



SCA Annual Report
2006



The year at a glance

Net sales amounted to SEK 101,439m (96,385). **Net profit** for the year amounted to SEK 5,467m (454). Earnings **per share** amounted to SEK 23.25 (18.84). SCA's efficiency enhancement programmes provided **savings** of SEK 1,265m. SCA has strengthened its **product offerings** within all segments with new, innovative products. The proposed **dividend** is SEK 12.00 (11.00) per share.

Earnings, dividend and cash flow per share



Key ratios

	2006		2005		2004	
	SEK	EUR ¹⁾	SEK	EUR ¹⁾	SEK	EUR ¹⁾
Net sales, SEKm/EURm	101,439	10,972	96,385	10,398	89,967	9,867
Profit before tax, SEKm/EURm	6,833	739	433	47	6,585	721
Net profit for the year, SEKm/EURm	5,467	591	454	49	5,192	568
Net profit for the year, SEKm ²⁾	5,467		4,435		5,233	
Earnings per share, SEK	23.25		18.84		22.12	
Earnings per share, SEK ²⁾	23.25		18.89		22.29	
Cash flow from current operations per share, SEK	11.85		18.67		24.35	
Dividend, SEK	12.00 ³⁾		11.00		10.50	
Strategic investments incl. acquisitions, SEKm/EURm	-1,258	-136	-2,514	-271	-11,738	-1,287
Shareholders' equity, SEKm/EURm	58,299	6,444	56,343	5,980	54,350	6,048
Return on equity, %	9		1		10	
Debt/equity ratio, multiple	0.62		0.70		0.63	
Average number of employees	51,022		51,902		49,919	

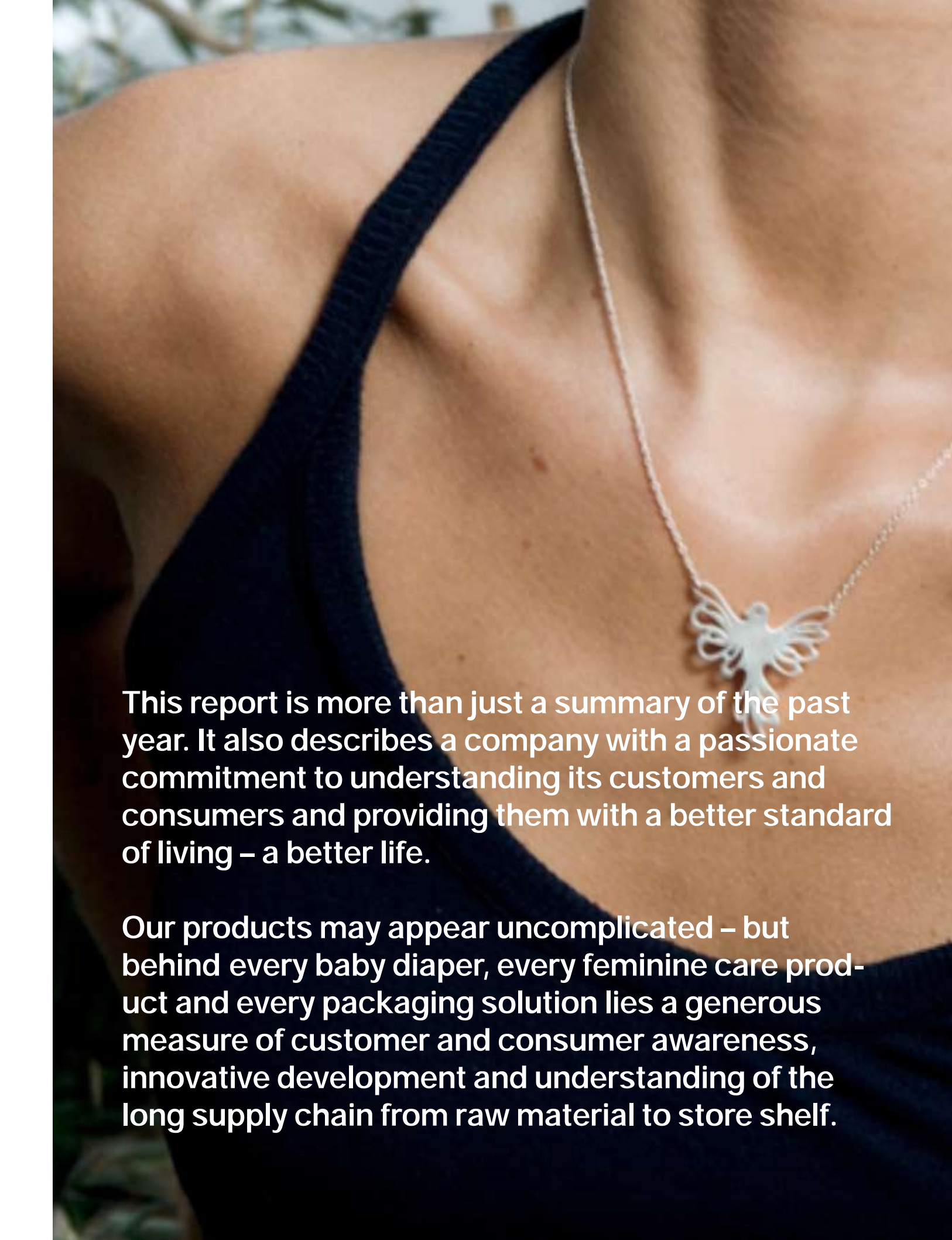
¹⁾ See pages 52 and 54 for exchange rates

²⁾ Excluding items affecting comparability

³⁾ Proposed dividend

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This report is more than just a summary of the past year. It also describes a company with a passionate commitment to understanding its customers and consumers and providing them with a better standard of living – a better life.

Our products may appear uncomplicated – but behind every baby diaper, every feminine care product and every packaging solution lies a generous measure of customer and consumer awareness, innovative development and understanding of the long supply chain from raw material to store shelf.



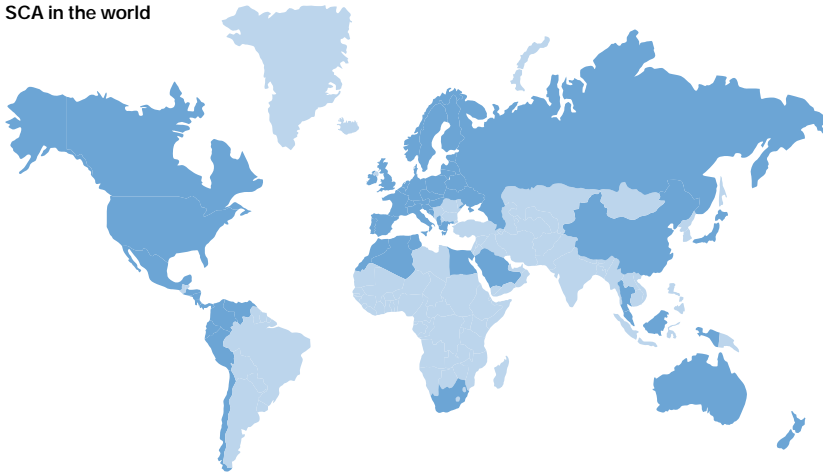
We are here to develop and improve everyday lives.

This is our mission which also contains fantastic opportunities for growth. Millions of people in developing countries are about to experience an enormous improvement in their standard of living. We grow hand-in-hand with this progress and we operate our business with sustainable principles.

Enjoy reading more about the opportunities we offer!

SCA at a glance

SCA in the world



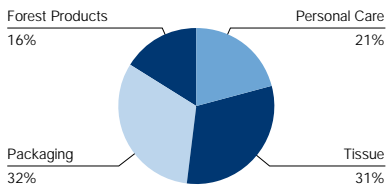
SCA is a global consumer goods and paper company. We create value through knowledge of consumers and customers needs, regional presence and efficient production. We develop, produce and market personal care products, tissue, packaging solutions, publication papers and solid-wood products in more than 90 countries.

More than half of our sales volume comprises consumer products where the end-users are individuals and households. Every day our products reach hundreds of millions of people around the world. These products are mainly sold under our own brands, such as TENA, Tork, Edet, Zewa, Libero and Libresse. Sales are increasing rapidly in emerging markets.

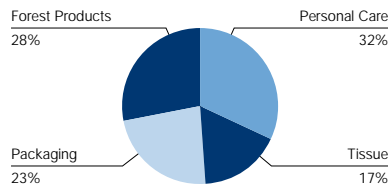
Our packaging solutions are primarily used in the transportation of food, industrial products and consumer durables, but are also in the form of point-of-sale packaging for product promotion to the end-consumer in the store. In our Forest Products business area, high-quality publication papers for newspapers and magazines are among our most important products.

SCA's own timber supply is a vital component in the Group's raw material flow and helps form a strong link between the different product segments.

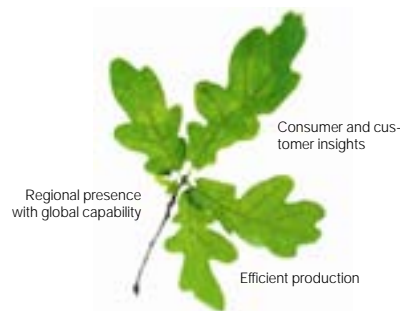
Net sales by business area (excl. intra-Group deliveries)



Operating profit by business area (adjusted for central items)

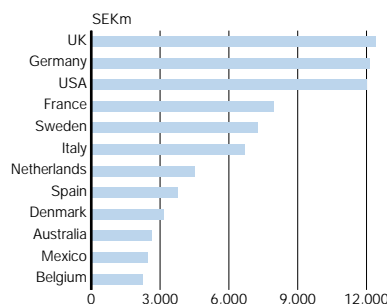


SCA's strategic strengths



Read more about SCA's strategic strengths on page 7.

The Group's largest markets



Although Europe is SCA's main market, sales are increasing rapidly in the emerging markets.



Jan Åström **Events and trends**

2006 was a year of recovery for SCA as demand for our products increased. In addition the balance between supply and demand improved, which meant prices could increase in most of our product areas. Our extensive efficiency enhancement programmes developed well and implementation is actually happening a little faster than planned. The Group's profits and profitability improved and, towards the end of the year, shareholder value creation levels were achieved. There is good potential for continued profitable growth thanks to increased demand, especially for new products and in emerging markets. This is supported by our strategic strengths: consumer and customer insight, regional presence with global capability and efficient production.

Our progress has been achieved against the backdrop of two global themes that captured the world's interest in 2006. These themes are of vital importance to SCA's future and underscore its long-term potential, as well as the responsibility we all share for the future. I am referring to China and the climate issue.

China is the symbol of current growth acceleration in many developing countries and it is providing billions of people with the opportunity to create a better life as efficient producers and consumers with substantial spending power. This reinforces market economy values and results in increased international exchange at all levels, more open societies and greater freedom for individuals.

This, in turn, increases global demand and presents SCA with new challenges. Everything will move far faster and our market potential will be significantly increased. When Sweden and

other European countries became market economies at the end of the 19th century, it took 30–50 years for their economies to double in size. In many developing countries, GNP is doubled within just a decade. SCA will act as a driving force in this era of major global transition. People's desire for a better quality of life fuels our energy to develop and grow. SCA's contribution to this process is its expertise and its products.

The ability to simply keep ourselves and our homes clean, to protect our children from infection and to provide comfortable hygiene solutions for them as babies, to free women from the discomfort and taboos associated with menstruation, to provide the elderly with comfort and independence when their bodily functions let them down – all of this is a natural part of a better life.

Our packaging solutions make it possible to transport goods across long distances and to open up and integrate markets that generate prosperity.

Words and images inspire millions of people and publication papers carries knowledge and experiences to other countries and to new generations.

Our products are about improving the quality of life in many different di-

mensions, modernization across borders and the chance of a more dignified and comfortable life.

The other major theme this year – the climate issue – has focused attention on how essential sustainable development and a sound environment actually are. SCA has a long, distinguished tradition in the environmental area. Experience and expertise have been transformed into practical measures to improve the environment, making us leaders in this field.

SCA owns vast areas of forestland that must be properly managed. There are production facilities all over the world and our products are used on a daily basis by hundreds of millions of people. Ours is an important responsibility – we must run our business along sustainable lines. The Group complies with a number of global, regional and local guidelines and has established a far-reaching sustainability policy, transparent in all areas. Many of our employees, myself included, work with sustainability issues on a daily basis in various international contexts, in laboratories and out in workplaces, in cooperation with customers and consumers.

“Our products are about improving the quality of life in many different dimensions”

Jan Åström Opportunities and challenges

It starts with consumer and customer insight

SCA is currently experiencing a period of major transition with increased investment in consumer-focused innovation and product development in order to maintain and strengthen the Group's profitability.

The increasing mobility of goods, services and capital across borders has promoted the growth of large global corporations and SCA can benefit from this trend thanks to strong brands and a position as a major, well-established supplier of retailers' brands.

It is crucial that we understand our customers' commercial situation, and create added value for them. Retail chains and large-scale consumers expect support from their suppliers. SCA maintains longstanding partnerships with several international customers; partnerships that include activities such as joint studies, development of new products and expansion of services.

Competition for the attention of consumers increases daily and deep, marketing insight is essential. SCA is currently in the process of renewing its brand strategy. The aim is to gather brands into different product categories on global platforms. This will consolidate SCA brands and provide substantial synergy effects. These platforms will also provide a foundation for innovation, product development, production and marketing using cohesive strategies. One example of the renewal process in 2006 is the global implementation of the Tork brand. Another example is SecureFit, our new thin feminine care product.

An important element of our efforts in this area is to increase awareness of the value we create. This will put us in a better position to establish appropriate price levels. A natural consequence of our brand initiatives has been to reform price structure and contracts, as well as

training SCA marketing and sales organizations to communicate the value of these offerings. These efforts have helped to create a positive price trend for most of the Group's products.

Growing in new markets

Our strength in understanding consumer and customer needs is closely linked to our global knowledge and regional presence. SCA is present on most significant markets, all over the world. This global competence rests on regional production and distribution structures. Expanding on new growth markets is a prioritized strategy, concentrating on segments where there is the best potential for profitable expansion. Organic growth will be complemented by acquisitions.

Central and Eastern Europe, home to 330 million people, is one of the most important expansion areas. Growth is strong – more than 6% per year – and quality-of-life needs have been neglected for far too long. Our products are at the top of people's wish lists with respect to improving the quality of their lives. In Russia our tissue brand Zewa is a clear market leader. A new tissue plant is planned outside Moscow to meet the increased demand. In Poland our new factory has become a centre for the manufacture of baby diapers and incontinence products. In Romania we are building a new plant for packaging solutions.

Latin America is another prioritized growth region within the Personal Care and Tissue business areas. The restructuring of the Mexican operation has been successful leading to improved profitability and growth during the year. In South America our leading positions in Colombia, Ecuador, Peru and Chile have been consolidated. In China the focus has primarily been on packaging for global customers and expansion has been rapid. We are currently a full-service packaging supplier in China and are

considering expanding into the personal care segment.

These growth markets will have a powerful impact on SCA's figures in the coming years. One example of geographical rebalancing is the sale of the North American packaging operations in January 2007, which releases resources for expansion in Eastern Europe and Asia.

Sharper competitive edge

Implementation of cost-cutting and efficiency programmes has been the single, most important task during the past two years. SCA must be competitive in all our segments.

The good years around the start of this century were followed by a period of weaker demand, excess capacity and price pressure, mainly within the packaging and tissue segments. Meanwhile, restructuring was underway within the retail sector and price competition became tougher. Consequently SCA implemented a cost-cutting programme in two stages, first in 2004 and then a more comprehensive programme in the summer of 2005. When all the planned measures have been fully implemented in 2008, costs will have been cut by more than SEK 2.7bn.

SCA was the first in the industry to carry out extensive capacity cut-backs and several of our competitors have since followed suit. For a number of years consumers have been able to benefit from rationalization within the industry in the form of gradual price reductions. Both raw material and energy costs have, however, increased dramatically over the past two years and it is thus probable that the end consumers will face higher prices.

In addition to efficiency programmes, annual improvement in productivity is essential in order to meet external cost increases. This is a high-priority goal



Jan Åström The past year



“We increase investments in consumer-focused innovation and product development”

that will be achieved through gradual, constant improvements.

Implementing large-scale cut-backs demands efficient management. I am proud of the efforts that SCA managers and employees around the world have made in these turbulent times. At the same time, intensive work is underway within the Group to ensure that there will be a good supply of future managers available to work within prioritized competence areas.

Investments for the future

The efficiency programmes have been combined with significant, forward-looking investments in line with the long-term industrial vision shared by the senior management and the Board of Directors. We are modernising our production base, our product development and our marketing. In Personal Care, capacity will be increased in all three product segments, technology upgraded and production operations increasingly shifted to low-cost countries. Within the Tissue business focus will be on expansion in growth markets. Within Packaging, strategic investments in high value content segments will be the focus. Within Forest

Products, improvements to efficiency and product quality are underway.

SCA possesses intrinsic strength in its Group structure through its raw material integration. This strength manifests itself in many ways. Increasing demand for timber in 2006 resulted in an, at times, problematic supply situation. Thanks to its own raw material base, SCA was able to cope with this situation better than many of its competitors. A large portion of Group production costs relate to energy. Apart from constant efforts to reduce energy consumption, a number of large-scale projects are underway aimed at utilizing energy generated by waste products. A new recovery boiler at the Östrand pulp mill, commissioned in 2006, greatly increased the in-house supply of energy. Increased investments in biofuels are also among the measures under implementation.

Cautious optimism

In summary, I can say that SCA has begun to lift itself out of a decline lasting several years, this thanks to our systematic measures to cut cost levels and improve production structures, our innovative strength and our product range.

The Group now provides more new and improved products and services than ever before.

Market trends in 2007 are relatively positive with continued high levels of demand in most product areas and a better balance between supply and demand. This paves the way for improved price development for our products. However energy and other raw materials are still an uncertain factors. In 2007 many structural efficiency measures will reach completion, although ongoing improvement measures and expansion investments will continue to bear fruit in the years to come. All in all, I look forward to a sustained improvement of our long-term competitiveness and profits.

Stockholm, February 2007

Jan Åström
President and CEO

Value creation **Strategic focus**

SCA's business concept involves developing, producing and marketing increasingly value-added products and services in the Personal Care, Tissue, Packaging and Forest Products business areas. SCA's products simplify the everyday lives of hundreds of millions of people around the globe and generate strong cash flows that enable good dividend growth and raised value of the SCA shares.

SCA's products radically simplify the everyday lives of consumers and customers as an important part of a modern society. Demand is rising steadily in mature markets and rapidly in the emerging economies. SCA works in close cooperation with customers to constantly develop the products' attributes and functionality to create new products and services. In addition to innovative development based on consumer and customer insights, SCA's strengths include presence in regional markets with global capability and an efficient production structure.

Higher value-added

The concentration on growth in Personal Care, Tissue and Packaging has gradually shifted the balance towards consumer products. Although the Forest Products business area's portion of the Group's net sales has diminished, it continues to be of great strategic significance for raw material integration, strong cash flow generation and development of publication papers and solidwood products. Also within Forest Products, the focus has shifted towards products with increasing value-added. The Group's growing size and financial position enable the individual business areas to make strategic investments to increase growth and competitiveness.

Growth

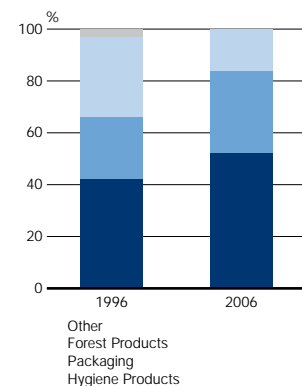
Although geographically most of SCA's sales are concentrated in Europe and North America, a combination of acquisitions and good organic growth will increase the portion of sales in fast growing markets in Central and Eastern Europe, Latin America and China. Sales in these prioritized growth markets currently account for more than 15% of net sales, compared to 6% ten years ago. SCA's total organic growth is expected to reach 3–4% per year.

Investments, acquisitions and divestments

SCA works constantly on optimizing each individual business area by investing in the segments that have the best future development potential. To sustain the Group's profitability and growth targets, SCA estimates the annual investment requirement at 7% of the Group's net sales. Current investments are expected to reach around 5% and strategic investments around 2%.

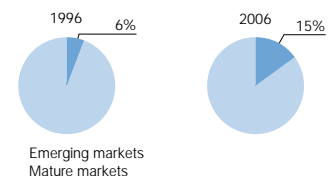
SCA regards selective company acquisitions as an important tool to quickly gain access to new markets or to develop complementary capabilities in existing ones. As a result of the Group's priorities, SCA may also divest units within the framework of the four business areas.

Sales split SCA Group



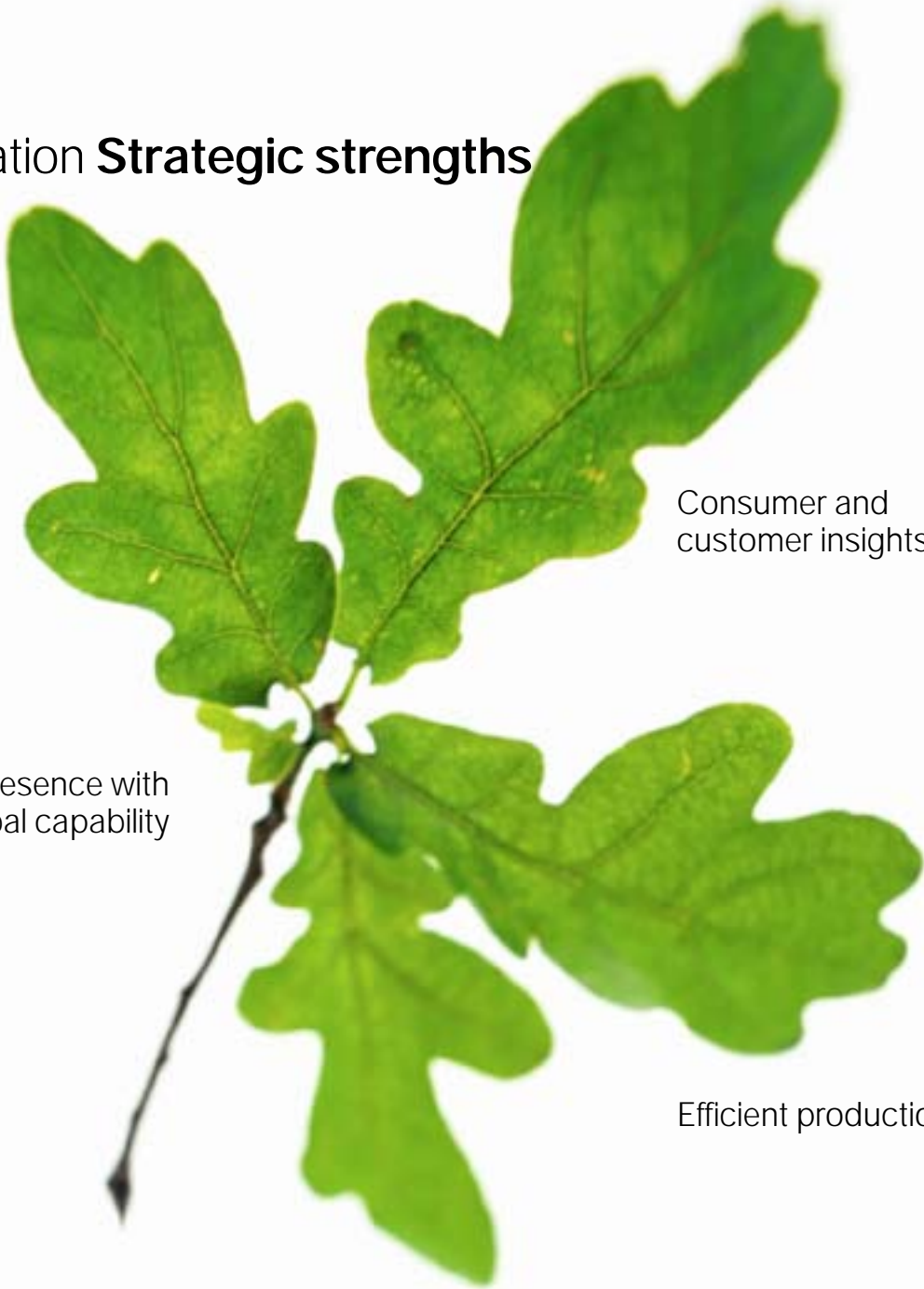
Growth is concentrated to Personal Care, Tissue and Packaging.

