		SL ⁵⁾		2									2		
		ES		152									152		
		GB		491									491		
		SE		100									100		
		CZ		46									46		
		TR		57									57		
		DE		361									361		
		HU ⁵⁾		11									11		
		AT		34									34		
		Munksund	SE			350							350		
	Obbola *	SE			300	100						400			
	Grenå	DK				100	100					200			
	Porcari	IT				240	85					325			
	Castelfranco	IT					70					70			
	Aylesford *	GB				140	100					240			
	Eerbeek *	NL				175	145					320			
	Aschaffenburg	DE					290					290			
	Witzenhausen	DE				240	85					325			
	Oftringen *	CH				50	40					90			
Total				2,433	650	1,045	915						5,043⁶⁾		
Forest Products	Ortviken *	SE						350		400			750		
	Östrand *	SE						390			320	70	390		
	Aylesford *	GB							325				390		
	Laakirchen ***	AT											325		
	Tunadal	SE												300	
	Lugnvik	SE												150	
Holmsund	SE												70		
Munksund	SE												265		
Total								740	325	400	320	70	1,855	785	
SCA Recycling		AT												350	
		FR												70	
		DE												833	
		IT												540	
		SE												1,359	
		BE												533	
	TR												77		
	GB												953		
Total														4,715⁷⁾	
TOTAL			1,130	2,433	650	1,045	915	740	325	400	320	70	8,028	785	4,715

* Certified in accordance with ISO 14001.

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

1) Including 50,000 tons of packaging paper and oven paper.

2) Reflects full capacity of TAD machine.

3) Panosa is the company name, four sites.

4) Through the SCA-Weyerhaeuser joint venture in China and through Central Package Group in China, Indonesia, Singapore, Thailand and Malaysia.

5) Only converting plants.

6) Including converting plants in Poland, Hungary, Slovakia and Romania.

7) Of which, 396,000 tons internally.

8) Defined as dry capacity.

9) Controlled and traded.

Board of Directors and Auditor

BOARD OF DIRECTORS

Elected by Annual General Meeting



Bo Rydin b. 1932. Chairman, SCA Board member since 1972. Deputy member 1970–1972. Other board memberships in listed Swedish companies: Chairman of AB Industrivärden, Skanska AB, Graningevarken and SAS Council. Vice Chairman of Svenska Handelsbanken. SCA shares held: 66,000.



Sverker Martin-Löf b. 1943. President and CEO, SCA. SCA Board member since 1986. Other board memberships in listed Swedish companies: Telefonaktiebolaget LM Ericsson SCA shares held: 8,233. Convertibles: 1,800 (1,907). Options: 102,700 (108,936).



Clas Reuterskiöld b. 1939. CEO and President, AB Industrivärden. SCA Board member since 1994.

Other board memberships in listed Swedish companies: Telefonaktiebolaget LM Ericsson, Sandvik AB, Skanska AB and Svenska Handelsbanken. SCA shares held: 7,500.



Tom Hedelius b. 1939. Chairman, Svenska Handelsbanken. SCA Board member since 1985. Other board memberships in listed Swedish companies: Bergman & Beving AB (chairman), Telefonaktiebolaget LM Ericsson (vice chairman), AB Industrivärden (vice chairman), SAS Council, and AB Volvo. SCA shares held: 1,940.



Christer Gardell b. 1960. President, AB Custos. SCA Board member since 1997.

Other board memberships in listed Swedish companies: Perbio Science AB (chairman), Bilia AB, HiQ International AB, Perstorp AB and Svedala Industri AB. SCA shares held: 1,356.



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



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

Appointed by employees



Gerhard Gustavsson b. 1939. *Engineering Supervisor, SCA Hygiene Paper AB, Edet Mill. SCA Board member since 1989.* Represents salaried employees. Convertibles: 36 (38). Options: 54 (57).