Sales in emerging markets



Sales in the emerging markets of Central and Eastern Europe, Latin America and Asia account for 15% of SCA's net sales.

Value creation **Strategic strengths**



Regional presence with
global capability

Consumer and
customer insights

Efficient production

Consumer and customer insights

SCA intends to increase the pace of innovation for new products and services within each of the business areas. Leading market positions and the Group's significant resources make SCA an attractive partner when customers seek complete solutions to develop both products and services.

Regional presence with global capability

SCA's focus involves the assumption that production and distribution are most efficient in regional markets close to customers. Several of SCA's products cannot sustain the high cost of long transport routes. While production is local, most of SCA's product offerings are global and, due to its size and geographical spread, SCA enjoys significant economies of scale within research and development, brand positioning and concept development.

Efficient production

SCA has a long tradition of constant improvement in the production structure and utilizing the Group's synergies throughout the value chain. Over the past few years this strategy has been intensified through the implementation of two major cost-cutting programmes that will reach completion in 2007 and will reduce total costs by SEK 2.7bn. SCA's own raw material base gives the company control over cost trends through an efficient raw material integration system.

Value creation **Strategic control**

SCA aims to provide its shareholders with the highest possible return. This means the company must allocate resources in the best possible way. To achieve this, SCA uses a cash-flow based model to measure profitability in current operations and for new investments.

Cash flow requirement 2006-2007

SCA measures profitability using a Group-wide cash-flow model where the cash flow from current operations is compared with a cash-flow requirement. This requirement is derived from all income-generating assets, their expected economic life and the weighted cost of capital. The requirement indicates the level at which value is created for the shareholders (see explanation on page 11).

The value creation requirement measured as cash flow from current operations, was SEK 5.2¹⁾ bn for 2006, which is equivalent to an operating surplus margin (EBITDA) of 15.0%. The cash flow from current operations for 2006 was SEK 4.1 bn, which is equivalent to an EBITDA margin of 14.5%, slightly below the required level. During the year the negative earnings trend was reversed and in the final quarter, SCA achieved a level at which the Group was value-creating. This improvement can mainly be attributed to cost savings totalling SEK 1,265m and a more favourable market development. The requirement for 2007 is a cash flow of SEK 5.1 billion, representing an EBITDA margin of 15.0%. Like the margin, the required return on capital employed is derived from the cash-flow requirement. The required return on capital employed in 2007 is 9.0%.

SCA sees the potential for substantial improvement on current profit levels. Measuring from 2006, SCA expects the EBITDA margin to improve by 2–3 per-

centage points within a three-year period. The effects of additional market and price improvements are not included in these assumptions. Likewise, costs for input raw materials are expected to remain constant at 2006 levels. Based on SCA's strategic strengths, the priorities for each business area are described below.

Personal Care

Profitability and growth are very strong within the Personal Care business area. In 2006 an EBITDA margin of 18% was achieved, which is significantly higher than the required level for value creation in 2006 of 12%. The requirement for

2007 is 11% at the EBITDA level. Given the strong profitability level, the highest priority is to make the most of the growth potential that exists. The objective is to grow organically by 5–7% annually. This will be driven by high growth in incontinence care, an increased portion of sales in growth markets in diapers and feminine care, and a successful positioning and development of retailers' brands. The margins are expected to be maintained at current levels with a potential for some expansion. This requires a high pace of product development, more production in low-cost countries and higher sales in premium segments. The business risk in Personal

Key ratios ¹⁾

	2005	2006	2007
Operating surplus margin (EBITDA)			
Result ²⁾ (%)	14,1%	14,5%	–
Value creation requirement (%)	–	15,0%	15,0%
Operating cash flow			
Result ²⁾ (SEKbn)	5,3	4,1	–
Value creation requirement (SEKbn)	5,1	5,2	5,1
Result/requirement (%)	105%	79%	–
Return metrics			
Result capital employed ²⁾ (%)	7,7%	8,8%	–
Capital employed target (%)	9,0%	9,0%	9,0%
Result equity ²⁾ (%)	7,9%	9,5%	–
Equity target (%)	8,0%	9,0%	8,5%
Financial metrics			
Debt/equity ratio (multiple)	0,7	0,6	0,7
Market adjusted debt/equity ratio (multiple)	0,6	0,4	–
Debt payment capacity (%)	27%	29%	–

¹⁾ The EBITDA margin requirement is based on all income-generating assets, their expected economic life and the weighted cost of capital. The operating cash flow is also affected by the Group's capital structure. The requirement may vary from year to year depending on how the underlying parameters change.

²⁾ Excluding items affecting comparability.



Care is mainly related to the positioning of SCA's main competitors, developments in the retail sector and raw material costs.

Tissue

Overall the profitability in the Tissue business area is unsatisfactory. This business area achieved an EBITDA margin of 12% in 2006, which is below the required level of 14%. The main reason for the weak result is tough competition in consumer tissue in Europe. The required EBITDA margin for 2007 is 14%. Tissue for bulk consumers (AFH) has demonstrated good profitability and this is expected to increase in the years ahead due to increased sales of premium

products and complete hygiene concepts for public premises under the global Tork brand. In Consumer tissue, SCA is working with the following strategic priorities: increasing the portion of sales of SCA's own brands, rationalizing production structures, forming strategic partnerships to develop retailers' brands, and increasing sales in emerging markets such as Latin America and Russia. The tissue market is growing steadily by around 3–4% per year. The business risk in this area is mainly related to competition in the retail trade, capacity growth from smaller competitors and increases in the price of pulp, recycled paper and energy.

Packaging

Towards the end of the year SCA began regaining the value-creating level within the Packaging business area. For the full year 2006 Packaging achieved an EBITDA margin of 11%, which is lower than the value-creation requirement level of 13%. The 2007 level for value creation is an EBITDA margin of 14%. In the years ahead the profits are expected to grow as a result of the ongoing efficiency programme, an improved balance in the markets and an anticipated increase in the sale of complete packaging solutions in high-value segments. Overall SCA expects the Packaging business area to grow by around 2–3% per year. The growth rate is significantly

higher in the prioritized growth regions of Central and Eastern Europe and Asia. The business risk in Packaging is mainly related to the general demand in Europe, increased capacity from smaller competitors and increases in the price of recycled paper and energy.

Forest Products

SCA's Forest Products business area is meeting the Group's return requirement. For the full year 2006 Forest Products demonstrated an EBITDA margin of 22%, which is over the required level of 21%. The requirement for 2007 is an EBITDA margin of 21%. SCA expects to be able to strengthen margins in the years ahead by continuing to implement successful productivity measures within the publication papers operation, increase the percentage of value-added products within the solid-wood products segment, improve the energy balance from pulp production and further rationalize forest management. Growth is expected to reach 2-3 % per year. The business risk in this area is mainly related to trends in the advertising market in Europe, changes in the supply and demand balance and wood and energy price fluctuation.

Dividend policy

SCA aims to provide stable and rising dividends. Over a business cycle, about one third of the cash flow from current operations (after interest expenses and tax) is normally used for dividends and two thirds for value-creating strategic investments. If the cash flow from current operations exceeds what the company can invest in profitable investments, the surplus is returned to the shareholders by increasing the dividend or used to repurchase the company's

own shares. Over the past decade the dividend has grown by an average of 9% per year and the proposed dividend for the 2006 financial year is SEK 12, representing an increase of 9% compared with 2005.

Capital structure

SCA's debt/equity ratio measured as net debt in relation to the book value of equity was 0.62 on 31 December 2006, which is below SCA's long-term target of 0.7. The debt/equity ratio target of 0.7 has been chosen taking into account SCA's business risk and the composition of the product portfolio. Periodically the debt/equity ratio may deviate from this target and over the past decade, it has varied between 0.39 and 0.85. In addition to internal financing from cash flow from current operations, funds for further strategic investments are made available by additional borrowing capacity while maintaining the same debt/equity ratio.

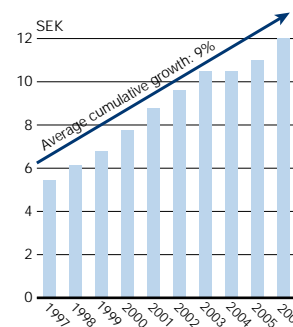
SCA has a credit rating for long-term borrowing of Baa1/BBB+ and short-term borrowing of P2/A2 from Moody's and Standard & Poor's respectively, and a short-term credit rating of K1 in Sweden from Standard & Poor's. For more detailed information about risk management, see Note 2 on page 66.

Incentive programme

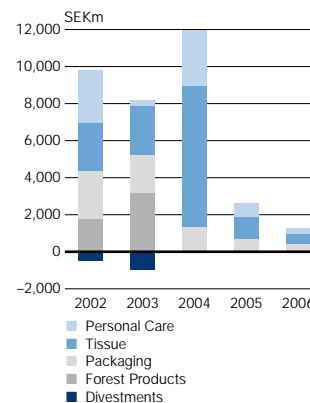
SCA's incentive programme is designed to support the company's objective of creating shareholder value. The programme for senior executives has two components: achievement of earning and cash-flow targets and the price performance of SCA's shares compared to an index consisting of SCA's major global competitors. For more information about the structure of the pro-

gramme, see Note 32, "Remuneration to senior executives" on page 85.

Dividend per share



Strategic investments, acquisitions and divestments



Most of SCA's strategic investments and acquisitions are in Personal Care, Tissue and Packaging.

SCA's cash-flow model

SCA's cash-flow model

SCA's main tool for measuring the profitability of current operations is a cash-flow model where the cash flow from operations is compared with a cash-flow requirement. This requirement is derived from all income-generating assets, their expected economic life and a weighted cost of capital. The requirement is adjusted for inflation, which provides a measurement independent of the date of acquisition of the asset and also independent of adjustments in the accounts, such as depreciation. This method is called Cash Value Added (CVA). SCA monitors business groups and operating units by comparing the net operating profit with the requirement. If the net operating profit exceeds the requirement, i.e. the CVA index is over 1.0, the unit is profitable and thus value-creating. These evaluations provide a basis for decisions on future investment allocations. For the Group as a whole the requirement is set as cash flow from operations, which is operating cash flow minus financial items and paid tax. The cash-flow requirement shows

at what level SCA is value-creating during an individual year. However, this snapshot must be viewed in relation to value creation over a longer period. The net operating profit margin and rate of return are subsequently derived from the cash flow from operations.

Strategic investments

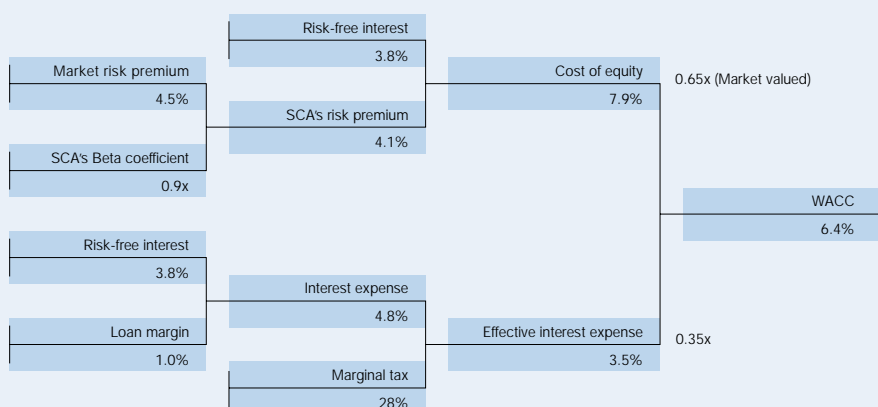
SCA evaluates all strategic investments (company acquisitions or expansion investments) in accordance with the cash-flow model. All investments must provide a return that exceeds the cost of capital. The future cash flow of each strategic investment is calculated and the cost of capital is discounted. This provides a present value for the estimated future cash flow. If the present value is higher than the expenditure for investment, the investment is value-creating. SCA requires that the present value must exceed the investment expenditure by a certain margin.

SCA's required rate of return

SCA's required rate of return on assets is determined by the capital market's return requirement on investments in SCA shares and current long-term interest rates. The return requirement, the weighted cost of capital (WACC), was calculated at the end of 2006 as shown in the figure below. Applying this method of calculation, the weighted cost of capital is deter-

mined as 6.4%. This means that all investments must over time generate an operating cash flow after tax but before interest expense of at least 6.4% of the investment in order to be value-creating and thus meet market demands. The return requirement level above applies to investments in Sweden. Different borrowing costs and tax rates in other countries change the return requirement for operations in those countries.

SCA's required rate of return



SCA shares Strong development during 2006

Price trend in 2006

The closing price in 2006 on the Stockholm Stock Exchange for SCA's B shares was SEK 357.50 (297), which represents a market capitalization of SEK 84bn (69). This amounts to around 2% of the total market capitalization on the Stockholm Stock Exchange. In 2006 the share price rose by 20%. Including the dividend paid out in 2006, the total return amounted to 24%.

The share price performance was strong for the first few months of the year, before falling again in line with the general decline on the Stockholm Stock Exchange in May and June. During the second half of the year, the share price was performing well again. The highest closing price for SCA's B share in 2006 was noted on 27 December at SEK 364. The lowest price of SEK 279 was noted on 13 June.

In 2006 the SCA share price developed in line with the Stockholm Stock Exchange as a whole and outperformed the comparable industry index. Over a five-year period, the SCA shares enjoyed a stronger trend than the comparable industry index but weaker than the Stockholm Stock Exchange.

Trading in SCA shares

SCA shares are listed and traded primarily on the Stockholm Stock Exchange, but may also be traded on the London Stock Exchange (OTC) and as American Depository Receipts (ADR level 1) in the US through the Bank of New York. In addition to indexes linked directly to the Stockholm and London exchanges, SCA is included in other indexes such as the Dow Jones STOXX Index, FTSE Eurotop 300 and MSCI Eurotop 300. SCA is also represented in several environmental indexes around the world, where companies are evaluated based on their ability to combine financial growth with successful environmental work. Examples include the FTSE4Good Index and the Dow Jones STOXX Sustainability Index.

Liquidity

The turnover of SCA shares increased in 2006. The total volume of shares traded was 311 million shares (304), representing a value of approximately SEK 101bn (81). The average daily trading for SCA on the Stockholm Stock Exchange amounted to 1.2 million shares, equivalent to a value of SEK 401m (321).

Foreign ownership

Approximately 57% (61) of the share capital is owned by investors registered in Sweden and approximately 43% (39) by foreign investors. Foreign ownership has increased steadily in recent years. The US and the UK account for the highest percentage of shareholders registered outside Sweden with 15% and 12% respectively.

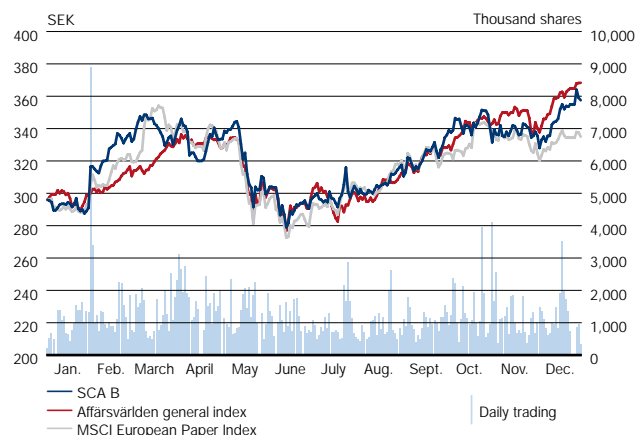
Dividend

The Board of Directors has proposed a dividend to shareholders of SEK 12 per share for 2006, which is 9% higher than in 2005. The 2006 dividend represents a dividend yield of 3.4% per share based on SCA's share price at the end of the year. Since going public on the Stockholm Stock Exchange in 1950, SCA has never reduced the dividend, and over the past ten years, the dividend has increased by an average of 9% per year. SCA's dividend policy is described on page 10.

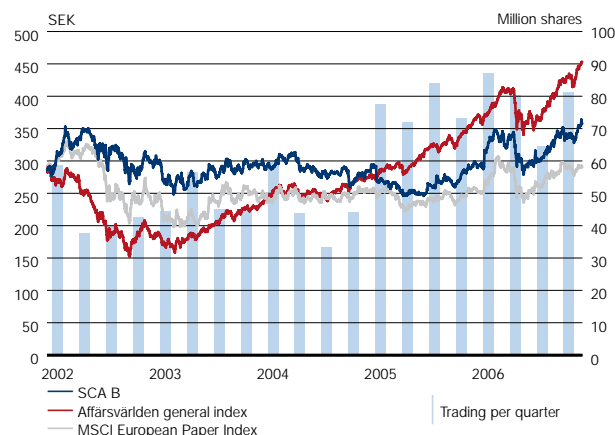
Ticker names:

Stockholm Stock Exchange (the Nordic Exchange)	SCA A SCA B
London Stock Exchange (OTC)	SNKB
New York (ADR Level 1)	SVCBY

Price trend and share trading, 2006



Price trend and share trading, 2002-2006



Data per share

All earnings figures include non-recurring items.

SEK per share unless otherwise indicated	2006	2005	2004	2003	2002
Earnings per share after full tax:					
After dilution	23.25	1.84	22.12	21.84	24.54
Before dilution	23.27	1.84	22.13	21.92	24.70
Market price for B shares:					
Average price during 2006	321.72	266.86	288.66	279.69	311.25
Closing price, 31 December	357.50	297.00	283.50	294.00	294.00
Cash flow from current operations ¹⁾	11.85	18.67	24.35	34.98	37.12
Dividend	12.00 ²⁾	11.00	10.50	10.50	9.60
Dividend growth, % ³⁾	7	7	9	11	12
Dividend yield, %	3.4	3.7	3.7	3.6	3.3
P/E ratio ⁴⁾	15	161	13	13	12
Price/EBIT ⁵⁾	14	57	17	12	10
Beta coefficient ⁶⁾	0.73	0.73	0.69	0.63	0.61
Pay-out ratio (before dilution), %	48	58	68	48	39
Shareholders' equity, after dilution	249	241	233	214	207
Shareholders' equity, before dilution	249	240	231	212	208
Average number of shares after dilution (millions)	233.8	233.5	233.5	232.5	232.2
Number of registered shares 31 December (millions)	235.0	235.0	235.0	235.0	232.2
Number of shares after full conversion (millions)	235.0	235.0	235.0	235.0	235.1

¹⁾ See definitions of key ratios on page 111.

²⁾ Board proposal.

³⁾ Rolling 5-year data.

⁴⁾ Share price at year-end divided by earnings per share after full tax and dilution.

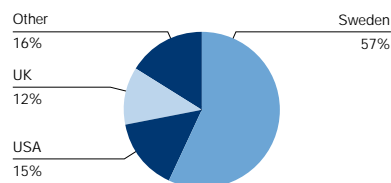
⁵⁾ Market capitalization plus net debt plus minority interests divided by operating profit. (EBIT=earnings before interest and taxes).

⁶⁾ Share price volatility compared with the entire stock exchange (measured for rolling 48 months).

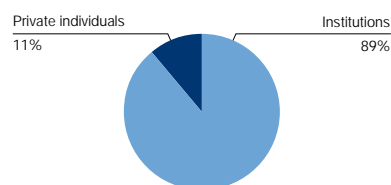
Percentage of foreign ownership

Year	%
2006	43
2005	39
2004	32
2003	31
2002	32

Shareholders by country



Shareholders by category



SCA's ten largest shareholders

According to VPC AB's official share register for directly registered and trustee registered shareholders as of 31 December 2006, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights (before dilution).

Shareholder	No. of votes	%	No. of shares	%
AB Industrivärden	167,591,000	29.3	23,591,000	10.1
Handelsbanken*	74,354,678	13.0	13,272,794	5.7
SEB*	41,805,457	7.3	7,725,859	3.3
Livförsäkringsaktiebolaget Skandia	17,498,238	3.1	3,354,639	1.4
Alecta	10,684,740	1.9	3,430,704	1.5
AB Skandinavien	10,026,900	1.8	1,002,690	0.4
AMF Pension	9,390,240	1.6	8,003,124	3.4
Andra AP-fonden	9,151,664	1.6	3,586,757	1.5
Swedbank*	8,214,965	1.4	7,761,464	3.3
Nordea*	6,721,567	1.2	3,507,721	1.5

* Including mutual funds and foundations.

Source: VPC AB

Shareholder structure

Holding	No. of votes	%	No. of shareholders	%	No. of shares	%
1-500	19,084,322	3.3	60,041	80.6	8,696,981	3.7
501-1,000	12,099,680	2.1	7,217	9.7	5,595,767	2.4
1,001-2,000	12,417,992	2.2	3,657	4.9	5,352,047	2.3
2,001-5,000	13,665,235	2.4	1,980	2.7	6,257,110	2.7
5,001-10,000	7,829,893	1.4	623	0.8	4,581,091	1.9
10,001-20,000	7,854,667	1.4	338	0.5	4,857,208	2.1
20,001-50,000	13,242,534	2.3	263	0.4	8,527,614	3.6
50,001-100,000	11,894,152	2.1	126	0.2	9,144,049	3.9
100,001-	475,663,344	82.9	239	0.3	182,024,331	77.4
Total	573,751,819		74,484		235,036,698	

Source: VPC AB

Share distribution

31 December 2006	Series A	Series B	Total shares
Number of registered shares	37,635,069	197,401,629	235,036,698
- of which treasury shares	-	1,253,138	1,253,138
Total	37,635,069	197,401,629	235,036,698

Issues 1993-2006

Since the beginning of 1993 the share capital and number of shares have increased due to new issues and conversions as follows:

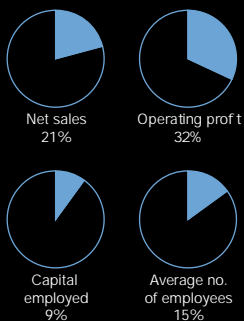
	No. of shares	Increase in share capital, SEKm	Cash payment SEKm	Series A	Series B	Total
1993 Conversion of debentures and new subscription through Series 1 warrants	4,030,286	40.3	119.1			
New issue 1:10, issue price SEK 80	17,633,412	176.3	1,410.7	62,145,880	131,821,657	193,967,537
1994 Conversion of debentures	16,285	0.2	-	62,145,880	131,837,942	193,983,822
1995 Conversion of debentures	3,416,113	34.2	-	62,145,880	135,254,055	197,399,935
1999 New issue 1:6, issue price SEK 140	32,899,989	329.0	4,579.0	62,133,909	168,166,015	230,299,924
2000 Conversion of debentures	101,631	1.0	15.0	61,626,133	168,775,422	230,401,555
2001 New issue, private placement	1,800,000	18.0	18.0	45,787,127	186,414,428	232,201,555
2002 New issue through IIB warrants	513	0	0.1	41,701,362	190,500,706	232,202,068
2003 Conversion of debentures and subscription through IIB warrants	2,825,475	28.3	722.9	40,437,203	194,590,340	235,027,543
2004 Conversion of debentures	9,155	0.1	1.1	40,427,857	194,608,841	235,036,698



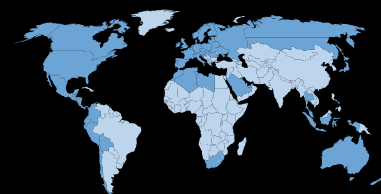
Personal Care

Personal Care comprises three product segments: incontinence care, baby diapers and feminine care. All three segments are driven by innovation and new products are launched continuously. The products are sold both under SCA's own brands and under retailers' brands, and distributed via retailers and health care providers.

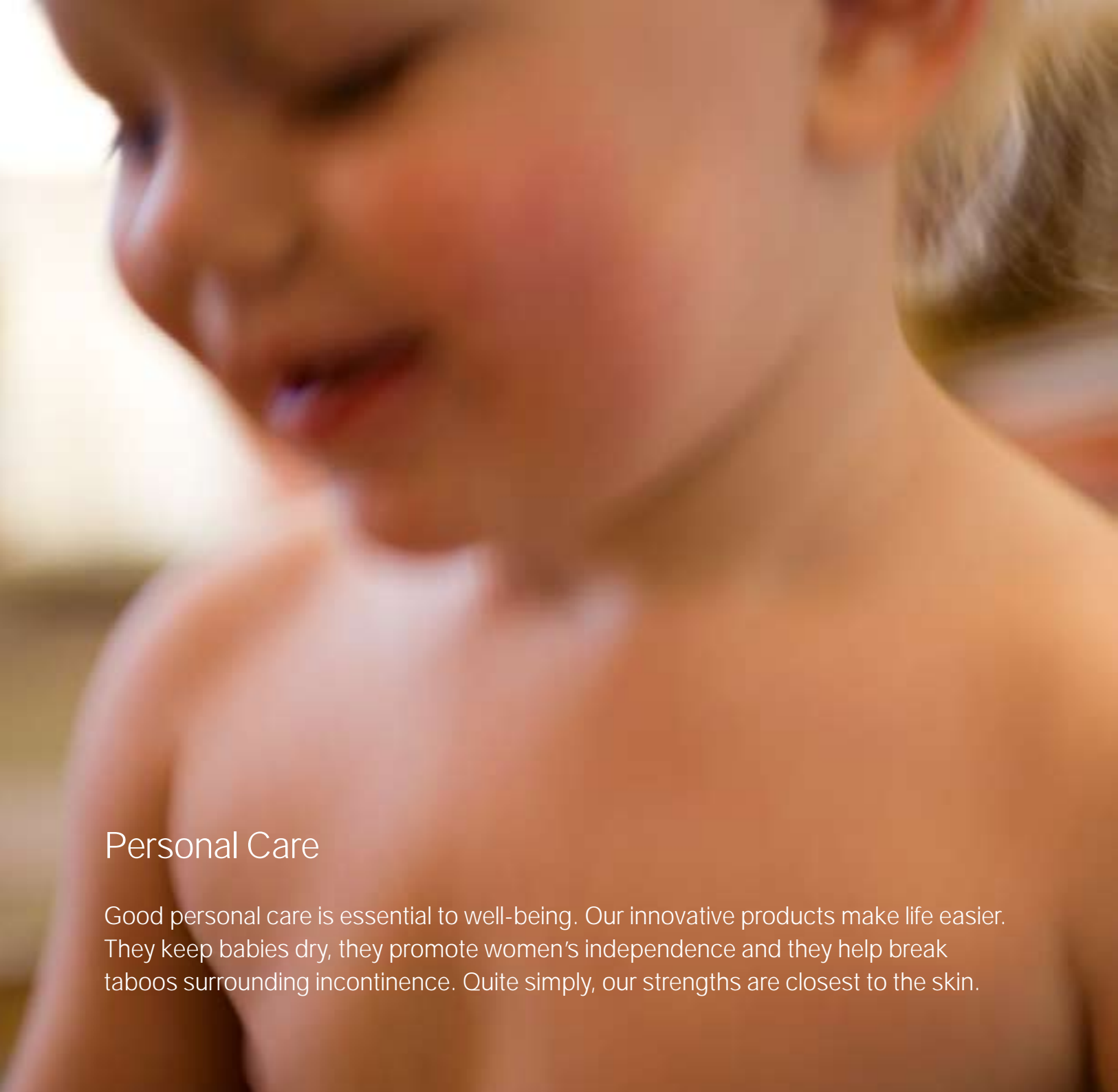
Share of the Group



Geographic presence



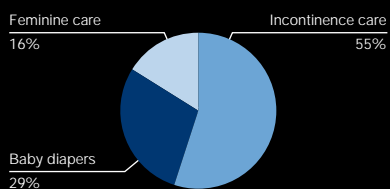
Sales in some 90 countries in all parts of the world. Production at 18 plants in 16 countries.



Personal Care

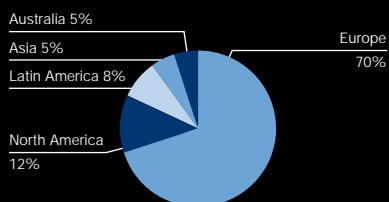
Good personal care is essential to well-being. Our innovative products make life easier. They keep babies dry, they promote women's independence and they help break taboos surrounding incontinence. Quite simply, our strengths are closest to the skin.

Sales by product segment



Incontinence products account for most of the sales in the Personal Care segment.

Sales by region



SCA is expanding rapidly in Personal Care and holds strong positions in all parts of the world.

Market positions

	Europe	North-America	Global
Incontinence care	1	3	1
Baby diapers	2	-	3
Feminine care	3	-	5



Personal Care Strategy

SCA is the world leader in incontinence care and holds leading regional market positions in baby diapers and feminine care. SCA's strengths are profound consumer insight, innovative product development, well-known brands and efficient production.

Baby diapers, feminine care and incontinence care give people simple and comfortable hygiene solutions throughout their lives. The growing opportunities for effective personal care are making a significant contribution to health developments in the world.

The global personal care market is attractive and is growing faster than GDPs. The use of these products in developing countries is rising significantly

as buying power increases. In the more mature markets, the increase in the number of elderly people means high growth for incontinence care. The industry is well consolidated and the well-known brands dominate. Products are becoming increasingly sophisticated in order to meet specific needs.

SCA's Personal Care operations have provided high profitability for a long time. The target is organic growth of 5-7% per year with maintained or improved margins. In the years ahead SCA will be working with the following strategic priorities:

- Strengthen market positions by developing innovative product offerings
- Further develop SCA's world-leading position in incontinence care

- Establish and consolidate leading positions in fast-growing markets in Central and Eastern Europe, Latin America and Asia
- Continue to restructure and improve efficiency in production and distribution

Incontinence care

SCA is focusing on increasing awareness and acceptance of incontinence, developing effective and comfortable products and raising availability through all distribution channels. Health care providers account for the majority of sales. The strategy for this customer group is to show how SCA's high-quality products and expert advice can cut costs for nursing homes and at the same time raise



the quality of life for the users. In the retail area, SCA is working on removing taboos through active information and advertising and by developing discrete and effective products.

SCA is working to consolidate the world-leading TENA brand, which offers products for all user needs through all sales channels. SCA is in the front line in product development and the pace of innovation is high – both in terms of the development of new products and ongoing improvements to the existing range. In 2007 the entire product range aimed at institutions and home care will be upgraded. SCA will also launch products that are in the grey zone between feminine care and incontinence care, but that are more appropriate for the users.

Baby diapers

The strategy for baby diapers is to maintain and consolidate brand positions in the Nordic region, Central and Eastern Europe, Latin America, Africa, Southeast Asia and New Zealand by continuing to develop innovative open diapers and pant diaper products. The latter category is showing the fastest growth and here SCA has had considerable success in Europe, particularly with the Libero Up&Go pant diaper. SCA is also a major supplier of diapers for retailers' own brands and aims to support retailers by providing competitive and high-quality products.

Feminine care

In feminine care SCA intends to continue to develop strong regional market positions in Europe, Latin America, Australia and New Zealand. SCA strategy focus primarily on pads and pantyliners. The ten regional feminine care brands are coordinated in a common, global brand platform. SCA is also strengthening its position in feminine care products for retailers' brands.

Innovation

SCA conducts product and brand development based on careful studies and insight of consumer behaviour and needs. The result is constant upgrades or new products. Over the past two years the number of new products has increased significantly. These have been developed in the global R&D organizations, close to consumers and markets and in cooperation with customers. Innovation work has resulted in a large number of new patents. In the future even more resources will be invested in product development and market communication.

Efficient production

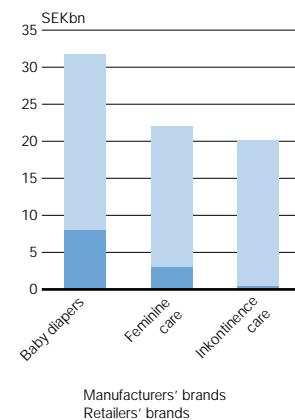
SCA has significant competitive advantages due to its global operations. Production takes place in 18 factories on six continents. The number of factories in Europe has been reduced significantly and efficiency at the remaining ones has been improved. Since 2000 five plants have been closed down and production has been concentrated to six factories including two new ones in Central and Eastern Europe. All European production of feminine care products, for example, has been shifted to Slovakia. A new factory in Poland that manufactures baby diapers and incontinence products is an important element of SCA's focus on Central and Eastern Europe.

The manufacture is flexible in order to adapt to changes in demand and to allow for a quick response to changed or new specifications based on customer and consumer needs.



Tena Mini Magic, which is a thin, discrete and lightweight incontinence product sold in retail channels, was successfully launched in 2006.

Brand categories, Europa



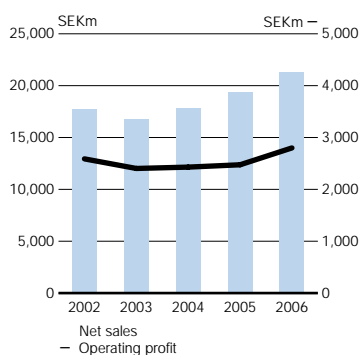
Within Personal Care, retailers' brands account for a relatively small share of the total market.

Personal Care **The past year**

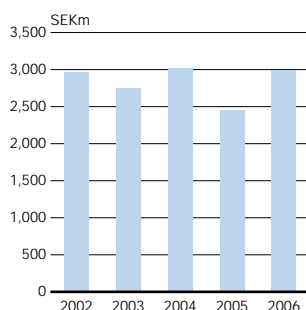
Key ratios

SEKm	2006	Group share %	2005
Net sales	21,272	21	19,351
Operating cash surplus	3,778	27	3,427
Change in working capital	-37		-334
Current capital expenditure	-649	11	-436
Other changes in operating cash flow	-108		-202
Operating cash flow	2,984	47	2,455
Operating profit	2,799	32	2,474
Operating margin, %	13		13
Capital employed	8,471	9	7,615
Return, %	33		28
Strategic investments			
- plant and equipment	-334	36	-715
- restructuring costs	-10	40	0
- company acquisitions	0		0
Average number of employees	7,560	15	6,644

Net sales and operating profit



Operating cash flow



Demand for personal care products was good and sales increased by 10% in 2006. Growth was particularly strong in Central and Eastern Europe and Latin America where SCA was able to strengthen its positions. New products were well received by consumers and customers.

Net sales increased by 10% to SEK 21,272m. Operating profit increased by 13% to SEK 2,799m. SCA was able to raise prices for most products and markets, which compensates for higher raw material costs particularly superabsorbents.

Work on improved efficiency for the production facilities, mainly in Europe, was carried out according to plan. The new factory in Olawa, Poland has started producing baby diapers and incontinence care.

Incontinence products

The year was characterized by intensive marketing efforts. SCA launched, for example, TENA Mini Magic, a thin but highly-absorbent incontinence care product that is sold in a brand new type of discreet and practical packaging. In North America the success of the incontinence pant, TENA Discreet Active-wear, continued. New types of marketing initiatives were also tested with good results, such as increased online marketing and sales. In the care sector the TENA Services concept was expanded. This concept involves providing advice to nursing homes with the aim of improving the quality of life of the users and reducing overall costs for nursing homes.

Baby diapers

SCA's success in this segment continued through Libero Up&Go pant diapers, which are sold mainly in the Nordic region and Russia. In Southeast Asia, sales of the re-launched Drypantz developed well towards the end of the year. There was also strong growth in open diapers, mainly in Central and Eastern Europe and Latin America. SCA consolidated its leading position as a supplier for retailers' brands in Europe. In total, sales of baby diapers increased by more than 10% which led to higher profitability.

Feminine care

The intense competition in the feminine care segment continued with a high level of market activity from all major competitors. SCA invested heavily in product development and launched a new generation of ultra-thin secure pads within the SecureFit concept in most of Europe, Latin America, Australia and New Zealand. This product launch resulted in an increased market share, particularly in the Nordic region and Mexico, and contributed to the positive trend in this product segment. Deliveries of retailers' brands continued to increase and now account for approximately 15% of net sales in Europe.



Personal Care **Incontinence care market**

The global incontinence care market is valued at approximately SEK 45-50bn. North America accounts for around 30% of the market, Europe for around 45% and Asia for approximately 20%. Market growth is more than 5% per year with light incontinence products showing the fastest growth.

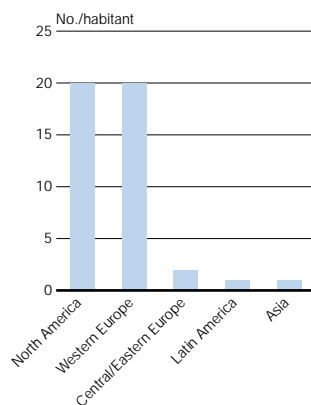
Incontinence affects between 5 and 7% of the world's population. The products are used in institutional care and are also sold directly to consumers at retail outlets and through pharmacies and shops specializing in medical supplies.

Market growth is driven by demographic factors, primarily aging populations, but also by increased buying power. Wider acceptance of incontinence problems, increased availability of the products in retail outlets as well as innovation and brand building are also factors driving growth.

SCA's TENA brand is available in almost all countries with a mature market, i.e. more than 90 countries. This makes

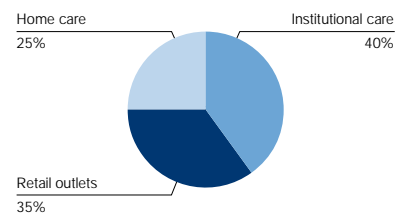
SCA the global market leader with 26% of the market. SCA leads the market in Europe and is number three in North America. SCA is the leading player in the Australian, New Zealand and Latin American markets.

Annual per capita consumption of incontinence care

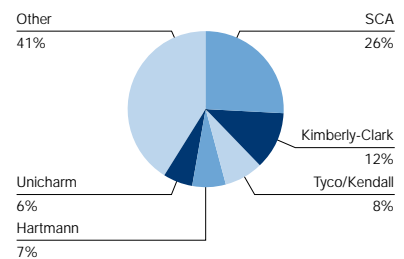


Consumption of incontinence products is significantly higher in countries with a high standard of living.

Incontinence care – Sales channels



Incontinence care - Global market shares





Personal Care **Baby diaper market**

The European market for baby diapers is valued at SEK 30-35bn. Pant diapers, which today account for 14% of the value of the European baby diaper market, is growing at a faster rate than open diapers, with annual growth of around 5%.

SCA manufactures both open diapers and pant diapers. The latter is the fastest growing category and here SCA is the leading producer in Europe. Baby diapers are sold under SCA's own brands as well as under retailers' brands. SCA has strong brands in markets in the Nordic region, Central and Eastern Europe, Latin America, Africa, Asia and New Zealand, and is also a major supplier of baby diapers for retailers' brands in Europe. In total, SCA sells baby diapers in some 50 countries.

Growth in the baby diaper segment is high in the markets in Asia, Latin America and Africa. The reason for this is

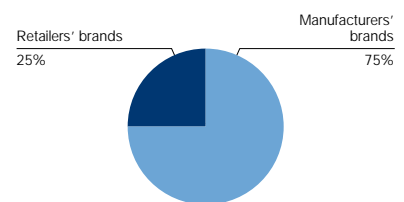
high birth rates and the use of disposable diapers increases as standards of living improve.

SCA is the second largest player in Europe, with a market share of 15%. In the retailers' brand segment, SCA is a leader with one third of the European market.

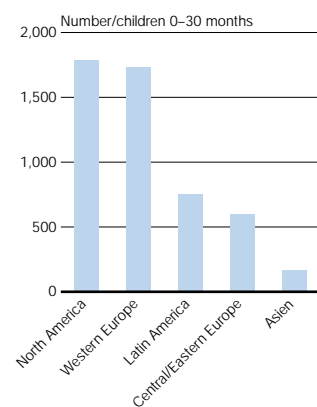
In the Nordic region, SCA is the market leader with the Libero brand and has a market share of around 55%. Libero is also growing rapidly in Central and Eastern Europe, particularly in Russia where SCA is the third largest player.

In Malaysia, Thailand and Singapore SCA holds leading positions with the Drypers brand and in New Zealand with the Treasures brand. SCA is also a market leader with the Peaudouce brand in Tunisia and Libya.

Brand categories, Europe



Annual per capita consumption of baby diapers





Personal Care **Feminine care market**

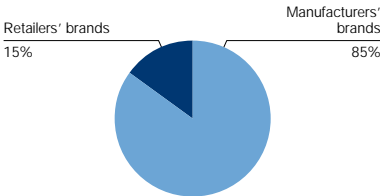
The global market for feminine care is valued at SEK 80-85bn. In Europe the distribution is 50% for pads and approximately 25% each for panty liners and tampons.

Market growth is determined by the number of women in their fertile years and the degree of usage. In Europe this age group is decreasing slightly due to an ageing population. Growth is strong in Asia and Latin America due to a growing target group and increasing market penetration. There is also high growth potential in Central and Eastern Europe, where usage is expected to increase.

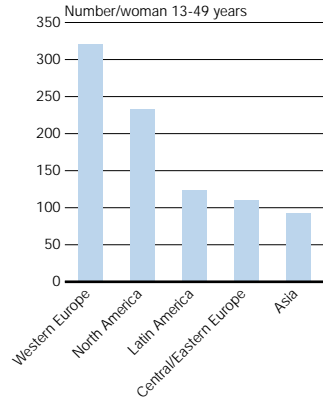
SCA's main market for feminine care is Europe where SCA is the third largest player. A growing proportion of sales is taking place in markets such as Latin America, Central and Eastern Europe and South Africa. In South Africa and parts of Latin America, the products are sold through joint ventures.

In several markets SCA is increasingly and successfully complementing its own brands with manufacture of products for retailers' brands.

Brand categories, Europe



Annual per capita consumption of feminine care products

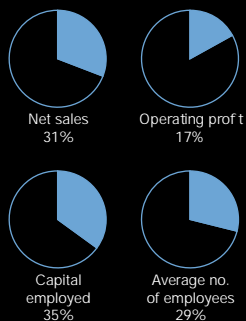




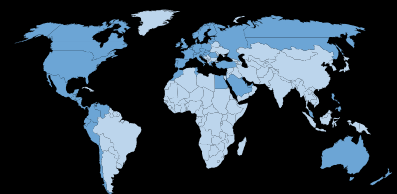
Tissue

Consumer tissue consists of toilet paper, kitchen rolls, handkerchiefs, facial tissue and napkins. The products are sold both under SCA's brands and retailers' brands, and they are distributed via retailers and to corporate customers. In the bulk consumer, Away-From-Home (AFH) product segment, SCA's offering is based on complete hygiene solutions for companies and institutions.

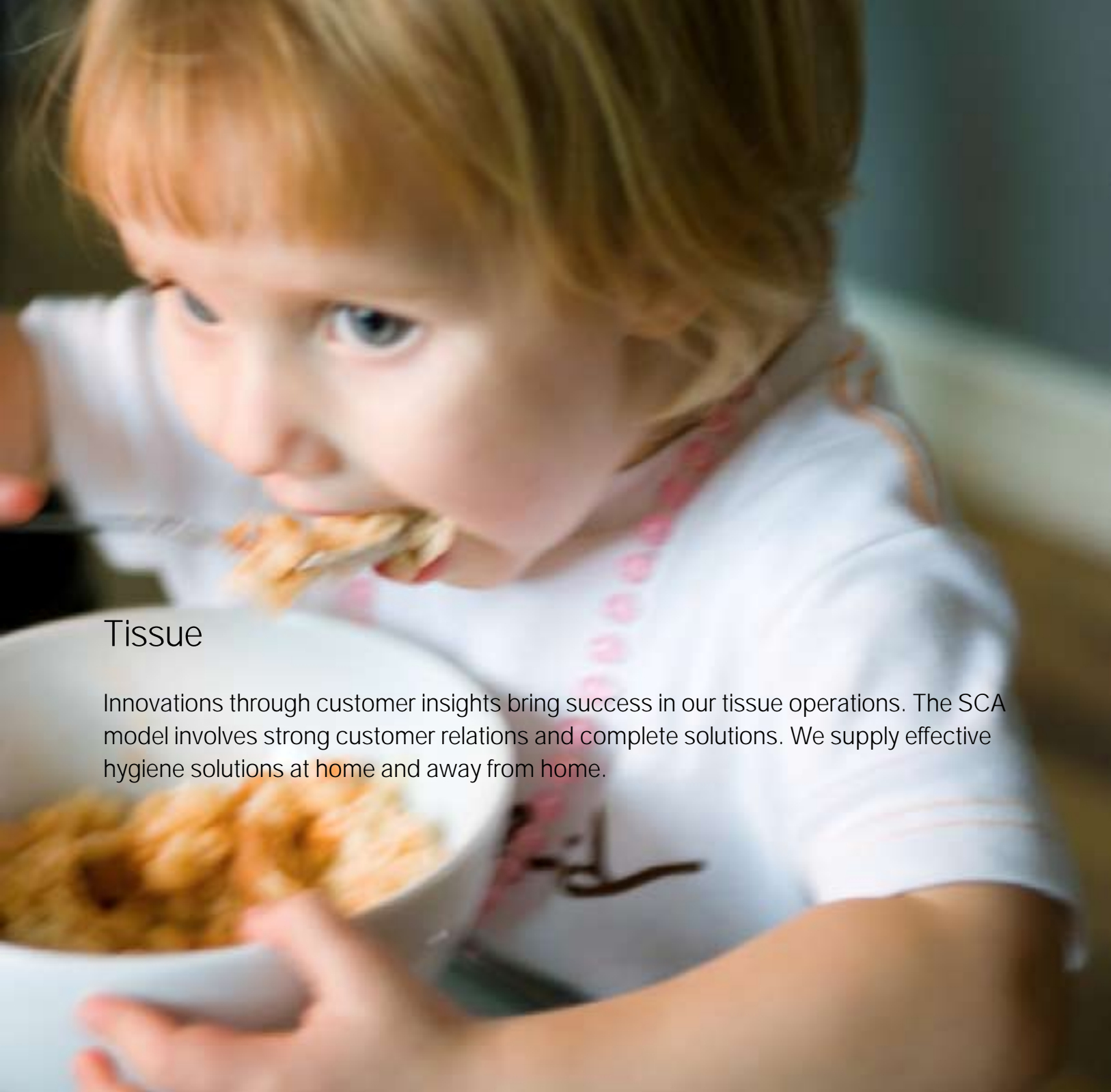
Share of the Group



Geographic presence



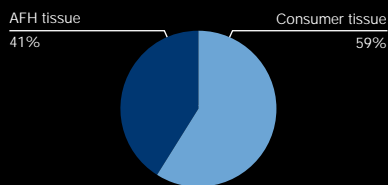
SCA's products are sold in some 70 countries throughout the world. SCA produces tissue at 36 facilities in 19 countries.