Tjell-Åke Hägglund b. 1944. *President, SCA Recreation and Pension Foundations. SCA Board member since 1985.* Represents salaried employees. SCA shares held: 87. Convertibles: 72 (76). Options: 108 (114).



Alf Söderlund b. 1943. *Instrument Maker, SCA Graphic Sundsvall AB, Ortviken Papermill. SCA Board member since 1985.* Represents wage-earner employees. SCA shares held: 72. Convertibles: 36 (38). Options: 54 (57).

Deputy members

Jörgen Andersson b. 1964. *Electrician, SCA Hygiene Paper AB, Edet Mill. SCA Board member since 1997.* Represents wage-earner employees. SCA shares held: 147. Convertibles: 360 (381). Options: 540 (572).

Per Ågren b. 1941. *Repairman, SCA Packaging, Järfälla. SCA Board member since 1998.* Represents wage-earner employees. Convertibles: 36 (38). Options: 54 (57).

Bruno Lundgren b. 1941. *Supervisor, SCA Packaging Munksund AB. SCA Board member since 1989.* Represents salaried employees. SCA shares held: 72. Convertibles: 762 (807). Options: 1,080 (1,144).

Board Secretary

Michael Bertorp b. 1949. *Executive Vice President and General Counsel, responsible for Secretariat and Legal Affairs.* SCA shares held: 2,236. Convertibles: 1,800 (1,907). Options: 62,700 (66,506).

AUDITOR

Öhrlings PricewaterhouseCoopers 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 1999 fiscal year, the Board held 10 (9) meetings. The work of the Board of Directors follows an annual reporting 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 2000 Annual General Meeting, this nominating committee comprises Bo Rydin, Chairman, Tom Hedelius, Clas Reuterskiöld and Christer Gardell.

There is also a salary committee that deals with matters related to employment and pension terms of senior executives and other employees. During the period preceding the 2000 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 corresponding number of shares. Information as of 31 December 1999.

Senior management



Sverker Martin-Löf *b. 1943*
President and CEO, SCA.
 Doctor of Technology.
 SCA employee since 1977.
 Earlier: Senior Vice President, Technology, MoDo.
 SCA shares held: 8,233.
 Convertibles: 1,800 (1,907).
 Options: 102,700 (108,936).

Alfred H. Heinzel *b. 1947.*
President, SCA Hygiene Products.
 B. Sc. Eng. and MBA.
 SCA employee since 1988.
 Earlier: President, Laakirchen AG.
 SCA shares held: 595.
 Convertibles: 900 (953).
 Options: 61,350 (65,076).

Colin J. Williams *b. 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 (1,907).
 Options: 62,700 (66,506).

Kenneth Eriksson *b. 1944.*
President, SCA Forest Products.
 Mechanical Engineer.
 SCA employee since 1979.
 Earlier: President, Sunds Defibrator AB.
 SCA shares held: 0.
 Convertibles: 1,800 (1,907).
 Options: 52,700 (55,898).

Jerker Karlsson *b. 1944.*
Executive Vice President, SCA Forest Products.
 Licentiate of Forestry.
 SCA employee since 1970.
 Earlier: President, SCA Skog AB.
 SCA shares held: 1,198.
 Convertibles: 1,800 (1,907).
 Options: 6,700 (7,103).

Ulf Frölander *b. 1939.*
President, SCA Raw Materials and Logistics. Ph. D.
 SCA employee since 1988.
 Earlier: Executive Vice President, Boliden AB.
 SCA shares held: 1,173.
 Convertibles: 1,800 (1,907).
 Options: 32,700 (34,683).



Michael Bertorp b. 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: 2,236. Convertibles: 1,800 (1,907). Options: 62,700 (66,506).

Alf de Ruvo b. 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: 1,283. Convertibles: 1,800 (1,907). Options: 22,700 (24,076).

Åke Rietz b. 1945. Executive Vice President and Chief Financial Officer. MBA. SCA employee since 1988. Earlier: CFO, Duni AB. SCA shares held: 1,362. Convertibles: 1,800 (1,907). Options: 62,700 (66,506).