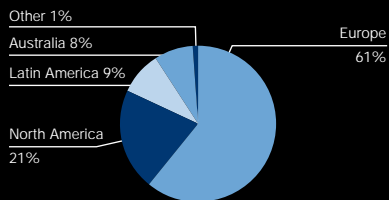
Tissue

Innovations through customer insights bring success in our tissue operations. The SCA model involves strong customer relations and complete solutions. We supply effective hygiene solutions at home and away from home.

Sales by product segment



Sales by region



Market positions

	Europe	North America	Global
Consumer tissue	1	-	4
Tissue for bulk consumers - AFH	1	3	3

Deliveries (tonnes)

	2005	2006
Consumer tissue	1,077,000	1,121,686
Tissue for bulk consumers - AFH	825,700	836,268

TORK



Tissue Strategy

SCA is the world's third largest and Europe's largest supplier of consumer tissue and Away-From-Home (AFH) tissue. SCA's strengths in this business area are awareness of consumer and customer needs, a high rate of innovation and effective production processes.

The consumer tissue segment consists of toilet paper, kitchen rolls, facial tissue and napkins. The products are sold under brands such as Zewa, Velvet, Sorbent, Edet, Regio, as well as under retailers' brands. Within the AFH tissue segment, SCA delivers complete hygiene concepts to institutions and companies, including tissue products, paper dispensers, soap and services. Most products are sold under the global Tork brand.

Tissue use increases with improvements in living standards around the world. The products gain a foothold in the early stages of consumption growth and make a strong contribution to improved hygiene and quality of life. Consumption per capita is therefore high in North America and Western Europe, while in Central and Eastern Europe, Latin America and Asia, consumption is significantly lower but growing fast. SCA estimates that organic growth will amount to 3–4% annually. In the years ahead SCA will work with the following strategic priorities:

- Make the product offering more attractive through innovation and product development
- Strengthen brand positions in the consumer tissue segment and combined with clearer value offerings for retailers' brands
- Develop the global brand platform, Tork, within AFH tissue

- Strengthen partnerships with leading distributors and retailers
- Improve efficiency in the supply chain by continuing to optimize the production structure

Consumer tissue

The ability to understand the future demands of the customers and consumers is fundamental for creating lasting value in this segment. SCA is working intensely to improve product performance, expand application areas, and create new designs for products and packaging. SCA is investing more resources than before in product development aimed at strengthening SCA's own brands. SCA offers retailers a complete range of products within the highest quality segments under SCA's own brands as well as offerings for retailers' brands.

Competition within the retail trade has been very intense in recent years. Both discount retailers focusing on low-price and sophisticated retailers offering a full service range have increased their market share. SCA has been operating for a number of years according to a model that provides advanced product and service offerings to retailers of both categories. SCA's offer of partnership takes a holistic approach in order to increase the value of the tissue category and lower costs throughout the supply chain.

AFH tissue

SCA's strategy within AFH tissue is to be a global supplier for demanding customers in industry, offices, healthcare, hotels and restaurants. SCA has a full range of tissue products and related items such as dispensers, soap and services. Products and brands are coordinated glo-

bally and the entire range is gradually being integrated under the Tork brand. Significant synergies exist in joint product development, marketing and dispenser systems since there are few differences between consumer preferences in different parts of the world.

The AFH products are distributed via wholesalers, and facility service companies or directly to individual customers. Increased consolidation among customers as well as greater outsourcing has resulted in strong growth for wholesalers and service companies. SCA has systematically entered into partnerships with these customer groups for a number of years. This has reduced costs and enabled strong organic growth.

Efficiency enhancements

SCA has worked intensively to lower costs and rationalize production structures. The 2005 rationalization programme will be completed in the first half of 2007. It has involved closures or divestment of some ten factories with a capacity of more than 150,000 tonnes of tissue. Steps are also being taken to improve efficiency and quality. The successful investment in Valls, Spain, in 2005 will be followed by a second tissue machine that will go into operation in April 2007.



Tissue The past year

Key ratios

SEKm	2006	Group share %	2005
Net sales	31,336	31	30,701
Operating cash surplus	3,528	25	3,628
Change in working capital	-140		233
Current capital expenditures, net	-1,868	33	-1,694
Other changes in operating cash flow	-419		-395
Operating cash flow	1,101	17	1,772
Operating profit	1,490	17	1,577
Operating margin, %	5		5
Capital employed	33,449	35	33,084
Return, %	4		5
Strategic investments			
- plant and equipment	-468	50	-906
- restructuring costs	-15	64	-71
- company acquisitions	-51	16	-250
Average number of employees	14,568	29	16,009

The earnings trend in 2006 remained unsatisfactory in the consumer tissue segment, mainly due to the considerable increases in the cost of energy and raw materials. Higher prices and a successful implementation of ongoing efficiency and improvement programmes were not able to fully compensate for the negative factors. The profits in the AFH tissue segment were better than in 2005, mainly as a result of strong growth in the North American operation.

Net sales increased by 2% to SEK 31,336m as a result of higher volumes and prices. Operating profit fell by 6% to SEK 1,490m, mainly as a result of higher energy and raw material costs.

The intense competition continued in Europe. In Latin America and Central and Eastern Europe, SCA's operations continued to demonstrate strong growth.

Efficiency enhancement

Activities in 2006 were characterized by efforts to improve the cost situation. Restructuring of the production system in Western Europe continued successfully. Non-competitive mills and converting facilities were closed down or divested. Among the factories affected were Tilburg in the Netherlands, Roanne in France, Lucca4 in Italy and Nisa in Portugal. The supply chain and logistics were made more efficient at the same time as investments were made in new equipment for higher quality and more cost-effective production processes.

Growth in Central and Eastern Europe

A strategic theme in 2006 was continued expansion in Central and Eastern Europe. The fast growth in demand continued and SCA increased its market share and brand awareness in Russia, Hungary, Croatia, Slovenia and Romania. A new tissue plant in the Moscow

region is planned to meet increased demand.

Launches and campaigns

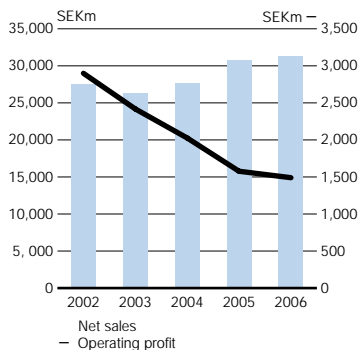
Several major campaigns were implemented during the year within the consumer tissue segment, involving brands such as Zewa, Edet and Velvet. A successful Zewa campaign was carried out during the FIFA World Cup in Germany. In Switzerland, Germany and Austria, Zewa kitchen rolls were re-launched with improved quality and design.

SCA's focus on increasing the market share in the premium AFH segments progressed well in 2006. Considerable investments were made in marketing the "cost-in-use" concept, i.e. a product concept with high value and cost efficiency. Several successful launches of improved dispenser systems were carried out in Europe, including a new aluminium series.

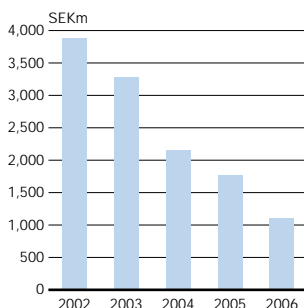
Expansion of the global brand platform, Tork, continued in a number of markets. This included successful launches in Mexico and Australia. Tork was introduced towards the end of the year in North America where SCA previously operated under a number of different brands. Although SCA's presence in Asia is still limited, Tork was launched in China in 2006.

In 2006 the World Wide Fund for Nature (WWF) gave SCA the highest green rating among European tissue manufacturers.

Net sales and operating profit



Operating cash flow



Zewa Sensitive is a newly developed toilet paper that contains chamomile lotion.

Tissue Consumer market

Every year, some 18 million tonnes of consumer tissue are produced worldwide with a value of around SEK 280bn. The product segment consists of toilet paper, kitchen rolls, facial tissue and napkins.

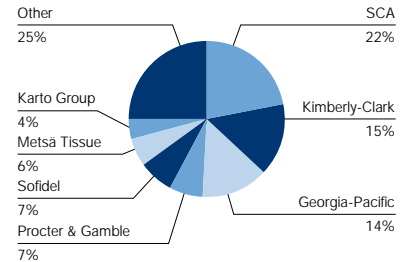
Europe accounts for 22% of the global market and is growing by an average of 3% per year. Central and Eastern Europe, where market penetration is lower, has a higher growth rate, around 8% per year. Markets in Latin America where SCA has a significant presence, such as Mexico and Colombia and the surrounding countries, are also showing good growth figures.

SCA is the leading supplier of consumer tissue in Europe with a market share

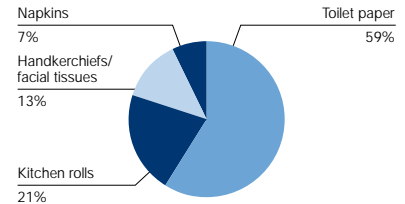
of 22%. SCA's brands are strong with Zewa in Germany and Austria, Edet in Scandinavia and the Netherlands and Velvet in the UK. In Central and Eastern Europe, SCA's Zewa brand is a market leader with increasing sales and high growth figures. SCA is Europe's biggest supplier of tissue for retailers' brands, with strong positions in most of the European markets.

In Australia and New Zealand, SCA is a leader with a market share of 34% and 48% respectively. The products are sold under the Sorbent, Purex, Handee, Deeko and Orchid brands. SCA is the second largest producer in the Latin American market. SCA has strong positions in Mexico, Colombia, Chile and Ecuador.

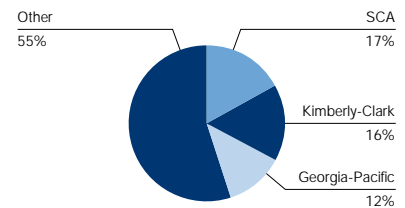
Market shares - Consumer tissue Europe



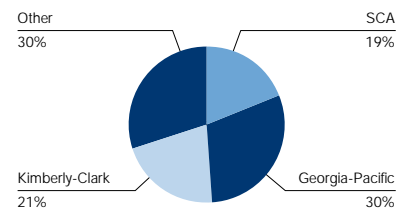
Product breakdown consumer tissue, Europe



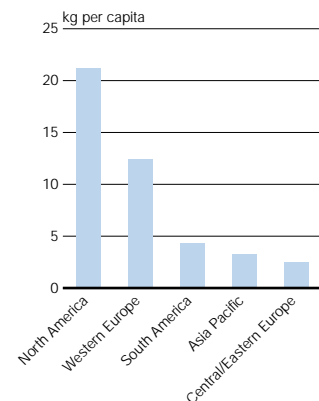
Market shares AFH, Europe



Market shares AFH, North America



Annual per capita consumption of tissue



Tissue AFH market

The global market for AFH tissue amounts to SEK 85bn, of which North America accounts for 42% and Europe for 32%.

Important product segments within AFH tissue are paper towels, toilet paper, napkins, facial tissue and tissue products used in industry. The market is growing by around 2-3% per year in Western Europe and with a slightly lower rate of growth in North America. Outside North America and Europe the market penetration of AFH tissue is still relatively low.

SCA is the biggest supplier of AFH products in Europe and third in North America. In Europe SCA has 17% of the market and in North America 19%.

The market is divided into the following customer categories: hotels, restaurants and catering (HoReCa), offices, industry and healthcare. The highest growth is within HoReCa, driven by growth in the restaurant branch and tourist industry. The office segment is growing in line with the economy in general, while the growth rate is somewhat lower in the industrial segment.

The products are distributed via wholesalers and facility service companies or directly to individual customers. Due to increased consolidation among customers, the customers are becoming larger and more international, a trend that benefits global companies such as SCA.

Notes

NOTE 1 Accounting principles

The most important accounting principles applied in the preparation of this annual report are set out below. The same principles are usually applied in both the Parent Company and the Group. In some cases, the Parent Company applies principles other than those used by the Group and, in such cases, these principles are provided under a separate heading.

Basis for preparation

Since 2004 the SCA Group's financial statements have been prepared in accordance with the Annual Accounts Act and International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS), (hereinafter referred to as IFRS, unless referring to a specific standard) as adopted within the EU. The consolidated financial statements also contain additional information in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 30, Supplementary Accounting Rules for Groups; IAS 32 Financial Instruments: Presentation; IAS 39, Financial Instruments: Recognition and Measurement; and IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations applied from 2005 and prospectively. The Parent Company's financial statements are prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 32:05, Reporting by Legal Entities, and the Annual Accounts Act. The Parent Company prospectively applies RR 32:06 with respect to item 70, so as not to apply the amendment in IAS 39 with respect to recognition and measurement of financial guarantees issued to subsidiaries.

SCA applies the historical cost method for valuation of assets and liabilities except for biological assets (standing forest), financial assets available for sale and financial assets and liabilities, including derivative instruments, measured at fair value via the income statement. In the Parent Company, biological assets or their financial assets and liabilities are not measured at fair value.

Introduction of new and revised IFRS

The following amendments and new standards (IFRS) and interpretations (IFRIC) have been decided by IASB and adopted by EU:

IFRS 7 Financial Instruments: Disclosures (effective date 1 January 2007). SCA will apply this standard from 1 January 2007.

IAS 1 Presentation of Financial Statements – Amendment capital disclosure (effective date 1 January 2007). According to this amendment disclosures will be required that make it possible to assess objectives, policy and methods for capital management. This amendment will apply from 2007.

IAS 19 Employee Benefits – Amendment relating to recognition of actuarial gains and losses (effective date 1 January 2006, earlier application encouraged). According to this amendment it is permitted to recognise actuarial gains and losses directly in equity. SCA has been applying this amendment from 1 January 2004.

IAS 21 The Effects of Changes in Foreign Exchange Rates – Amendment regarding hedging of net investments in foreign operations (effective date 1 January 2006). The amendment extends the range of companies and currencies that can be included in such a hedging transaction. SCA's hedging transactions were not restricted by previous rules. SCA has been applying this amendment since 2006 where it is deemed appropriate.

IAS 39, Financial Instruments: Recognition and Measurement – Amendments relating to cash flow hedges of intra-group transactions, relating to the fair value option as well as financial guarantees (all with effective date 1 January 2005). This amendment, which makes it possible to apply hedge accounting for hedging of intra-group transactions, has been applied from

2006. Amendments relating to the fair value option and financial guarantees have not had any effect on the Group.

IFRIC 4 Determining Whether an Arrangement Contains a Lease (effective date 1 January 2006). According to IFRIC 4 determining whether an arrangement is, or contains, a lease is based on the content of the arrangement. An assessment must be made of the extent to which a) fulfilment of the arrangement depends on the use of a specific asset/assets, and b) the arrangement conveys a right to control the use of the asset. IFRIC 4 has been taken into account in new contracts during the year but has not involved any reclassification of existing contracts to leases.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date 1 March 2006). The Group does not currently have operations in any countries where transition to reporting for hyperinflationary economies is required.

IFRIC 8 Scope of IFRS 2 (effective date 1 May 2006). According to IFRIC 8 the rules in IFRS 2 cover goods and services received in exchange for an equity instrument even if such goods and services, wholly or partly, cannot be specifically identified. This interpretation does not apply to the Group since this type of transaction does not occur.

IFRIC 9 Reassessment of Embedded Derivatives (effective date 1 June 2006). An embedded derivative must be separated from the host contract when the contract is entered into. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise arise, in which case reassessment is required. At this time, the Group has not identified any embedded derivatives and this interpretation is thus not applicable.

IFRIC 10 Interim Financial Reporting and Impairment (effective date 1 November 2006). Reversal of impairment losses recognized during the year on goodwill, investments in equity instruments or financial assets is not permitted. SCA is applying this interpretation from 2007.

The following new standards and interpretations have been established by IASB but are either not effective or not yet adopted by the EU:

IFRS 8 Operating Segments (effective date 1 January 2009) replaces IAS 14. An operating segment is a component of an entity: a) that through business activities generates revenues and costs (including revenues and costs from transactions with other components in the same entity); b) whose operating performance is regularly assessed by the chief operating decision maker for the unit to determine the allocation of resources; and c) for which financial information is available. The Group will start applying IFRS 8 from 2009.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective date 1 March 2007). Share-based payments according to programmes started before 7 November 2002, according to IFRS 1, do not need to be reported according to IFRS 2. The Group has chosen to apply this exception and therefore SCA has determined that the interpretation in IFRS 11 will not be applied.

IFRIC 12 Service Concession Arrangements (effective date 1 January 2008). This interpretation provides guidance in the reporting of service arrangements between public and private sector parties. The interpretation is not applicable to SCA since no such transactions occur.

Use of assessments

The preparation of financial statements in conformity with generally accepted accounting principles requires assessments and assumptions to be made that affect reported asset and liability items and income and expense items respectively, as well as other information disclosed. The actual results may differ from these assessments. Areas where assumptions and assessments are significant for the Group are presented in Note 3.

Consolidated accounts

The consolidated accounts include the accounts of the Parent Company and all group companies in accordance with the definitions below. Group companies are consolidated from the date the Group has control or influence over the company according to the definitions provided under the respective category of group company below. Divested group companies are included in the consolidated accounts until the date the Group ceases to control or exercise influence over the companies. In order to ensure consistent reporting within the Group, group companies align their reporting to comply with the Group's accounting principles. Intra-Group transactions, such as revenues, expenses, receivables and liabilities, as well as unrealized earnings and Group contributions have been eliminated.

Parent Company:

The Parent Company reports all holdings in group companies at cost after deduction for accumulated write-downs.

Subsidiaries

All companies in which the Group holds or controls more than 50% of the votes or where the Group alone, through agreement or in another manner, exercises a decisive influence, are consolidated subsidiaries. In this connection, the existence and effect of potential votes that can be exercised at the closing date are taken into account. The consolidated accounts are prepared according to the purchase method. Historical cost consists of the fair value of the assets provided as remuneration to the seller, liabilities assumed at the transfer date and expenses directly attributable to the acquisition. Equity in acquired subsidiaries is determined on the basis of measurement of the fair value of assets, liabilities and contingent liabilities on the acquisition date (acquisition analysis). The valuation is performed without taking the extent of any minority interests into account. If measurement at fair value of these assets and liabilities provides values other than the book values of the acquired company, these fair values constitute the Group's cost. If the historical cost of shares in subsidiaries on the acquisition date exceeds the estimated value of the Group's share of net assets in the acquired company, the difference is recognized as consolidated goodwill. If the historical cost is less than the normally determined value of net assets, the difference is recognized directly in the income statement.

Joint venture companies

Joint-venture companies are defined as companies in which SCA together with other parties through an agreement has shared control over operations. Joint-venture companies are reported according to the proportional consolidation method. Valuation of acquired assets and liabilities is done in the same way as for subsidiaries. Application of the proportional consolidation method means that the Group's percentage share of all income statement items, balance sheet items and cash flow is included in corresponding reports for the SCA Group. Income statement items and other changes recognized directly in equity by the joint-venture companies are also recognized directly in equity in the Group.

Associated companies

Associated companies are companies in which the Group exercises a significant influence without the partly-owned company being a subsidiary or joint venture company. Normally, this means that the Group owns between 20 and 50% of the votes. Accounting for associated companies is done according to the equity method and they are initially measured at historical cost. Valuation of acquired assets and liabilities is performed in the same

manner as for subsidiaries and the carrying amount for associated companies includes any goodwill and other Group adjustments. The Group's share of the profit after tax reported in the associated company's income statement and which arose in the associated company after the acquisition, is reported on one line in the consolidated income statement. Income statement items and other changes recognized directly in the associated company's equity, are also recognized in the Group directly in equity. Share in profits is calculated on the basis of SCA's share of equity in the respective associated company. Shares in associated companies are reported as a separate item in the consolidated balance sheet.

The carrying amount of the shareholding changes to reflect SCA's shares in the respective associated company's profit, reported both in the income statement and directly in equity, reduced by dividends received and depreciation and write-downs of consolidated surplus values including goodwill. Undistributed earnings in associated companies are part of the Group's retained earnings. If the Group's share of any accumulated losses exceeds the cost of the shares in the company, the book value is reduced to zero and recognition of future losses ceases, provided the Group is not bound by guarantees or other commitments in relation to the associated company. Unrealized internal gains are eliminated against the share of gains accruing to the Group.

Minority interests

Minority share in a subsidiary's net assets is reported as a separate item in the Group's equity. In the consolidated income statement, minority share is included in net profit. Transactions with minority interests are handled in the same way as transactions with external parties. Sale of participations to minority interests result in a gain or loss that is recognized in the consolidated income statement. Acquisition of minority shares can result in goodwill if the cost exceeds the carrying amount of the acquired net assets.

Translation of foreign currency

Functional currency and presentation currency

The companies in the Group prepare their financial reports in the currency used in the primary economic environment in which they operate. This is known as the functional currency. These reports provide the basis for the consolidated accounts. The consolidated accounts are prepared in Swedish kronor (SEK) which is the Parent Company's functional currency and therefore the presentation currency of both the Parent Company and the Group.

Translation of foreign group companies

Balance sheets and income statements for all group companies whose functional currency is not the presentation currency are translated into the Group's presentation currency using the following procedures:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- income and expenses for each income statement presented are translated at the average exchange rate for the respective year;
- all exchange differences that arise are reported as a separate component directly in consolidated equity.

Exchange differences arising on the financial instruments held to hedge these net assets are also taken directly to consolidated equity. When a foreign operation is disposed of, both of these exchange differences are reported in the income statement as part of the gain or loss on disposal. SCA has chosen to apply the exemption in IFRS 1, First-time Adoption of IFRS, which allows these translation differences to be disclosed in equity

from the date of transition to IFRS, i.e. from 1 January 2004. Goodwill and fair value adjustments that arise on acquisition of a foreign operation are treated as assets and liabilities of the operation and translated according to the same principles as the foreign operation. The financial reports of a subsidiary in a hyperinflationary country are adjusted for inflation using the price index for the country in question before these reports are included in the consolidated accounts.

Transactions and balance sheet items in foreign currency

Transactions in a foreign currency are translated to a functional currency using the exchange rate at the date of the transactions. Monetary receivables and liabilities in foreign currency are remeasured at closing day rates at each balance sheet date. Exchange gains or losses that arise from such remeasurement and on payment of the transaction are recognized in the income statement, except for, in accordance with IAS 39, approved hedging transactions relating to cash flows or net investment where the gain or loss is recognized in equity. Gains and losses on operating receivables and liabilities are reported net and reported within operating profit. Gains and losses on borrowing and financial investments are reported as other financial items. Change in fair value of monetary securities issued in foreign currency and classified as financial assets available for sale is analyzed and the change attributable to changed exchange rates is reported in the income statement, while other unrealized change is reported in equity.

Translation differences for non-monetary financial assets and liabilities valued at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences for non-monetary financial assets, classified as assets available for sale are taken directly to equity. Non-monetary assets and liabilities recognized at historical cost are translated at the exchange rate prevailing on the transaction date.

Segment reporting

A business segment is a part of an operation that provides products and that is subject to risks and opportunities that are different from those of other business segments. Geographical segments provide products within a particular economic environment that is subject to risks and opportunities that are different from those of components operating in other economic environments. Business segments are classified as primary segments and geographical segments as secondary segments.

Intangible assets

Goodwill

Goodwill is the amount by which the cost of an acquisition exceeds the fair value of the net assets acquired by the Group in conjunction with a company acquisition or net assets purchase. Goodwill that arises at acquisition of associated companies is included in the carrying amount of the associated company. Goodwill is not amortized, but instead tested annually for impairment. Goodwill is recognized at cost reduced by accumulated write-downs. Write-downs on goodwill are not reversed. Net gains or losses from the sale of group companies include the remaining carrying amount of the goodwill attributable to the sold unit. Impairment tests are performed for cash-generating units and goodwill is therefore allocated to the cash-generating units that are expected to benefit from the acquisition from which the goodwill arose.

Trademarks

Trademarks are reported at cost after any accumulated depreciation and accumulated write-downs. Trademarks that are found to have an indefinite useful life are not amortized, but instead tested annually for impairment in the same manner as goodwill. The useful life is considered to be indefinite since the trademarks are well established and the Group intends to retain and develop them. Cash-generating units identified for these trademarks comprise the geographical market where the trademark exists. Trademarks with a limited useful life are amortized on a straight-line basis during their anticipated useful life, which varies between 3 – 7 years.

Research and development

Research expenditure is recognized as an expense as incurred. In cases where it is difficult to separate the research phase from the development phase in a project, the entire project is treated as research and expensed immediately. Identifiable expenditure for development of new products and processes is capitalized to the extent it is expected to provide future economic benefits. In other cases, development costs are expensed as incurred. Capitalized expenditure is depreciated in a straight line from the date when the asset can start to be used or produced commercially and during the estimated useful life of the asset. The depreciation period is 5 – 10 years.

Emission allowances and costs for carbon dioxide emissions

Emission allowances received from the government relating to carbon dioxide emissions are recorded as an intangible asset. Allowances are received free of charge and valued and reported at market value as of the day to which the allocation pertains. Neither remeasurement nor amortization is carried out. The allowances are used as payment in the settlement with the Government regarding liabilities for emissions. The cost and liability continuously reported for emissions is based on the value at which the emission allowances received were initially recorded. This continues to apply for as long as the emission allowances received are believed to cover the Group's requirement of allowances needed to settle the liability to the Government. If the emission allowances received do not cover emissions made, SCA makes a provision to reserves for the deficit valued at the market value on the balance sheet date.

Other intangible assets

Intangible assets also include patents, licenses and other rights. At acquisition of such assets, the cost of the acquisition is recognized as an asset which is amortized on a straight-line basis over the anticipated useful life which varies between 3 and 20 years.

Tangible fixed assets

Tangible fixed assets are stated at cost after deduction for accumulated depreciation and any accumulated write-downs. Cost includes expenditure that can be directly attributed to the acquisition of the asset as well as transfer from equity of the gains and losses from approved cash flow hedges relating to purchases in foreign currency of tangible assets. The cost of properties and production facilities included in major projects includes, unlike costs for other investments, expenditure for running-in and start-up. Expenditure for interest during the construction and assembly period are included in cost for major investment projects (> SEK 500m and > 6-month construction period).

All expenditure for new investments in progress is capitalized.

Additional expenditure increases the carrying amount of the asset or is reported as a separate component only when it is probable that future economic benefits associated with the asset will accrue to the Group and the cost of the asset can be measured in a reliable manner. All other forms of repair and maintenance are reported as expenses in the income statement in the period in which they are incurred.

Land is regarded as having an indefinite useful life and is therefore not depreciated. Depreciation of other tangible assets is done on a straight-line basis down to the estimated residual value of the asset and during the anticipated useful life of the assets. Useful lives are assessed as:

	Number of Years
Pulp and paper mills, sawmills	10–25
Converting machines, other machinery	7–18
Tools	3–10
Vehicles	4–5
Buildings	15–50
Energy plants	15–30
Computers	3–5
Office equipment	5–10
Harbours, railways	20–30
Land improvements, forest roads	10–20

The residual values and useful lives of assets are tested on a continuous basis and adjusted where required.

Parent Company

The Parent Company's tangible assets include standing forest, which in the Group is classified as a biological asset. No systematic depreciation or changes in value in conjunction with felling is effected in the Parent Company. Collective revaluation of forest assets has occurred. The revaluation amount was placed in a revaluation reserve in equity.

Write-downs

Assets that have an indeterminable useful life are not depreciated but are annually tested for impairment. The value of depreciated assets is tested for impairment whenever there are indications that the carrying amount is possibly not recoverable.

In cases where the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the higher of fair value reduced by selling expenses and value in use. Fair value is the most probable price from a sale in a normally functioning market. Value in use is the sum of present value of the estimated future cash flows that are expected to be received through use of the asset and the estimated residual value at the end of its useful life. When testing for impairment, the assets are grouped in cash-generating units and assessments are made on the basis of these units' future cash flows.

A write-down recognized earlier is reversed if the reasons for the earlier write-down no longer exist. However, a reversal is not higher than the book value would have been if a write-down had not been reported in previous years. Goodwill write-downs are never reversed.

Biological assets

The Group's standing forest is defined and reported as a biological asset. Forest land and forest roads are classified as land and land improvements. The biological assets are valued and reported at fair value after deduction for estimated selling costs. The fair value of the Group's standing forest is calculated as the present value of anticipated future cash flow from the assets before tax. The calculation is based on existing, sustainable forest surveys and assessments regarding growth, timber prices, felling costs and silviculture costs, including costs for statutory replanting. Environmental restrictions and other limitations are taken into account and the calculation is performed for a production cycle which SCA estimates at an average of 100 years. The discount factor is based on a normal forest company's weighted cost of capital (WACC) before tax.

Parent Company:

The Parent Company reports standing forest as a tangible asset.

Leasing

Leases for fixed assets where the Group substantially carries all the risks and rewards incidental to ownership of an asset are classified as finance leases. The leased asset is recognized as a fixed asset and a corresponding financial liability is reported among interest-bearing liabilities. The initial value of these two items comprises the lower of the fair value of the assets or the present value of the minimum lease payments. Future lease payments are divided between amortization of the liability and financial expenses so that every accounting period is charged with an interest amount corresponding to a fixed interest rate on the recognized liability in each period. The leased asset is depreciated according to the same principles that apply to other assets of the same type. If it is uncertain whether the asset will be taken over at the end of the leasing period, the asset is depreciated over the lease term if this is shorter than the useful life that applies to other assets of the same type.

Leases for assets where the risks and rewards incidental to ownership essentially remain with the lessor are classified as operating leases. The lease payments are recognized as an expense on a straight-line basis over the lease term.

Parent Company:

The Parent Company reports all leases as operating leases.

Financial instruments

Financial instruments reported in the balance sheet include cash and cash equivalents, securities, other financial receivables, accounts receivable, accounts payable, loans and derivatives.

Recognition and derecognition

Purchases and sales of financial instruments are recorded in the accounts on the trade date, with the exception of the categories: loan receivables, financial assets available for sale and other financial liabilities, all of which are recorded on the settlement date. Financial instruments are initially reported at cost which corresponds to the fair value of the instrument including transaction costs. Recognition then takes place on the basis of the categories specified below. The purpose of the financial transaction determines whether gains or losses are classified as an operating or financial item. Financial assets are derecognized from the balance sheet when the risk and the right to receive cash flows from the instrument have ceased or been transferred to another counterparty. Financial liabilities are derecognized from the balance sheet when SCA has met its commitments or they have been otherwise extinguished.

Measurement

The fair value of financial instruments is calculated on the basis of prevailing market listings on the closing day. For financial assets and listed securities, the actual purchase prices on the closing day are used. In the absence of market listings, SCA determines fair values with the aid of normal valuation models, such as discounting of future cash flows at listed market rates of interest for the respective terms. These estimated cash flows are established based on available market information. Impairment of financial assets takes place when there is objective proof of impairment, such as cessation of an active market or where it is probable that the debtor cannot meet his commitments. For disclosures in a note relating to long-term loans, current market interest rates and an estimate of SCA's risk premium are taken into account in fair value calculations. The fair value of short-term loans and investments is considered to correspond to the book value as a change in market interest rates has a negligible effect on market value.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and bank balances as well as short-term investments with a maturity not exceeding three months from the acquisition date. Restricted deposits are not included in cash and cash equivalents.

Classification

SCA reports financial instruments with a remaining maturity of less than 12 months as current assets and liabilities and those with a maturity that exceeds 12 months as long-term assets and liabilities. Classification of financial instruments is determined on the original acquisition date, and the purpose of the transaction determines the choice of category. SCA classifies its financial instruments in the categories below.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those that SCA designated in this category on the first accounting date. A financial asset is classified in this category when the intention is to sell in the short term. Derivatives with a positive market value are classified in this category if they are not used for hedge accounting. Assets in this category are recognized continuously at fair value and changes in value are recognized in profit or loss. Only financial derivatives were classified in this category during the year.

Held-to-maturity investments

Held to maturity investments are defined as financial assets that are not derivatives and that have fixed or determinable payments and that SCA intends and is able to hold to maturity. Assets in this category are measured at amortized cost applying the effective interest method, which means they are accrued so that a constant return is obtained. No financial instrument was classified in this category during the year.

Loans and receivables

Loans and receivables are financial assets, which are not derivatives, with fixed or determinable payments, that are not quoted in an active market. Receivables arise when SCA provides money, goods or services directly to a customer without any intention of conducting trading in the receivables. Assets in this category are measured at amortized cost less an eventual provision for impairment. Receivables are reported in the amount at which they are expected to be paid, based on an individual assessment of bad debts. Any write-down of accounts receivable will affect SCA's operating profit.

Available-for-sale financial assets

This category includes financial assets that are not derivatives and that are designated in this category at initial recognition or that have not been classified in any other category. Assets in this category are measured continuously at fair value and changes in value are recognized in equity, except with regard to the change to exchange rate fluctuation reported in the income statement. When the asset is sold, the cumulative gain or loss that was recognized in equity is recognized in profit or loss.

Financial liabilities at fair value through profit or loss

This category includes derivatives with negative fair values that are not used for hedge accounting and financial liabilities held for trading. Liabilities in this category are continuously measured at fair value and changes in value are recognized in profit or loss. Only derivatives were classified in this category during the year.

Other financial liabilities

This category includes financial liabilities that are not held for trading. These are recognized initially at fair value, net after transaction costs, and subsequently at amortized cost according to the effective interest method.

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously recognized at fair value in the balance sheet. Profit and loss on remeasurement of derivatives used for hedging purposes is recognized as described below. In hedge accounting, the relationship between the hedge instrument and the hedged item is documented, as is the assessment of the effectiveness of the hedge, both when the transaction is initially executed and on an ongoing basis. Hedge effectiveness is the extent to which changes in a hedged item's fair value or cash flow attributable to a hedged risk are matched by changes in the fair value or cash flow of the hedging instrument.

Cash flow hedges

Profit and loss on remeasurement of derivatives intended for cash flow hedging are recognized in equity and recycled to the income statement at the rate at which the hedged cash flow affects profit or loss. Any ineffective part of the changes in value is recognized directly in profit or loss. If a hedge relationship is interrupted and cash flow is still expected, the result is recognized in equity until the cash flow affects profit or loss. If the hedge pertains to a balance sheet item, the profit or loss is transferred from equity to the asset or liability to which the hedge relates when the value of the asset or liability is determined for the first time. In cases where the forecast cash flow that forms the basis of the hedging transaction is no longer assessed as probable, the cumulative profit or loss that is recognized in equity is transferred directly to the income statement.

Hedges of net investments in foreign operations

Profit and loss on remeasurement of derivatives intended to hedge SCA's net investments in foreign operations are recognized in equity. The cumulative profit or loss in equity is recycled to the income statement in the event of divestment of the foreign operation.

Fair value hedges

The gain or loss from remeasurement of a derivative relating to fair value hedges is recognized in the income statement with changes in fair value of the asset or liability exposed to the hedged risk. For SCA this means that long-term loans that are subject to hedge accounting are discounted with

out a credit spread to market interest rates and meet inherent interest-rate derivatives' discounted cash flows at the same rate. Since the entire change in value from the derivative is recognised directly in profit or loss, any ineffectiveness is recognised in the income statement.

Economic hedges

Where SCA conducts hedges and the transactions do not meet documentation requirements according to IAS 39, changes in fair value of the hedging instrument are recognized directly in profit or loss.

Parent Company:

The Parent Company reports financial assets at cost and write-downs are affected if a lasting impairment is noted.

Inventories

Inventories are recognized at the lower of cost and net realizable price on the balance sheet date. Cost is calculated using the first-in, first-out (FIFO) or weighted average cost formula. The cost of goods produced and segregated for specific projects is assigned by using specific identification of their individual costs. The cost of finished goods and work in progress includes raw materials, direct labour, other direct expenses and production-related overheads, based on a normal production level. Interest expenses are not included in measurement of inventories.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost for completion and sale of the item.

The holding of felling rights for standing forest is valued at contract prices, which on average do not exceed the lower of net realizable value and cost.

Fixed assets and liabilities held for sale

Fixed assets (and disposal groups) are classified as fixed assets held for sale if their value, within one year, will be recovered through a sale and not through continued utilization in operations. Long-term liabilities are reclassified as described above to Liabilities held for sale. On the reclassification date the assets are measured at fair value in order to identify any impairment loss. Reclassified assets are recognized at the lower of the book value and fair value minus selling costs. Following reclassification, no depreciation is carried out on these assets.

The Group applies IFRS 5, Non-current Assets Held for Sale, prospectively with effect from 2005 according to the transitional rules in IFRS 1 and IFRS 5. Fixed assets held for sale have previously neither been classified, recognized, nor measured in any manner other than for similar fixed assets.

Parent Company:

The Parent Company does not apply the rules in IFRS 5. Fixed assets held for sale are not reclassified and depreciation does not cease. Instead, if such assets exist, the information is disclosed.

Shareholders' equity

Transaction costs directly relating to the issue of new shares or options are reported, net after tax, in equity as a reduction in the issue proceeds.

Expenditure for the purchase of SCA's own shares reduces retained earnings in equity in the Parent Company and the portion of consolidated equity that pertains to Parent Company shareholders. When these are sold, the sales proceeds are included in retained earnings in the equity pertaining to Parent Company shareholders.

Securitization

Securitization of accounts receivable has occurred during 2004. Sold receivables reduced accounts receivable. The difference between sold, outstanding accounts receivable and what is received from the financier for them is reported as other operating receivables.

Taxes

The Group's income taxes include taxes on the Group companies' reported profits during the accounting period and adjustments relating to tax for prior periods as well as changes in deferred taxes for the period.

Deferred tax is calculated and reported on all temporary differences in accordance with the so called balance sheet method. According to this method, deferred tax is calculated on the difference between the tax value and the carrying amount of assets and liabilities. Temporary differences primarily arise through depreciation of tangible assets, valuation of standing forest at fair value, provisions for pensions and other obligations as well as loss carry forwards. In connection with company acquisitions, temporary differences arise on the difference between the consolidated value of assets and liabilities and their value for tax purposes. Temporary differences that arise the first time an asset or liability is recognized, and which are not attributable to a company acquisition and do not affect either accounting profit or taxable profit, do not give rise to any deferred tax liability or deferred tax asset.

Deferred taxes are measured at their nominal amount and based on the tax rates adopted on the balance sheet date. Deferred tax assets relating to loss carry forwards are recognized to the extent it is probable that deductions can be made against future profit.

For items recognized in the income statement, related tax effects are also recognized in the income statement. For items recognized in equity, related tax effects are recognized in equity.

Deferred tax liabilities relating to temporary differences attributable to investments in subsidiaries and participations in joint venture companies are not reported in SCA's consolidated accounts since SCA AB, in all cases, can control the time of reversal of the temporary differences and it is not considered probable that such reversal will occur in the near future.

Parent Company:

Due to the links between accounting and taxation (in Sweden), the deferred tax liability on untaxed reserves in the Parent Company is recognized in the year-end accounts as part of untaxed reserves.

Employee benefits

Pensions

There are several defined contribution and defined benefit pension plans within the Group. Most of these have plan assets in separate foundations or similar institutions. The pension plans are financed mainly through payments from each Group company and the employees to insurance companies or foundations. Independent actuaries calculate the size of the obligations of each plan and revalue the obligations of the pension plans each year.

A defined contribution pension plan is a plan where fixed contributions are paid to a separate legal entity. There is no obligation to pay additional contributions if the fund has insufficient assets to pay the benefits to which the employees are entitled and which are earned during current and previous periods. A defined benefit pension plan is a plan where the amount of the pension benefit to be received by an employee after retirement is established. This amount is determined on the basis of factors such as salary, age and period of service.

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the obligation on the balance sheet date minus the fair value of the plan assets. Funded plans with net assets, i.e. plans with assets exceeding obligations, are recognized as a financial net asset. The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method in a manner that distributes the cost during the anticipated period of service of the employee. The obligation is valued at the present value of anticipated future cash flows using a discount rate that corresponds to the interest on first-class corporate bonds or, where these do not exist, government bonds issued in the currency in which the benefits will be paid and with a remaining maturity that is comparable to the actual pension liability.

Actuarial gains and losses that arise as a result of changed actuarial assumptions and a return on plan assets that is other than expected, are recognized directly in equity in the period in which they arise.

The total cost relating to defined benefit plans is divided between personnel costs and financial expenses. Financial expenses are calculated from the net value of each plan at the beginning of the year and the discount factor decided for each country. The Group's payments relating to defined contribution plans are recognized as an expense during the period the employees

carry out the service to which the payment relates. Prepaid contributions are only recognized as an asset to the extent the Group is entitled to a repayment or reduction of future payments.

Past service costs are recognized directly in the income statement unless changes in the pension plan are subject to employees remaining in service for a specific, stated period. In such cases, the cost is allocated on a straight-line basis over this period. A special payroll tax (corresponding to contributions) is calculated on the difference between the pension cost determined according to IAS 19 and the pension cost determined according to the rules applied in the legal entity. Payroll tax is recognized as an expense in the income statement except with regard to actuarial gains and losses where the payroll tax, like the actuarial gains and losses, is recognized directly in equity.

Parent Company:

The Parent Company applies the regulations in "Tryggandelagen" (Swedish act safeguarding pension obligations). Accounting complies with FAR SRS's (The institute for the accountancy profession in Sweden) accounting recommendation No. 4, Accounting for pension liabilities and pension costs. The main difference compared with IAS 19 is that Swedish practice disregards future increases in salaries and pensions when calculating the present value of the pension obligation. This present value includes, however, a special reserve for future payments of pension supplements indexed for inflation.

Both defined contribution and defined benefit plans exist in the Parent Company.

Other benefits after retirement

Some Group companies provide post-retirement health care benefits. The obligation and anticipated costs for these benefits are calculated and reported in a similar manner to that applying to defined benefit pension plans.

Severance pay

Severance pay is paid when the Group issues notice to an employee prior to the retirement date or when an employee voluntarily accepts retirement in exchange for such compensation. Severance pay is recognized as an expense when the Group demonstrably is obliged to issue notices to employees as a result of a detailed, formal plan or to pay compensation in the event of voluntary resignation.

Employee stock option program

The Group has two outstanding employee stock option programmes. In the case of both programmes, allocation of options was made prior to 7 November 2002. In accordance with the exemption rules in IFRS 1, the Group has chosen not to apply the rules in IFRS 2, Share-based Payment, with regard to personnel expenses and equity effects when accounting for these programmes.

The cost of the employee stock options programmes, i.e. social security costs, are taken to the income statement continuously as personnel expenses. The costs for social security contributions in conjunction with exercising options are hedged against a rise in the price of SCA shares.

Provisions

Provisions are recognized when the Group has, or can be considered to have, an obligation as the result of events that have occurred and it is probable that payments will be required to fulfil the obligation. In addition, it must be possible to make a reliable estimate of the amount to be paid.

Provisions for restructuring measures are made when a detailed, formal plan for the measures exists and well-founded expectations have been created among those who will be affected by the measures.

Assessed costs for discounting an operation and restoration of an area are capitalized as part of the initial cost of each asset and depreciated. The capitalized amount comprises the discounted present value of the anticipated future expenditure for the restoration. The undertaking linked to the restoration is recognized as a provision and change in value over time is recognized, on an ongoing basis, as an interest expense in the income statement.

Provisions are made for environmental activities related to past operations, and which do not contribute to present or future income, when it is probable that payment liability will arise and the amount can be estimated with reasonable accuracy.

Revenue recognition

Sales revenue, synonymous with net sales, comprises the fair value of the consideration received or receivable for sold goods and services within the Group's ordinary activities. The revenue is recognized when delivery to the customer has taken place according to the terms of the sale. Sales revenue is recognized exclusive of VAT and net after discounts, bonus and elimination of intra-Group sales.

Other income includes compensation for sales that are not included in the Group's ordinary activities and include:

- rental revenue, which is recognized in the period covered by the lease;
- royalties and similar which are recognized in accordance with the implied financial effect of the contract.

Interest income is recognized in accordance with the effective interest method. Dividends received are recognized when the right to receive a dividend has been determined.

Government Grants

Government grants and assistance are recognized at fair value when there is reasonable assurance the grants will be received and that the Group will comply with the conditions attached to them.

Government grants related to acquisition of assets are recognized in the balance sheet by the grant reducing the carrying amount of the asset.

Government grants received as compensation for the costs are accrued and recognized in the income statement during the same period as the costs.

If the government grant or assistance is neither related to the acquisition of assets nor to compensation for costs, the grant is recognized as other income.