Lennart Persson b. 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 (1,907). Options: 32,700 (34,683).

Sten Lindholm b. 1941. Senior Vice President, Corporate Communications. BA. SCA employee since 1990. Earlier: Senior Vice President, Corporate Communications, AGA Aktiebolag. SCA shares held: 0. Convertibles: 1,800 (1,907). Options: 32,700 (34,683).

Francis Van Sevendonck b. 1946. Senior Vice President, Human Resources. Bachelor of Law. SCA employee since 1990. Earlier: Director of Human Resources, Westinghouse Electronic Corp. SCA shares held: 0. Convertibles: 1,800 (1,907). Options: 17,700 (18,772).

Carl-Axel Olson b. 1948. President, AB SCA Finans. MBA. SCA employee since 1975. Earlier: Vice President AB SCA Finans. SCA share held: 1,305. Convertibles: 1,800 (1,907). Options: 15,700 (16,650).

Ralf Helsing b. 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 (1,907). Options: 32,700 (34,683).

SCA in the world

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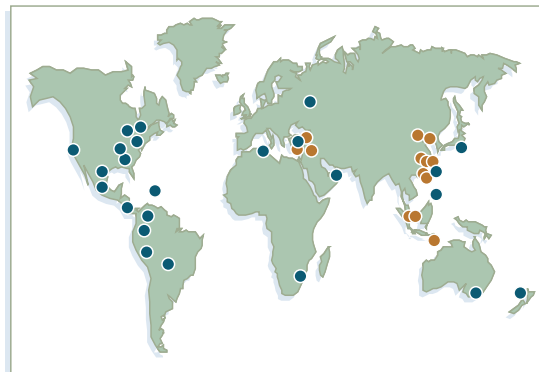
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Ulf Frölander, President

Other companies

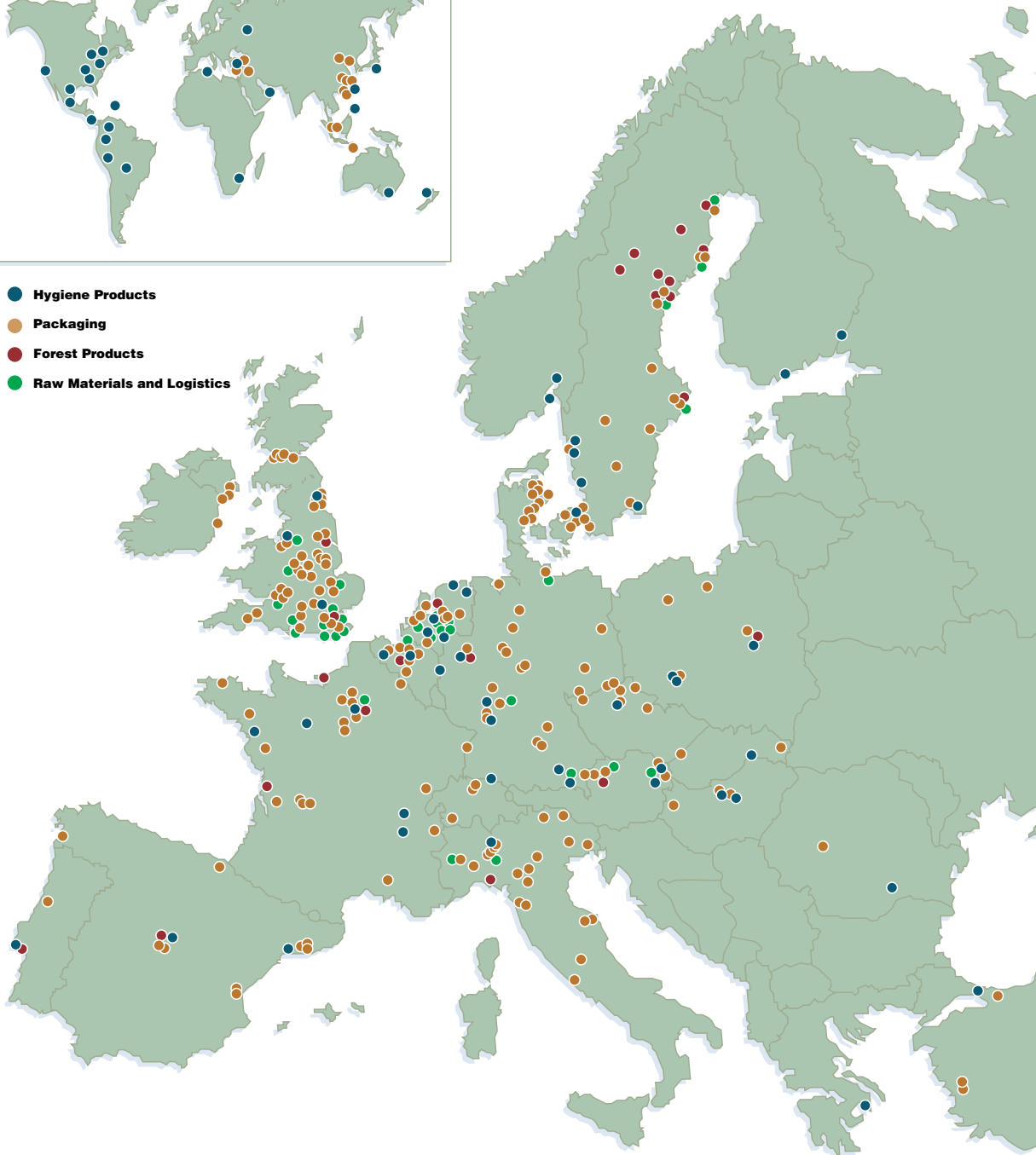
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Per Larsson