NOTE 2 Financial risk management

SCA's financial risk management is centralized to capitalize on economies of scale and synergy effects and to minimize operational risks. The central treasury function is responsible for the Group's borrowing, currency and interest rate risk management, and serves as an internal bank for the Group's financial transactions. In addition to ensure that the SCA Group has secure financing, financial transactions are executed for the purpose of limiting the Group's financial risks.

The Group's financial policy, which is established by the SCA Group's Board of Directors, constitutes a framework of guidelines and rules for financial risk management and financial activities in general. The policy is reviewed on a regular basis and at least once a year. The Group's financial risk is continuously documented and followed to ensure compliance with the financial policy.

Risk management objectives and policies

Currency risk

Transaction exposure

The Group companies have export revenues and import costs in many different currencies. This exposes the SCA Group to currency fluctuation. This currency risk is called transaction exposure and it affects the Group's operating profit. SCA's financial policy provides guidelines for managing the Group's transaction exposure. One requirement is that subsidiaries' booked accounts receivable and accounts payable are hedged. At Group level it is possible, within certain parameters, to hedge the Group's total transaction exposure between 0 and 18 months.

If Group companies have commitments relating to future payments for investments in foreign currency, the acquisition value of these investments can be hedged up to 100%.

Translation exposure

SCA reports its income statement and balance sheet in Swedish kronor (SEK). Since most of the Group's subsidiaries report in currencies other than SEK, SCA's consolidated earnings and equity are exposed to exchange rate fluctuation. This currency risk is called translation exposure. Anticipated future earnings of foreign subsidiaries are not hedged. For translation exposure associated with net investments in foreign subsidiaries, it is SCA's policy to hedge a sufficient proportion so that the Group's consolidated debt/equity ratio is not affected by exchange rate fluctuation. This is achieved by financing a certain portion of capital employed in foreign currencies with loans and derivatives in corresponding currencies. The optimal degree of matching depends on the Group's current consolidated debt/equity ratio. At the same time, tax considerations will also affect the capital structure for different countries. This means that the debt/equity ratio in different countries may deviate from the Group's consolidated debt/equity ratio. Depending on the chosen capital structure in the respective foreign currency, SCA hedges both positive and negative net investments.

Energy price risk

Due to its energy intensive operations, SCA is exposed to risks relating to changes in the price of energy, particularly gas and electricity. When the energy price risk is not hedged, price changes in the energy market have a direct impact on the Group's operating profit. SCA's energy price policy forms a framework of guidelines for managing energy price risk. Hedging of the price risk is permitted up to 36 months.

Refinancing risks and liquidity

Due to its capital intensive operations and the chosen capital structure, SCA has to manage a significant nominal debt. Refinancing risk is the risk that SCA is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in raising external loans.

SCA applies a centralized approach to the Group's financing whereby as much external borrowing as possible is done centrally. Subsidiary borrowing can take place, however, where it is advantageous or necessary due to SCA's structure and geographic spread. Examples of this are liabilities in acquired companies, finance leases, overdraft facilities or loans in countries where regulations and taxes make central financing impossible or uneconomical.

SCA limits its financing risk by having a good distribution and a certain length of its gross borrowing. According to SCA's financial policy, the gross debt's average maturity must always exceed three years. This will also include committed credit lines to cover short-term borrowing. Also, financial readiness must be maintained in the form of a liquidity reserve consisting of centrally available liquidity and committed credit lines totalling at least 10% of the Group's projected annual sales. Since the Group is a net borrower, surplus liquidity is used to reduce external liabilities.

SCA's loan documentation contains clauses that are standard for European companies with an investment grade rating. SCA's policy is not to enter into any undertakings that give the lender the right to cancel a loan as a direct result of changed financial ratios.

Interest rate risk

SCA's net interest income is directly affected by interest rate fluctuation and indirectly due to the effect of interest rate levels on the economy in general. SCA's policy is to borrow with floating rates since it is SCA's opinion that this results in lower interest cost over time. The central treasury function is responsible for identifying and managing interest rate exposure. The average term for fixed interest rates per currency should be 3–15 months.

Credit risk

Financial credit risk

Financial risk management involves exposure to credit risks. This exposure arises from the investment of surplus liquidity and through claims on banks and other counterparties that arise through derivative instruments. SCA's financial policy contains a special counterparty regulation by which maximum credit exposure for different counterparties is stipulated. One objective is that counterparties must have a minimum credit rating of A- from Standard & Poor's or an equivalent rating from Moody's.

Customer credit risk

The risk that customers cannot meet their obligations, i.e. that SCA will not receive payment for its accounts receivable, constitutes a customer credit risk. SCA runs credit checks on certain major customers where information about customers' financial position is obtained from various credit rating companies. Within the Personal Care and Tissue business areas the risk of credit losses is limited through credit insurance on major accounts receivable. Packaging and Forest Products do not use external customer credit insurance.

Risk management during the year

Currency risk

Long-term currency sensitivity

A breakdown of the Group's net sales and operating expenses in different currencies provides a picture of the Group's long-term currency sensitivity. The main exposure is in EUR, GBP and SEK. The imbalance between sales and expenses in SEK is due to the fact that the Swedish operation's exports are invoiced to great extent in foreign currencies.

Net sales and operating expenses by currency

Currency	Sales %	Expenses %	Operating profit, SEKm	Closing rate 31 Dec. 2006	Average rate 2006
EUR	47	45	6,190	9.04558	9.24507
USD	15	17	-178	6.87250	7.35860
GBP	13	10	3,103	13.4756	13.5624
SEK	4	12	-7,197		
DKK	3	2	865	1.21377	1.23975
MXN	3	3	391	0.63318	0.67548
AUD	2	2	958	5.43271	5.54373
NOK	1	0	1,054	1.09470	1.14992
Other	12	9	3,319		
TOTAL	100	100	8,505		
Of which foreign currency	96	88	15,702		

Transaction exposure

The forecasted currency transaction flows after net calculations of opposite flows in the same currencies, amounts to SEK 9,983m (8,621) on a 12-month basis. The table below shows a forecast for 2007 as well as outstanding hedging positions at year-end 2006.

Currency	2007			2006		
	Forecast flows SEKm/year	Total hedged volume 31/12 SEKm	No. Of hedged months	Forecast flows SEKm/year	Total hedged volume 31/12 SEKm	No. Of hedged months
GBP	2,961	455	1.8	2,750	683	3.0
EUR	2,125	683	3.9	1,766	1,784	12.1
AUD	808	83	1.2	798	69	1.0
NOK	779	124	1.9	852	170	2.4
CHF	497	64	1.6	506	65	1.5
CAD	449	107	2.8	548	166	3.6
MXN	255	40	1.9	427	-	-
USD	-117	-155	15.9	-1,201	-213	2.1
Other	2,226	189	1.0	2,175	716	4.0
SEK	-9,983	-1,590	1.9	-8,621	-3,440	4.8

The flows shown above are expected to occur consistently over time with one-twelfth per month. Outstanding hedging positions consist of forward contracts with a net market value of SEK 32m (15). In 2006 the hedging positions had a positive impact on the Group's operating profit of SEK 146m (-237). During the year, maximum flows of 5.0 (5.7) months and minimum flows of 1.9 (3.7) months were hedged against SEK. At year-end, 1.9 (4.8) months were hedged net against SEK.

Hedging of the anticipated forecast currency flow relating to the cost of investments had a net market value of SEK -17m (13) at year-end. These hedges mainly relate to the purchase of EUR against SEK. In 2006, the cost of investments increased by SEK 5m (-24).

The table "Total outstanding derivatives" on page 69, shows to what extent the outstanding hedging position at year-end meet accounting requirements for cash-flow hedges.

Financing of capital employed by currency

Capital employed in foreign currency as of 31 December 2006 amounted to SEK 70,433m (72,896).

Distribution by currency is shown in the table below.

At year-end, capital employed was financed in the amount of SEK 28,325m (30,360) in foreign currency, which is equivalent to a total matching ratio of 40% (42). Matching is achieved through both existing external net debt per currency and centrally managed forward contracts.

Financing of capital employed by currency

Currency	2006			2005		
	Capital employed SEKm	Net debt SEKm	Financing, %	Capital employed SEKm	Net debt SEKm	Financing, %
EUR	32,029	12,337	39	31,502	11,513	37
GBP	10,722	4,389	41	11,587	5,473	47
USD	10,475	4,983	48	11,985	6,630	55
MXN	3,469	1,417	41	3,940	1,749	44
AUD	2,500	983	39	2,868	1,302	45
DKK	2,024	1,024	51	2,004	1,054	53
NZD	1,577	618	39	1,767	457	26
COP	1,017	399	39	1,089	361	33
MYR	865	73	8	906	101	11
CNY	804	43	5	698	38	5
SKK	746	310	42	692	475	69
CAD	612	130	21	668	135	20
PLN	597	406	68	304	115	38
RUB	540	376	70	406	144	35
Other	2,456	837	34	2,480	813	33
Total Currency	70,433	28,325	40	72,896	30,360	42
SEK	24,929	8,074		24,040	9,466	
TOTAL	95,362	36,399		96,936	39,826	

Translation exposure, hedging of net investments outside Sweden

In order to achieve the desired hedging level for foreign capital employed, SCA has hedged the net assets in a number of selected legal entities. In total, hedging positions affected equity in 2006 by SEK -352m (567). The negative result is largely due to hedges of negative net assets in EUR. The total market value of outstanding hedging transactions at year-end was SEK -201m (-145). In total at year-end, SCA hedged negative net assets outside Sweden amounting to SEK 5,694m, net, with forward contracts. The total foreign net investment at year-end amounted to SEK 36,482m.

Hedging of net investments outside Sweden

Currency investment SEKm	2006		2005	
	Hedged net investment SEKm	Total hedged volume ¹⁾ SEKm	Hedged net investment SEKm	Total hedged volume ¹⁾ SEKm
EUR	-7,654	7,654	-16,322	16,322
DKK	-1,339	1,339	-1,394	1,394
AUD	-926	926	-880	880
COP	169	-169	104	-104
USD	469	-469	1,470	-1,470
MXN	659	-659	-104	104
NZD	845	-845	703	-703
GBP	1,646	-1,646	2,468	-2,468
Other	437	-437	152	-152
TOTAL	-5,694	5,694	-13,803	13,803

¹⁾ + = investment - = loan

Energy price hedges

In 2006, SCA purchased approximately 6 TWh (6) of electricity at a total cost of around SEK 3,500m (2,300), and approximately 13 TWh (13) of natural gas for around SEK 2,600m (2,250). Some of SCA's delivery contracts have fixed prices up to one year. In energy markets with liquid spot trading and well-developed derivative trading, SCA also uses financial instruments for price hedging. In 2005, SCA signed a long-term delivery agreement with fixed prices for the Swedish operations. This contract reduces SCA's need to use financial instruments for price hedging. At present, SCA uses financial instruments in the Swedish and Danish electricity markets as well as in the German natural gas market.

At year-end, SCA had 0.7 TWh (0.2) of energy derivatives outstanding, with a market value of SEK -17m (24). The "Total outstanding derivatives" table on page 69 shows outstanding hedging positions that meet the accounting requirements for cash-flow hedges at year-end.

Refinancing risk and liquidity

On 31 December 2006, the interest-bearing gross debt amounted to SEK 38,389m (38,828). After additions for net pension provisions, accrued interest expense and deductions for long-term and current financial receivables, cash and cash equivalents, the net debt was SEK 36,399m (39,826).

SCA's financing is secured in part through medium-term credit facilities syndicated among first-class banks. With these as protection against refinancing risk, SCA uses short-term borrowing under market programmes to the extent this provides a lower total financing cost.

The weighted average maturity of interest-bearing gross debt at year-end was 3.7 years (3.8). This includes SEK 15,377m (16,018) of committed credit facilities with maturity terms in excess of one year, which partly correspond to the Group's loans and amortizations that are due in 2007. In addition to these credit facilities, there were unutilized credit facilities totalling SEK 9,918m (10,123) at year-end with an average remaining maturity of 0.9 years (1.3). On the same date, centrally available liquidity amounted to SEK 245m (374). SCA's total liquidity reserve therefore amounted to SEK 10,163m (10,497), equivalent to 10% (11) of SCA's sales in 2006. The table below shows the maturity profile of the gross debt by loan source and credit facilities that are used to cover short-term borrowing. The adjusted maturity term profile shows the Group's total refinancing risk.

SCA's funding sources and maturity profile as of 31 December 2006

SEKm	2007	2008	2009	2010	2011	2012	2013-	Total
Commercial paper & short-term bank loans	11,810	-	-	-	-	-	-	11,810
Finance leases	139	138	1,075	34	28	27	345	1,786
Bond loans	6,513	-	-	2,000	6,318	-	3,768	18,599
Other loans	3,255	1,177	187	409	199	391	756	6,374
TOTAL	21,717	1,315	1,262	2,443	6,545	418	4,869	38,569
Credit facilities covering short-term borrowing	-15,377	4,523	-	543	10,311	-	-	-
ADJUSTED MATURITY PROFILE	6,340	5,838	1,262	2,986	16,856	418	4,869	38,569

Bank credit facilities

To limit the refinancing risk and maintain a liquidity reserve, SCA has two syndicated bank facilities; EUR 750m (SEK 6,784m) with a final maturity in 2008, and EUR 1,200m (SEK 10,855m), of which EUR 60m (SEK 543m) has a final maturity in 2010 and EUR 1,140m (SEK 10,312m) has a final maturity in 2011. The latter facility contains an option, with bank approval, to extend the final maturity by one year. SCA also has confirmed bilateral bank credit facilities totalling SEK 7,657m (7,767). These facilities are primarily for one year with an extension option.

Market programmes

For issuing bonds in the European capital market, SCA has a Euro Medium Term Note (EMTN) programme with a framework amount of EUR 2,000m (SEK 18,091m). As of 31 December a nominal SEK 15,464m (9,396) was outstanding with a remaining maturity of 2.9 years (3.1).

SCA's short-term borrowing programme comprises a Swedish commercial paper programme with a framework amount of SEK 15,000m and a Belgian commercial paper programme with a framework amount of EUR 400m (SEK 3,618m). As of 31 December, the outstanding amounts under these programmes were SEK 10,579m (10,903) and SEK 1,231m (1,605) respectively.

Market programmes

Issued-maturing	Nominal	Currency	Nominal, SEKm	Book value 31 Dec. 2006 SEKm
EUR MTN framework EUR 2,000m				
2002-2007	700	EUR	6,332	6,513
2005-2010	1,500	SEK	1,500	1,500
2005-2010	500	SEK	500	500
2005-2015	300	SEK	300	319
2005-2015	500	SEK	500	532
2006-2011	700	EUR	6,332	6,318
Total			15,464	15,682

Interest rate risk

According to SCA's financial policy, the average interest rate adjustment period must be between 3 and 15 months in each funding currency. SCA seeks to achieve a good distribution of its interest due dates in order to avoid large volumes of renewals at the same time.

In order to achieve the desired currency balance and interest rate adjustment period, SCA uses financial derivatives. The average interest rate adjustment period for the interest-bearing gross debt, including derivatives, was 5.3 months (6.0) at year-end.

The average interest rate for the total outstanding net debt, including derivatives, amounted to 4.96% (4.13) at year-end. A general increase in interest rates of one percentage point, not taking into account changes in interest curves and currencies, would lower the Group's net interest by around SEK 364m (398) on a 12-month basis. This assumption is based on the present level of net debt. The increased cost would be delayed due to the interest rate adjustment periods within the possible interval of 3 to 15 months per currency.

Credit risk**Financial credit risk**

Credit exposure in derivative instruments is determined as market value plus an additional amount based on credit risk factors, which reflect the risk of increased exposure as a result of market fluctuation.

SCA endeavours to use standardized agreements which, in countries where this is possible, allow statutory net calculation of receivables and liabilities.

Even if continuous payment set-offs on outstanding receivables and liabilities in derivative instruments do not take place, the right of set-off in the event of a counterparty's bankruptcy means that SCA measures this credit risk as a net amount.

As of 31 December 2006, the credit risk associated with financial cash instruments amounted to SEK 7,733m (8,923), of which SEK 7,451m (8,567) was attributable to leasing transactions. Credit exposure associated with derivative instruments was SEK 3,181m (2,990).

Customer credit risk

Accounts receivable are reported in the amounts expected to be received based on individual assessments of accounts receivable.

Customers within the Personal Care and Tissue business areas are mainly large retail companies and distributors. The ten largest customers accounted for less than 19% (20) of outstanding accounts receivable as of 31 December 2006. Packaging has a large number of customers and the ten largest accounted for less than 7% (9) of the business area's outstanding accounts receivable at year-end. Forest Products' customers are mainly newspaper and magazine publishers. At year-end 2006, the ten largest customers represented less than 18% (17) of the business area's accounts receivable.

Derivatives

Below is a table showing all the derivatives that affected the Group's balance sheet and income statement as of 31 December 2006.

Total outstanding derivatives

	2006			2005			2004		
	Nominal	Asset	Liability	Nominal	Asset	Liability	Nominal	Asset	Liability
Currency derivatives ¹⁾	24,625	238	162	22,151	112	323	45,090	814	410
Interest-rate derivatives	23,955	254	432	19,923	470	482	19,746	185	6
Commodity derivatives	157	3	20	302	49	25	532	0	46
Equity derivatives	104	12	-	107	11	11	109	0	0
Total	48,841	507	614	42,483	642	841	65,477	999	462

¹⁾ Nominal SEK 66,381m (70,657; 108,446) is outstanding before the right of set-off are taken into account.

Outstanding derivatives with hedge accounting²⁾

	2006				2005			
	Nominal	Asset	Liability	Hedging reserve after tax	Nominal	Asset	Liability	Hedging reserve after tax
Cash flow hedges								
Transaction exposure								
- Commercial transaction exposure	458	15	1	10	1,926	24	3	15
- Investments	795	0	17	-5	1,083	16	5	8
Energy	91	0	11	-8	22	0	0	0
Hedging of net investments in foreign units³⁾	21,165	98	299		24,741	42	187	
Fair value hedging								
- Interest-rate risk financing	18,486	239	413		11,366	405	387	
Total	40,995	352	741	-3	39,138	487	582	23

²⁾ Outstanding derivatives with hedge accounting are included in the table

³⁾ Derivatives before right of set-off.

The table below shows all of the derivatives that have affected the balance sheet, broken down as financial and operating derivatives, and current and long-term assets and liabilities.

Operating and financial derivatives in the balance sheet

SEKm	2006		2005	
	Asset	Liability	Asset	Liability
Operating derivatives				
Current	60	48	116	69
Long-term	15	16	55	55
Total operating derivatives	75	64	171	124
Financial derivatives				
Current	193	137	54	294
Long-term	239	413	417	423
Total financial derivatives	432	550	471	717
TOTAL	507	614	642	841

Hedging reserve in equity

Most of the currency derivatives related to hedging of commercial transaction exposure will mature during the first quarter of 2007. Before the end of the second quarter, all derivatives in the hedging reserve at year-end 2006 will be realized. With unchanged exchange rates, this will have a positive impact on profit after tax of SEK 10m (15).

Currency derivatives for hedging the cost of investments will mature on various dates up until August 2008. With unchanged exchange rates, the cost of these investments will increase by SEK 5m (-8) after tax.

The derivatives intended to hedge the Group's energy costs mature for the most part in the first half of 2007. A smaller portion will be realized during the latter part of the current year. With unchanged prices, these derivatives will negatively affect the Group's profit after tax by SEK 8m (0).

NOTE 3 Key assessments and assumptions

Preparation of annual accounts and application of different accounting standards are often based on management assessments or on assumptions and estimates that are regarded as reasonable under the prevailing circumstances. These assumptions and estimates are often based on historical experience but, also on other factors, including expectations of future events. With other assumptions and estimates, the result may be different and the actual result will, by definition, seldom concur with the estimated result.

The assumptions and estimates that SCA considers to have the greatest impact on earnings as well as assets and liabilities are discussed below.

Valuation of biological assets

The Group's biological assets that is, standing forest, are valued at the present value of anticipated future cash flows.

Calculation of this cash flow is based on the felling plan from the most recent forest survey that is available. Forest surveys are updated every tenth year and the most recent one was adopted in 1997. The calculation is also based on assumptions with regard to growth, selling prices, costs for felling and forestry as well as costs for replanting, which is a prerequisite for felling. These assumptions are mainly based on experience and are only changed when a change in price and cost levels is assessed as being long term. The cash flow covers a production cycle which SCA estimates to amount to an average of 100 years. The discount factor used is the cost of capital before tax (WACC, weighted average cost of capital) that is normally used in valuations of similar assets.

The consolidated value of biological assets at 31 December 2006 amounted to SEK 18,082m. A change in WACC of 0.25 percentage points affects the value of the assets by approximately SEK 950m.

Goodwill

Every year the Group examines whether there is any impairment relating to goodwill. Goodwill is divided among cash-generating units and these concur with the Group's primary segments except in relation to packaging, which is divided into Europe and the rest of the world.

The recoverable amount for the cash-generating units is decided by calculating value in use. This calculation is based on the Group's existing strategic plans. These plans are based on market-based assumptions and include anticipated future cash flows for the existing operations during the next five-year period. Cash flows beyond the five-year period are taken into account by an operating surplus multiple being applied to sustained cash flow. This multiple concurs with current market multiples for similar operations.

The discount factor used in the present value calculation of the anticipated future cash flows is the current weighted average cost of capital (WACC) established within the Group for the markets in which the cash-generating units conduct operations. Impairment testing for the year did not indicate any impairment. Goodwill for the Group at 31 December 2006 amounted to SEK 16,997m.

Pensions

Costs such as the value of pension obligations for defined benefit pension plans are based on actuarial calculations that are based on assumptions on discount rate, anticipated return on plan assets, future salary increases, inflation and demographic conditions.

The discount rate assumption is based on high-quality fixed income investments with maturities corresponding to the Group's existing pension obligations. The funded assets include equities and bonds. The expected return on these is calculated on the basis of the assumption that the return on bonds equals the interest on a 10-year government bond and that the return on equities amounts to the same rate but with an addition for risk premium.

The Group's defined benefit obligations at 31 December 2006 amounted to SEK 20,270m. A change in the discount rate of 0.25 percentage points would affect the total value of these obligations by approximately SEK 800m.

Taxes

Deferred tax is calculated on temporary differences between the carrying amounts and the tax values of assets and liabilities. There are primarily two areas where assumptions and assessments affect recognised deferred tax.

One is assumptions and assessments used to determine the carrying amounts of the different assets and liabilities. The other is assumptions and assessments related to future taxable profits, where a future utilization of deferred tax assets depends on this. At year-end SEK 718m was recognized as deferred tax assets based on such assumptions and assessments. Significant assessments and assumptions are also made regarding recognition of provisions and contingent liabilities relating to tax risks.

NOTE 4 Acquisitions and disposals**Acquisitions**

The following acquisitions were made during the year:

Company	Operations	Date of acquisition	Purchase price ¹⁾ SEKm	Goodwill, SEKm	Acquired percentage %	Total holding after acquisition, %
Manufacturas Papeleras Canarias S.L (MAPACASA)	Tissue	Nov-06	87	19	100	100
Cool Logistics ²⁾	Packaging	Nov-06	81	92	75	100
Jämtlamell Skog AB and Jämtlamell Produktion AB	Forest products	July-06	58		11	11

¹⁾ The reported purchase price represents the acquisition price including net debts assumed on the acquisition date.

²⁾ Acquisition balances for companies are not finalized.

The reported purchase price represents the acquisition price including net debts assumed on the acquisition date. In all cases, the acquired share pertains to both capital and votes with the exception of Jämtlamell which is in part a net asset acquisition. The companies are consolidated as subsidiaries according to the purchase method. In addition to the companies mentioned above, smaller acquisitions of SEK 148m were carried out; for more information, please see the table below. There are no plans to divest all or parts of the acquired companies, with the exception of one small acquisition included in the North American packaging operation.

Goodwill pertains to acquisition of markets, where an individual value of another asset could not be identified. Most of these operations have been integrated with other operations in a manner that makes the effect on sales and earnings difficult to identify. In total, acquisitions for the year did not have a material impact on the Group.

Total acquisition balances for acquisitions for the year at the investment rate SEKm

Fixed assets	121
Operating assets	98
Cash and cash equivalents	85
Provisions	-9
Net debt excl. cash and cash equivalents	-
Operating liabilities	-29
Minority	43
Market value of net assets	309
Goodwill	150
Acquisition price	459
Unpaid purchase price relating to acquisition 2006	-75
Settlement of liability for purchase price for previous year's acquisition	24
Purchase price paid	408
Less cash and cash equivalents in acquired companies	-85
Acquisition of operations for the year	323

Disposals

During the year SCA Transport UK in the UK and Suzhou Shenghong Cylinder Paper in Asia were divested.

NOTE 5 Segment reporting**Primary segments – business segments**

SEKm	Personal care	Tissue	Packaging	Publication paper	Pulp, timber and solid wood products	Other operations	Eliminations	Total Group
2006								
Revenues								
External sales	21,010	31,152	32,878	8,929	6,718	752		101,439
Internal sales	262	184	475	1	2,003	439	-3,364	0
Total revenues	21,272	31,336	33,353	8,930	8,721	1,191	-3,364	101,439
Result								
Segment result	2,799	1,490	2,072	818	1,657	-331	0	8,505
Efficiency programme								-
Operating profit	2,799	1,490	2,072	818	1,657	-331	0	8,505
Financial income								179
Financial expenses								-1,851
Tax expense for the year								-1,366
Net profit for the year								5,467
Other disclosures								
Assets	12,959	42,056	35,223	8,543	26,659	1,498	-790	126,148
Share of equity in associates	7	40	356	15	21			439
Unallocated assets								6,957
Total assets	12,966	42,096	35,579	8,558	26,680	1,498	-790	133,544
Liabilities	4,111	6,944	7,190	1,134	1,606	961	-790	21,156
Unallocated liabilities								53,425
Shareholders' equity								58,963
Total shareholders' equity and liabilities	4,111	6,944	7,190	1,134	1,606	961	-790	133,544
Investments	-969	-2,586	-2,910	-300	-648	-20		-7,433
Depreciation	-966	-2,144	-1,676	-850	-488	-27		-6,151
Write-downs	-11	-	-23	-	-	-		-34
Write-downs, unallocated								-
Expenses, in addition to depreciation, not matched by payments	3	-103	-107	-5	-216	-114		-542

SEKm	Personal care	Tissue	Packaging	Publication paper	Pulp, timber and solid wood products	Other operations	Eliminations	Total Group
2005								
Revenues								
External sales	19,350	30,592	31,977	7,914	6,175	377	0	96,385
Internal sales	1	109	382	84	1,762	691	-3,029	0
Total revenues	19,351	30,701	32,359	7,998	7,937	1,068	-3,029	96,385
Result								
Segment result	2,474	1,577	1,775	662	1,224	-419	0	7,293
Efficiency programme								-5,365
Operating profit	2,474	1,577	1,775	662	1,224	-419	0	1,928
Financial income								156
Financial expenses								-1,651
Tax expense for the year								21
Net profit for the year								454
Other disclosures								
Assets	14,280	44,405	36,598	9,223	25,941	1,960	-1,005	131,402
Share of equity in associates	7	30	382	14	21	0	0	454
Unallocated assets								3,364
Total assets	14,287	44,435	36,980	9,237	25,962	1,960	-1,005	135,220
Liabilities	4,148	7,550	7,827	1,157	1,457	2,056	-1,005	23,190
Unallocated liabilities								54,920
Shareholders' equity								57,110
Total shareholders' equity and liabilities	4,148	7,550	7,827	1,157	1,457	2,056	-1,005	135,220
Investments	-1,215	-3,156	-2,086	-342	-1,115	-19		-7,933
Depreciation	-955	-2,143	-1,783	-878	-495	-45		-6,299
Write-downs	-2	-7	-11	-	-	-		-20
Write-downs, unallocated								-2,352
Expenses, in addition to depreciation, not matched by payments	-2	-92	-49	-1	-297	-33		-474

SEKm	Personal care	Tissue	Packaging	Publication paper	Pulp, timber and solid wood products	Other operations	Eliminations	Total Group
2004								
Revenues								
External sales	17,760	27,498	31,108	7,525	5,583	493	0	89,967
Internal sales	3	98	393	84	1,762	594	-2,934	0
Total revenues	17,763	27,596	31,501	7,609	7,345	1,087	-2,934	89,967
Result								
Segment result	2,429	2,026	2,604	470	1,307	-397	0	8,439
Efficiency programme								-770
Operating profit	2,429	2,026	2,604	470	1,307	-397	0	7,669
Financial income								453
Financial expenses								-1,537
Tax expense for the year								-1,393
Net profit for the year								5,192
Other disclosures								
Assets	11,581	40,967	35,428	9,481	24,734	2,703	-1,263	123,631
Share of equity in associates	6	27	332	10	12	0	0	387
Unallocated assets								2,133
Total assets	11,587	40,994	35,760	9,491	24,746	2,703	-1,263	126,151
Liabilities	3,805	7,041	5,686	1,100	1,260	1,777	-1,263	19,406
Unallocated liabilities								51,627
Shareholders' equity								55,118
Total shareholders' equity and liabilities	3,805	7,041	5,686	1,100	1,260	1,777	-1,263	126,151
Investments	-3,461	-9,154	-2,706	-407	-746	-47		-16,521
Depreciation	-858	-1,951	-1,812	-858	-460	-33		-5,972
Write-downs	-	-	-9	-	-	-		-9
Write-downs, unallocated								-171
Expenses, in addition to depreciation, not matched by payments	-4	-13	-82	6	-247	46		-294

Efficiency programmes

SEKm	2006		2005		2004	
	Expenses	Write-downs	Expenses	Write-downs	Expenses	Write-downs
Personal care			199	130	4	48
Tissue			1,057	408	435	68
Packaging			1,638	1,811	131	55
Publication papers			9	-	-	-
Pulp, Timber and solid-wood products			11	3	-	-
Other			99	-	29	-
Total	-	-	3,013	2,352	599	171
Total				5,365		770

The purpose of the 2005 efficiency programme was to optimize the Group's production structure, combined with investments in technology for increased productivity and quality. The programme led to the closure of approximately 20 plants where staff cutbacks and write-downs of fixed assets and other assets took place. An efficiency programme was also carried out in 2004.

Business Segments

The Group is organized in five main product groups: personal care, tissue, packaging, publication papers, and pulp, timber and solid-wood products. These product groups are the primary segments. Tissue includes toilet paper, kitchen paper and paper handkerchiefs sold to the retail trade, as well as, toilet paper, hand drying products, napkins and products for cleaning for industrial and office applications. These products are sold to corporate customers in the industrial sector, offices, hotels, restaurants and catering, healthcare and other institutions. Personal care products comprise baby diapers, feminine hygiene products and incontinence products. Pack-

aging comprises corrugated board as well as protective and specialty packaging. This business segment also includes containerboard which is mainly delivered internally and contributes to the Group's raw material integration. Publication papers include newsprint and magazine paper. The pulp, timber and solid-wood products business segment also contribute to the Group's raw material integration since the Group's pulp and timber are mainly delivered internally. In addition, the Group's pulp is mainly produced from timber from the Group's own forests which also to a large extent supply the sawmills with timber.

Revenues and expenses

Within the Group there is an organization for paper recovery. Revenues and expenses from these operations are allocated among the business segments in proportion to their use of recovered paper. All the other income and expenses are directly attributable to the business segment as well as income from participations in associated companies.

Assets and liabilities

The assets included in each business segment comprise all operating assets used in the business segment, primarily accounts receivable, inventories and fixed assets after deduction for provisions. Most of the assets are directly attributable to each business segment. In addition, some assets that are common to two or more business segments are allocated among the business segments. The liabilities attributable to the business segments comprise all operating liabilities, mainly accounts payable and accrued expenses.

Intra-Group deliveries

Revenues, expenses and results for the different business segments are affected by intra-Group deliveries. Internal prices are market-based. Intra-Group deliveries are eliminated on consolidation.

Secondary segments – geographical segments

The Group's operations are divided into three geographical segments: Europe, North America and the rest of the world.

SEKm	Sales			Assets			Investments		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Europe	74,732	70,535	69,730	111,368	121,604	124,805	-5,823	-6,795	-9,621
North America	13,273	12,589	11,283	14,632	17,320	14,104	-837	-524	-1,128
Rest of the world	13,434	13,261	8,954	12,927	13,881	11,037	-774	-614	-5,772
Eliminations	-	-	-	-5,383	-17,585	-23,795	-	-	-
Total	101,439	96,385	89,967	133,544	135,220	126,151	-7,434	-7,933	-16,521

Sales figures are based on the country in which the customer is located. Assets and investments are reported where the assets are located.

Geographical segments

The Group's operations are mainly conducted in two areas. In Europe, which is the Group's home market, the Group manufactures and sells personal care products, tissue, packaging, publication papers and solid-wood products. In North America, the Group manufactures and sells AFH tissue, incontinence products and packaging, mainly protective packaging. In January 2007 an agreement was signed regarding the divestment of the North American packaging operation.

NOTE 6 Other income

Revenue derived from activities outside the normal operations is reported in Other income. This includes recurrent income such as royalties and rental revenue, as well as income of a more temporary nature such as gains from the sale of fixed assets and government grants. In 2006 income from royalties amounted to SEK 151m, rental revenue was SEK 42m and gains from sale of fixed assets SEK 165m.

NOTE 7 Personnel costs and average number of employees

Personnel costs	2006	2005	2004
SEKm			
Salaries and remuneration, SEKm	14,668	15,695	14,346
of which Boards of Directors, Presidents and Executive Vice Presidents	256	299	199
of which variable salary	19	32	11
Pension costs ¹⁾	1,014	1,162	933
of which defined benefit pension plans	363	493	322
of which defined contribution pension plans	651	669	611
Other social security costs	3,057	3,225	2,767
Other personnel costs	1,022	1,830	1,372
Total	19,761	21,912²⁾	19,418

¹⁾ Of the Group's pension costs SEK 37m (42: 48) pertains to Boards, Presidents and Executive Vice Presidents. Former Presidents and their survivors are also included. The Group's outstanding pension obligations to them amount to SEK 256m (315: 314).

²⁾ Of total personnel costs in 2005, SEK 1,980m is attributable to costs for efficiency programmes. This amount includes salaries with SEK 1,235m, pension costs SEK 73m, other social security costs SEK 179m and other personnel costs SEK 493m.

Average number of employees	2006	2005	2004
Average number of employees	51,022	51,916	49,919
of whom, women	25%	25%	26%
Number of countries	54	53	54

Women comprised 19% (16) of the total number of Board members and senior executives.

Breakdown of employees by age groups

	21–30	31–40	41–50	51–60
	23%	29%	28%	16%

Approximately 2% (2) of the employees are under the age of 20, and approximately 2% (2) are over the age 60.

During 2006, SCA invested approximately SEK 165m (170; 180) or SEK 3,200 (3,400; 3,600) per employee in skills enhancement activities.

The added value per employee in 2006 amounted to SEK 514,000 (491,000; 489,000).

The proportion of university graduates amounts to about 13% (12; 12).

In 2006, 7,397 (5,154) persons left SCA while 6,327 (4,860) joined the company. These figures include both voluntary retirement and the effects of rationalization and redundancies. In addition, a significant portion relates to summer jobs for students and seasonal work.

The total absence due to illness in the Swedish companies amounted to 5% (5), whereof women 6% (6) and men 4% (5). 58% (59) of absence due to illness is long term.

NOTE 8 Depreciation and write-downs of tangible and intangible assets

SEKm	2006	2005	2004
Buildings	774	1,017	784
Land	76	225	79
Machinery and equipment	5,106	7,164	5,113
Construction in progress	8	51	-
Sub-total	5,964	8,457	5,976
Goodwill	-	-	-
Patent, trademarks and similar rights	174	159	144
Capitalized development costs	47	55	32
Sub-total	221	214	176
TOTAL	6,185	8,671	6,152

The total amount for property, plant and equipment includes write-downs of buildings with SEK 10m (277; 8), land SEKm - (147; -) and machinery and equipment including construction in progress with SEKm 21 (1,934; 172). The 2005 amount includes write-downs in connection with the efficiency programme, see also note 5.

The total amount for property, plant, and equipment includes reversal of impairment losses on buildings with SEKm 1 (-; -) as well as machinery and equipment with SEKm - (1; -).

The total amount for intangible fixed assets includes write-downs for patents, trademarks and similar of SEK 4m (1; -), and SEKm - (13; -) relating to capitalized development costs.

Depreciation is based on the costs and estimated economic lives of the assets provided in the accounting principles section on page 62.

NOTE 9 Other operating expenses

Other operating expenses include R&D costs amounting to SEK 562m (545; 574) in the Group.

Consolidated operating profit includes a net result from exchange differences of SEK 12m (27; -47). Hedging positions had an impact on operating profit of SEK 146m (-237; 13).

Government grants received reduced other operating expenses with SEK 68m (38; 28).

Energy and transport expenses amounted to SEK 7,389m and SEK 7,528m, respectively.

Other operating expenses also include marketing, sales, rent for premises, other consultant fees, administrative expenses, and other similar expenses.

Operational leasing

Future payment commitments in the Group for non-cancellable operating leases are broken down as follows:

SEKm	2006	2005	2004
Within 1 year	902	926	844
Between 2–5 years	1,958	2,074	2,039
Later than 5 years	1,477	1,627	1,624
Total	4,337	4,627	4,507

The costs for the year for operating leases for assets amounted to SEK 920m (921; 947). Leased assets comprise a large number of assets such as energy plants, warehouses, offices, other buildings, machinery and equipment, IT equipment, office equipment and transport vehicles. The assessment is that in reality contracts for a number of assets can be terminated in advance.

Financial leasing

Future payment commitments for the Group's finance leases are as follows:

SEKm	2006		2005		2004	
	Nominal	Present value	Nominal	Present value	Nominal	Present value
Within 1 year	182	158	218	202	205	180
Between 2–5 years	601	478	645	544	640	524
Later than 5 years	462	307	613	453	669	499
Total	1,245	943	1,476	1,199	1,514	1,203

Total payments for finance leases during the year amounted to SEK 182m (232; 148). During the year SEK 55m (55; 50) was reported as an interest expense and SEK 107m (127; 98) as amortization of debt. Depreciation of finance lease assets during the year amounted to SEK 116m (130; 92). The book value of finance lease assets at year-end amounted to SEK 317m (379; 299) relating to buildings/land and SEK 1,270m (1,534; 1,576) relating to machinery.

For information on significant leases, see Note 30 Contingent liabilities. In addition to what is presented there, there is a lease relating to a paper machine in Laakirchen that matures at year-end 2015.

Auditing expenses

Auditing expenses can be specified as follows:

SEKm	2006	2005	2004
ÖhrlingsPricewaterhouseCoopers			
Auditing assignments	62	64	58
Other assignments	29	25	43
Other auditors			
Auditing assignments	3	4	4
Other assignments	1	3	2
Total	95	96	107

Other assignments are mainly auditing-related consultations in conjunction with acquisitions, and tax advice.

NOTE 10 Financial income and expenses

SEKm	2006	2005	2004
Results from shares and participations in other companies			
Dividends	29	26	42
Capital gains	46	17	178
Fair value adjustments	-	3	-
Interest income and similar profit/loss items			
Interest income, cash instruments	81	106	225
Other financial income	23	4	8
Total Financial income	179	156	453
Interest expense and similar profit/loss items			
Interest expense, cash instruments	-1,756	-1,677	-1,509
Interest expense, derivatives	-93	56	-
Fair value hedges, net	0	1	-
Other financial expenses	-2	-31	-28
Total Financial expenses	-1,851	-1,651	-1,537
Total Financial income and expenses	-1,672	-1,495	-1,084

Other financial income include net exchange differences SEK 23m (4; 8). Dividend mainly relates to the holding in AB Industrivärden.

The 2006 capital gains include a gain from the sale of shares.

NOTE 11 Intangible assets

SEKm	Goodwill			Trademarks, licenses, patents and similar rights			Capitalized development costs		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Accumulated cost	16,997	19,823	17,594	4,243	3,499	3,120	416	416	283
Accumulated depreciation	-	-	-	-1,687	-1,432	-1,172	-182	-150	-91
Accumulated write-downs	-	-	-	2	-	-	-3	-14	-
Planned residual value	16,997	19,823	17,594	2,558	2,067	1,948	231	252	192
At 1 January	19,823	17,594	14,586	2,067	1,948	843	252	192	54
Investments	-	-	3	201	92	117	38	72	82
Sales and disposals	0	-	-	-6	-6	-11	0	-6	-
Company acquisitions	150	162	3,673	1	17	1,196	0	-	17
Company divestments	0	-	-	0	-	-	0	-	-
Reclassifications ¹⁾	-1,588	-	-5	607	-25	-5	-3	38	76
Depreciation for the year	-	-	-	-170	-158	-140	-47	-42	-32
Write-downs for the year	-	-	0	-4	-1	-	0	-13	-
Exchange differences	-1,388	2,067	-663	-138	200	-52	-9	11	-5
Closing planned residual value	16,997	19,823	17,594	2,558	2,067	1,948	231	252	192

¹⁾ Goodwill for a total of SEK 1,588m included in the North American packaging operation was reclassified during 2006 into assets held for sale. Software investments for a total value of SEK 594m were reclassified from tangible assets in 2006.

Impairment testing

Goodwill is tested for impairment every year. Goodwill is distributed among cash-generating units as follows:

Goodwill, cash-generating units

SEKm	Average WACC 2006, %	2006	2005	2004
Personal Care	6.8	2,432	2,753	2,103
Tissue	6.6	7,092	7,608	6,867
Packaging, Europe	6.1	6,363	6,468	6,071
Packaging, rest of the world	7.1	232	2,071	1,697
Publication papers	6.2	242	246	228
Pulp, timber and solid-wood products	6.2	31	31	30
Other operations		605	646	598
Total		16,997	19,823	17,594

The recoverable amount for each cash-generating unit is determined based on a calculation of value in use. These calculations are based on the strategic plans adopted by Group management for the next 5 years. Assumptions in strategic plans are based on current market prices and costs with an addition for real price reductions and cost inflation as well as assumed productivity development. Volume assumptions follow the Group's target of an average annual growth of 3% to 4%, depending on business segment and geographic market. Effects of expansion investments in order to achieve the said growth are excluded when goodwill is tested for impairment.

Anticipated future cash flows according to these plans form the basis of the calculation. Cash flows for the period beyond 5 years is calculated by an operating surplus multiple being applied to estimated sustained cash flow. In a present value calculation of anticipated future cash flows the current weighted cost of capital (WACC) decided for each area within the Group is used. Discounted cash flows are compared with the book value of capital employed per cash-generating unit. Testing for impairment is carried out in the fourth quarter and testing for 2006 showed that there was no impairment need.

In addition to goodwill, there are trademarks in the Group that are judged to have an indefinite useful life. The useful life is judged as indefinite when it relates to well established trademarks within their markets that the Group intends to keep and further develop. All trademarks were identified and valued in 2004 and relate to acquisitions in Mexico, Australia and Malaysia. The cost of the trademarks was established at the time of acquisition according to the so-called relief from royalty method and at yearend amounted to SEK 979m (1,057). The need for impairment is tested every year. Testing is carried out during the fourth quarter and is done for each trademark or group of trademarks. An evaluation is done of the royalty rate established at the time of acquisition as well as assessed future sales development over 10 years. A multiple is used for time beyond 10 years, this is discounted with the current weighted cost of capital (WACC) for each market. Testing for 2006 did not show any need for impairment.

Emission allowances

The market price at 1 January 2006 and 2005, respectively, was used in valuation of emission allowances. The Group has a total allocation of emission allowances that slightly exceed consumption and therefore some of the surplus is sold to an outside buyer. Settlement regarding 2006 emissions will take place in March 2007.

SEKm	2006	2005
Accumulated cost	265	112
Planned residual value	265	112
At 1 January	112	-
Emission allowances received	299	113
Sales	-31	-3
Reclassifications	-3	-
Settlement with the government	-105	-
Exchange differences	-7	2
Closing planned residual value	265	112

NOTE 12 Tangible assets

SEKm	Buildings			Land			Machinery and equipment			Construction in progress		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Accumulated cost	19,600	20,833	19,186	6,149	6,378	6,081	77,957	80,624	73,850	4,233	4,213	2,840
Accumulated depreciation	-7,483	-7,413	-6,626	-942	-882	-822	-41,420	-41,741	-36,889	-	-	-
Accumulated write-downs	-129	-215	-34	-129	-144	-50	-1,227	-1,478	-313	-21	-48	-
Planned residual value	11,988	13,205	12,526	5,078	5,352	5,209	35,310	37,405	36,648	4,212	4,165	2,840
At 1 January	13,205	12,526	11,746	5,352	5,209	4,985	37,405	36,649	34,348	4,165	2,840	3,234
Investments	378	508	647	97	147	149	2,801	3,437	3,413	3,519	3,246	2,783
Sales and disposals	-22	-134	-157	-53	-153	-129	-115	-117	-44	-2	-23	-40
Company acquisitions	16	40	854	18	72	256	78	349	2,321	3	3	73
Company divestments	-5	-	-	-12	-	-	-1	-	-	-	-	-
Reclassifications ¹⁾	-190	320	466	-52	6	100	2,042	1,583	2,431	-3,302	-2,092	-3,141
Depreciation for the year	-765	-740	-787	-76	-77	-79	-5,093	-5,278	-4,942	-	-	-
Write-downs for the year	-10	-277	-8	-	-147	-	-13	-1,883	-172	-8	-51	-
Reversed write-down	1	0	-	-	0	-	-	1	-	-	0	-
Exchange differences	-620	962	-235	-196	295	-73	-1,794	2,664	-707	-163	242	-69
Closing planned residual value	11,988	13,205	12,526	5,078	5,352	5,209	35,310	37,405	36,648	4,212	4,165	2,840

¹⁾ During 2006 fixed assets for a total of SEK 868m were reclassified as held for sale, of which SEK 751m is attributable to assets in the North American packaging operation. Investments in software for a total value of SEK 594m were reclassified during 2006 as intangible fixed assets.

During the year SEK 35m (17; 3) pertaining to interest during the construction period was capitalized in machinery, SEK -m (4; 5) was capitalized in buildings and SEK -m (-; 2) in land, at an interest rate of 3% (3; 4). The total includes cost for machinery of SEK 587m (573; 539), buildings 9m (9; 5) and land SEK 2m (2; 2) in capitalized interest.