- Hygiene Products
- Packaging
- Forest Products
- Raw Materials and Logistics



Annual General Meeting and Nominating Committee

The Annual General Meetings of shareholders is being held on Monday, 10 April 2000 at 2:00 p.m. at Cirkus, Djurgården, Stockholm, Sweden.

Right to participate in the meeting

To participate in the meeting, shareholders

must be on the SCA list of shareholders not later than Friday, 31 March 2000

and notify SCA of their intention to participate, not later than 4:00 p.m. on Monday, 3 April 2000.

Registration on shareholders' list

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

To participate in the meeting, shareholders whose stock has been registered in the names of trustees must arrange for their shares to be re-registered in their own names at VPC not later than Friday, 31 March 2000.

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, or
- by mail to:
Svenska Cellulosa Aktiebolaget SCA
Legal Affairs
Box 7827
SE-103 97 Stockholm, Sweden.

In providing such notice, a shareholder should state:

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

Payment of dividend

Thursday, 13 April 2000 is proposed as the record date for entitlement to dividends. Payment is expected to be made through VPC on Tuesday, 18 April 2000.

Nominating Committee for SCA's Board of Directors

The Committee presents proposals on the composition of SCA's Board of Directors. Members: Bo Rydin (Chairman), Christer Gardell, Tom Hedelius and Clas Reuterskiöld.

Address: SCA, Box 7827,
SE-103 97 Stockholm, Sweden.

Financial information report dates in 2000

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

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

- 10 April 2000 Annual General Meeting.
- 28 April 2000 Interim report for three months ended 31 March 2000.
- 28 July 2000 Interim report for six months ended 30 June 2000.
- 30 October 2000 Interim report for nine months ended 30 September 2000.
- 30 January 2001 Year-end report on 2000 operations.
- March 2001 Annual Report for 2000.

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

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Corporate Communications
Box 7827, SE-103 97 Stockholm, Sweden
Telephone: +46-8 788 51 00 / Telefax: +46-8 678 81 30
or from SCA's Internet website: www.sca.se

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*SCA sponsors the
Swedish Olympic Team*

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