Government grants reduced investments for the year in buildings by SEK -m (-; 5), machinery and equipment by SEK 22m (13; 56) and construction in progress by SEK 3m (-; 3). In total, government grants reduced accumulated costs for buildings by SEK 9m (5; 5), land by 1m (1; 1), machinery and equipment by SEK 270m (268; 241) and construction in progress by SEK 3m (-; -).

Tax assessment values

Tax assessment values relate to assets in Sweden.

SEKm	2006	2005	2004
Buildings	2,363	2,417	2,392
Land	162	146	143
Total	2,525	2,563	2,535

Consolidated book value of buildings with tax assessment values in accordance with the above was SEK 1,604m (1,704; 1,791). Consolidated book value of land and land improvements with tax assessment values in accordance with the above was SEK 724m (696; 687).

NOTE 13 Biological assets

SCA's forest assets are divided up and reported as biological assets, i.e. standing forest and land assets. Standing forest is recognized at fair value in accordance with IAS 41, Agriculture.

The estimated fair value of SCA's standing forest at 31 December 2006 was SEK 18,082m (17,716). The total value of SCA's forest assets was SEK 18,986m (18,616). The difference, SEK 904m (900) comprises forest land reported among the fixed assets, Land.

Since a market price or other comparable value is not available for assets of SCA's size, the biological assets are valued at the present value of expected future cash flows, before tax, from the assets. In calculation of cash flow, the following key assumptions were made. Cash flows comprise a production cycle which SCA assesses as amounting to an average of 100 years; the most recent available forest survey is also used (adopted every tenth year). Since statutory replanting is a condition for felling, the cost of this is also included. Price and cost levels only change if such changes are judged to be long-term. The cash flow before tax is discounted by a factor that is regarded as a normal level of weighted average cost of capital (WACC) for forestry operations and amounts to 6.25%.

SCA's forest holdings comprise approximately 2.6 million hectares of forest land primarily in northern Sweden, approximately 2.0 million hectares of which is productive forest land. The forest portfolio amounts to 200 million cubic meters of forest (m3fo) and is divided into pine 43%, spruce 40%, deciduous 12% and contorta 5%. Growth amounts to approximately 3.9 m3fo per hectare and year. Felling in 2006 amounted to approximately 4.6 million cubic meters (sub). Approximately 50% of the holdings comprise forest less than 40 years old while 67% of timber volume in the forests is more than 80 years old.

Standing forest, SEKm	2006	2005	2004
Opening balance	17,716	17,383	17,120
Purchases	76	23	17
Sales	-14	-7	-6
Change in fair value	1,196	1,079	1,011
Change due to felling	-892	-793	-759
Other changes	-	31	-
Closing balance	18,082	17,716	17,383

Changes in fair value and changes due to felling are reported net, SEK 304m (286; 252), in the income statement under Change in net value of biological assets.

NOTE 14 Holdings in associated companies

SEKm	2006	2005	2004
Opening carrying amount	454	387	412
Investments	4	24	4
Increase through acquisition of subsidiaries	-	-	7
Divestments	0	-	-
Net increase in associated companies for the year ¹⁾	15	14	6
Reclassifications to joint venture companies or subsidiaries	-18	-	-31
Other reclassifications	-	-1	-7
Exchange differences	-16	30	-4
Closing Carrying amount	439	454	387

¹⁾ Net increase for the year includes the Group's share of associated companies' profit after tax and any minority interests as well as adjustment for dividends received during the year.

Major changes in the Group's holding of shares in associated companies were following:

- Reclassifications to joint venture or subsidiary relate in part to Belovo which is an associated company from 2006 and to Cool Logistics which became a wholly owned subsidiary in 2006.
- Investments in 2005 relate to Cool Logistics.
- Reclassification 2004 mainly relates to SCA Weyerheuser Packaging Holding Co Asia Ltd which is a wholly-owned subsidiary from 2004.

For specification see note 52.

The Group's total receivables from associated companies at 31 December 2006 amounts to SEK 10m (8; 13), of which SEK 6m (8; 9) is interest-bearing. The Group's total liability to associated companies at 31 December 2006 amounts to SEK 2m (3; 10) of which SEK 0m (0; 0) is interest-bearing.

NOTE 15 Shares and participations

SEKm	2006	2005	2004
Opening carrying amount	119	309	246
Investments	0	24	4
Increase through acquisition of subsidiaries	-	0	58
Divestments	-9	-1	-1
Change in value for the year	0	-22	-
Reclassifications to joint venture companies or subsidiaries	-10	-159	-9
Other reclassifications	-20	-42	9
Exchange differences	-1	10	2
Closing carrying amount	79	119	309

Shares and participations pertain to holdings in other companies that are not classified as subsidiaries, joint-venture companies or associated companies and which are also not classified as financial assets available-for-sale when the holding is of an operating nature. Book value concurs with fair value.

The Group's holdings in large subsidiaries, joint-venture companies and associated companies are specified in note 52.

NOTE 16 Long-term financial assets

SEKm	2006	2005
Available-for-sale financial assets	1,222	1,018
Derivatives ¹⁾	239	417
Loan receivables associated companies	6	6
Loan receivables other	84	124
At 31 December	1,551	1,565

Available-for-sale financial assets

At 1 January	1,018	641
Reclassification, pension assets	-	176
Investments	203	10
Divestments	-171	-
Remeasurement for the year taken to equity, net	172	191
At 31 December	1,222	1,018

¹⁾ See note 2.

Total long-term financial assets at 31 December 2004 amounted to SEK 708m. This amount includes SEK 444m that were classified in 2006 and 2005 as Available-for-sale assets. Valuation of these assets, which in their entirety related to shares in AB Industrivärden, was then carried at cost. The market value amounted to SEK 641m in 2004. In addition to shares in Industrivärden AB, a surplus attributable to some pension obligations has been classified as available-for-sale assets. These obligations are not included in the normal pension calculations as can be seen in Note 25.

Available-for-sale financial assets, fair value

SEKm	2006	2005
Shares – AB Industrivärden	1,121	834
Pension assets outside IAS 19 calculation	93	184
Other	8	-
Total	1,222	1,018

The holding in AB Industrivärden amounts to 4,122,642 (3,840,549) shares. The increase in the number of shares comprises pension compensation received from Swedish pension foundations. No impairment provisions were made relating to available-for-sale financial assets in 2006 or 2005.

NOTE 17 Taxes**Tax expense**

SEKm	2006	2005	2004
Current tax expense	1,997	1,279	2,113
Deferred tax expense	-631	-1,300	-720
Tax expense	1,366	-21	1,393

Tax expense amounted to 20.0% (-4.8; 21.2) of the Group's profit before tax. The difference between reported tax expense and expected tax expense is explained below. The expected tax expense is calculated according to the current Group structure and current profit levels in each country.

SEKm	2006		2005		2004	
	SEKm	%	SEKm	%	SEKm	%
Tax expense	1,366	20.0	-21	-4.8	1,393	21.2
Expected tax expense	2,102	30.8	141	32.6	2,164	32.9
Difference	-736	-10.8	-162	-37.4	-771	-11.7

The difference is explained by:Permanent effects¹⁾

Effects attributable to internal banking operations	-498	-7.3	-433	-100.0	-344	-5.2
Effects of other subsidiary financing	-96	-1.4	-117	-27.0	-179	-2.7
Negative goodwill recognized in income	-	-	-	-	-9	-0.1
Other permanent effects	108	1.6	131	30.2	133	2.0
Taxes attributable to prior periods ²⁾	-118	-1.7	30	7.0	-24	-0.4
Change in unrecognized deferred tax assets ³⁾	-105	-1.6	259	59.9	-179	-2.7
Changed tax rates	-27	-0.4	-32	-7.5	-169	-2.6
	-736	-10.8	-162	-37.4	-771	-11.7

¹⁾ Permanent effects are attributable to permanent differences between accounting and fiscal result.

²⁾ In 2006 the positive outcome of a tax dispute as well as changed provisions for tax risks had an effect on tax expense of SEK -82m.

³⁾ In 2006 SEK 91m is attributable to revaluation of loss carry forwards in Germany. SEK 228m of the 2005 effect is attributable to full tax effect not being achieved in respect of efficiency programmes. In 2004 SEK -198m is attributable to revaluation of loss carry forwards in Germany.

Current tax expense

SEKm	2006	2005	2004
Income tax for the period	1,372	1,243	2,103
Adjustments for prior periods	625	36	10
Current tax expense	1,997	1,279	2,113

Current tax liability

The change during the period of current tax liability is explained below.

SEKm	2006	2005	2004
Opening balance	6	327	356
Current tax expense	1,997	1,279	2,113
Paid tax	-1,770	-1,629	-2,088
Other changes	5	41	-63
Exchange differences	-1	-12	9
Closing balance	237	6	327

Other changes include tax relating to income statement items recognized directly in equity SEK 0m (7; -50), and the effects of acquisitions and divestments of SEK 5m (37; -5). Closing current tax liability comprises tax assets of SEK 563m (525; 564) and tax liabilities of SEK 800m (531; 891).

Deferred tax expense

SEKm	2006	2005	2004
Changes in temporary differences	252	-1,259	-259
Adjustments for prior periods	-743	-6	-36
Other changes	-140	-35	-425
Deferred tax expense	-631	-1,300	-720

Other changes include the effects of changed tax rates which reduced the deferred tax expense by SEK -27m (-32; -168) and revaluation of deferred tax assets which reduced deferred tax expense by SEK -113m (-3; -258).

Deferred tax liability

The change in deferred tax liability during the period is explained below.

SEKm	Opening balance	Deferred tax expense	Other changes	Exchange differences	Closing balance
Intangible assets	-17	130	-12	-15	86
Land and buildings	6,736	-29	-14	-60	6,633
Machinery and equipment	6,588	-89	1	-320	6,180
Financial assets	19	-52	110	5	82
Current assets	212	-56	-85	-13	58
Provisions for pensions	-973	191	553	22	-207
Other provisions	94	-409	187	13	-115
Liabilities	-1,019	22	550	38	-409
Tax credits and tax loss carry forwards	-2,235	-254	51	254	-2,184
Other	127	-85	47	-	89
	9,532	-631	1,388	-76	10,213

Other changes include deferred tax booked directly in equity according to IAS 19 SEK 704m, IAS 39 SEK -11m, effects of acquisitions and divestments SEK 4m and provisions for tax risks credited to tax expense with SEK 605m. Other changes also include a reclassification of fixed assets to assets held for sale of SEK 100m. Closing deferred tax liability comprises deferred tax assets SEK 718m (992; 605) and deferred tax liabilities SEK 10,931m (10,524; 11,382).

Other

SCA reports no deferred tax relating to temporary differences attributable to investments in subsidiaries and joint ventures. Any future effects (tax deducted at source and other deferred tax on profit taking within the Group) is reported when SCA can no longer control reversal of such differences or when for other reasons it is no longer probable that reversal can take place within the foreseeable future.

Loss carry forwards

Unused loss carry forwards for which no deferred tax assets are recognized amounted to SEK 959m (1,268; 1,198) at 31 December 2006. Of these, SEK 516m have an indefinite life. The remainder expire as follows.

Year	SEKm
2007	78
2008	81
2009	51
2010	24
2011 and later	209
Total	443

NOTE 18 Inventories

SEKm	2006	2005	2004
Raw materials and consumables	3,094	2,840	2,641
Spare parts and supplies	1,498	1,539	1,411
Products in progress	789	776	611
Finished products	4,902	4,929	4,214
Felling rights	505	409	391
Advance payments to suppliers	59	57	51
Total	10,847	10,550	9,319

NOTE 19 Accounts receivable, trade

SEKm	2006	2005	2004
Accounts receivable, gross	15,688	15,263	12,024
Provisions to reserves for doubtful debts	-399	-235	-299
Total	15,289	15,028	11,725

There is no concentration of credit risks relating to accounts receivable since the Group has a large number of customers spread throughout the world.

In 2004 sold receivables reduced reported accounts receivable by SEK 1,884m in connections with securitization in some European companies.

NOTE 20 Other current receivables

SEKm	2006	2005	2004
Bills receivable	630	611	681
Receivables from associated companies	5	1	3
Accrued financial income	17	9	214
Derivatives, operating	60	116	-
Prepaid expenses and accrued income	731	798	1,013
Other current receivables	1,765	1,718	2,162
Total	3,208	3,253	4,073

NOTE 21 Current financial assets, cash and cash equivalents

SEKm	2006	2005
Available-for-sale financial assets	104	24
Derivatives ¹⁾	193	54
Loan receivables associated companies	0	2
Loan receivables other	112	157
Total current financial assets	409	237
Cash and cash equivalents	1,599	1,684
Total current financial assets, cash and cash equivalents	2,008	1,921

¹⁾ See note 2.

NOTE 22 Assets and liabilities held for sale

SEKm	2006	2005
Goodwill	1,588	-
Other intangible assets	3	-
Buildings	308	49
Land	65	8
Machinery and equipment	417	11
Assets under construction	40	-
Long-term financial assets	4	-
Deferred tax assets	134	-
Assets held for sale	2,559	68
Provisions for pensions	14	-
Deferred tax liabilities	41	-
Liabilities held for sale	55	-

Fixed assets with a total value of SEK 2,541m (116) were reclassified and reported during 2006, to the extent they were not sold during the financial year, as held for sale. SEK 2,428m of this amount refers to assets in the North American packaging business for which SCA in signed a sale agreement in January 2007. The purchase price is equal to the Group's carrying amount and therefore the assets were not revalued in the 2006 closing of accounts. Other assets were valued during reclassification at fair value with a deduction for selling costs, leading to a write-down of the assets. The write-down totaled SEK 30m (33). The remaining assets are expected to be sold during 2007.

Liabilities held for sale refer to the North American packaging business.

NOTE 23 Shareholders' equity

2004, SEKm	Share capital	Other capital provided	Revaluation reserve ^{3,4)}	Hedging reserve ^{3,5)}	Assets available for sale ⁶⁾	Translation reserves ³⁾	Retained earnings	SCAs owners' equity	Minority interests	Total equity
Opening equity ¹⁾	2,350	6,829					40,575	49,754		49,754
Changed accounting principles ¹⁾							87	87		87
Adjustment to IFRS rules ²⁾							2,879	2,879	751	3,630
Opening shareholders' equity according to IFRS	2,350	6,829					43,541	52,720	751	53,471
Actuarial gains and losses relating to pensions, incl. payroll tax							-334	-334		-334
Available-for-sale financial assets:										
- Result from valuation to fair value recognized in equity										
Cash flow hedges:										
- Result from remeasurement of derivatives recognized in equity										
- Transferred to income statement for the period										
- Transferred to cost of hedged investments										
Exchange difference on foreign operations						-1,191		-1,191	10	-1,181
Result from hedging of net investment in foreign operations						192		192		192
Tax on items recognized directly in / transferred from equity							90	90		90
Total transactions recognized directly in equity						-999	-244	-1,243	10	-1,233
Net profit for the period recognized in the income statement							5,164	5,164	28	5,192
Total recognized revenue and costs for the period						-999	4,920	3,921	38	3,959
Effect of changes in acquisition balances within window period, net after tax			107					107		107
Change in Group composition										
Revaluation of owned portion at successive acquisitions, net after tax			36					36		36
Conversion of warrants, options		1						1		1
Sale of own shares							15	15		15
Dividend, 10.50 SEK per share ⁶⁾							-2,450	-2,450	-21	-2,471
Closing equity 31 December 2004	2,350	6,830	143			-999	46,026	54,350	768	55,118

NOTE 23 Equity cont'd

2005, SEKm	Share capital	Other capital provided	Revaluation reserve ^{3,4)}	Hedging reserve ^{3,5)}	Assets available for sale ³⁾	Translation reserves ³⁾	Retained earnings	SCAs owners' equity	Minority interests	Total equity
Opening equity	2,350	6,830	143			-999	46,026	54,350	768	55,118
Adjustment to IFRS rules ²⁾				-11	197		-91	95		95
Opening shareholders' equity according to IFRS	2,350	6,830	143	-11	197	-999	45,935	54,445	768	55,213
Actuarial gains and losses relating to pensions, incl. payroll tax							-238	-238		-238
Available-for-sale financial assets:										
- Result from valuation to fair value recognized in equity					191			191		191
Cash flow hedges:										
- Result from remeasurement of derivatives recognized in equity				64				64		64
- Transferred to income statement for the period between				3				3		3
- Transferred to cost of hedged investments				-24				-24		-24
Exchange difference on foreign operations						3,303		3,303	52	3,355
Result from hedging of net investment in foreign operations						567		567		567
Tax on items recognized directly in / transferred from equity				-9	-2		49	38		38
Total transactions recognized directly in equity				34	189	3,870	-189	3,904	52	3,956
Net profit for the period recognized in the income statement							430	430	24	454
Total recognized revenue and costs for the period				34	189	3,870	241	4,334	76	4,410
Change in group composition									-50	-50
Sale of own shares							15	15		15
Dividend, 10.50 SEK per share ⁶⁾							-2,451	-2,451	-27	-2,478
Closing equity 31 December 2005	2,350	6,830	143	23	386	2,871	43,740	56,343	767	57,110

2006, SEKm	Share capital	Other capital provided	Revaluation reserve ^{3,4)}	Hedging reserve ^{3,5)}	Assets available for sale ³⁾	Translation reserves ³⁾	Retained earnings	SCAs owners' equity	Minority interests	Total equity
Opening equity	2,350	6,830	143	23	386	2,871	43,740	56,343	767	57,110
Actuarial gains and losses relating to pensions, incl. payroll tax							2,351	2,351		2,351
Available-for-sale financial assets:										
- Result from valuation to fair value recognized in equity					210			210		210
- Transferred to profit or loss at sale					-38			-38		-38
Cash flow hedges:										
- Result from remeasurement of derivatives recognized in equity				58				58		58
- Transferred to income statement for the period				-99				-99		-99
- Transferred to cost of hedged investments				5				5		5
Exchange difference on foreign operations						-2,423		-2,423	-38	-2,461
Result from hedging of net investment in foreign operations						-352		-352		-352
Tax on items recognized directly in / transferred from equity				10	1		-716	-705		-705
Total transactions recognized directly in equity				-26	173	-2,775	1,635	-993	-38	-1,031
Net profit for the period recognized in the income statement							5,437	5,437	30	5,467
Total recognized revenue and costs for the period				-26	173	-2,775	7,072	4,444	-8	4,436
Change in group composition									-41	-41
Revaluation of owned portion at successive acquisitions, net after tax			4					4		4
Sale of own shares							79	79		79
Dividend, 11.00 SEK per share ⁶⁾							-2,571	-2,571	-54	-2,625
Closing equity 31 December 2006	2,350	6,830	147	-3	559	96	48,320	58,299	664	58,963

¹⁾ 2004 According to Swedish accounting principles. Changed accounting principles refer to accounting of payroll tax on pensions.

²⁾ For more information see SCAs 2005 Annual Report.

³⁾ Revaluation reserve, Assets available-for-sale and Translation reserve are included in the Reserves line in the balance sheet.

⁴⁾ Revaluation reserve includes effect on equity of successive acquisitions.

⁵⁾ See also Note 2 for information of when result is expected to be realized.

⁶⁾ Dividend SEK 11.00 (10.50; 10.50) per share pertains to Parent Company shareholders. The Board of Directors has decided to propose to the Annual General Meeting a dividend of SEK 12.00 per share for financial year 2006.

For further information, see Parent company's note 44.

NOTE 24 Financial liabilities

At 31 December 2006 gross debt, including accrued interest, amounted to SEK 38,569m. The interest bearing gross debt was SEK 38,389m. Distribution of the gross debt is shown in the following tables. For details of interest risk, see Note 2 on page 69.

SEKm	Book value			Fair value		
	2006	2005	2004	2006	2005	2004
Short-term financial liabilities						
Amortization within one year	292	263	282	292	263	282
Bond issues	6,513	156	0	6,513	156	0
Derivatives ²⁾	137	294	217	137	294	217
Loan with maturities of less than one year	14,595	19,477	15,277	14,595	19,477	15,277
Total short-term financial liabilities¹⁾	21,537	20,190	15,776	21,537	20,190	15,776
Long-term financial liabilities						
Bond issues	12,086	13,205	9,518	11,988	13,218	9,866
Derivatives ²⁾	413	423	-5	413	423	-
Other long-term loans with maturities > 1 year < 5 years	2,933	3,856	8,295	2,989	3,797	8,003
Other long-term loans with maturities > 5 years	1,420	1,154	1,347	1,409	1,452	1,654
Total long-term financial liabilities	16,852	18,638	19,155	16,799	18,890	19,523
Total financial liabilities	38,389	38,828	34,931	38,336	39,080	35,299

¹⁾ Fair value of short-term loans is estimated to be the same as the book value. Interest on short-term loans is estimated to equal market rates when they have a short interest term.

²⁾ See note 2.

Other long-term loans

Currency	Amount-weighted interest rate by currency		> 1 year < 5 years		> 5 years	
	Nominal, SEKm	Effective rate, %	Nominal, SEKm	Effective rate, %	Nominal, SEKm	Effective rate, %
CAD		12	4.56			
CLP		6	5.76			
CNY		2	6.34			
EUR		1,940	3.93		987	3.45
GBP		19	5.60		89	8.15
MYR					26	2.63
NOK		1	3.95			
PHP					9	7.04
SEK		79	3.87			
TND		19	6.79			
TRY		16	10.31			
USD		839	4.05		309	6.11
Total		2,933			1,420	
MARKET VALUE		2,989			1,409	

Interest rates are the interest rates for the loans and do not reflect the Group's interest net since the Group uses interest-rate derivatives to achieve short interest duration.

Bond issues

Issued-Maturity	Loan description	Currency	Nominal	Interest, %	Effective interest, %	Book value	Maturity	Fair value
						31 Dec. 2006 SEKm		SEKm
2002-2007	5.375% Notes due 2007	EUR	700	5.38	5.50	6,513	25 June 2007	6,513
2003-2015	4.50% Notes Due 2015	USD	450	4.50	4.62	2,917	15 July 2015	2,904
2005-2010	3.60% Notes Due 2010	SEK	1,500	3.60	3.62	1,500	18 Nov. 2010	1,458
2005-2010	Floating Rate Note Due 2010	SEK	500	3 Months Stibor + 0.34	3 Months Stibor + 0.34	500	18 Nov. 2010	475
2005-2015	Index Linked Interest Note	SEK	300	3.5 Index (CPI) - Linked	1.93	319	1 Dec. 2015	318
2005-2015	Index Linked Interest Note	SEK	500	3.5 Index (CPI) - Linked	1.87	532	1 Dec. 2015	479
2006-2011	3.875% Notes due 2011	EUR	700	3.88	3.90	6,318	7 March 2011	6,354
TOTAL SEKm						18,599		18,501

Interest-bearing gross debt by currency

Taking into account derivatives for hedging of foreign assets, SCA's gross debt has the following currency distribution:

Currency	2006	2005	2004
SEKm			
EUR	12,526	10,637	6,435
SEK	10,123	11,026	9,935
USD	4,988	6,566	7,037
GBP	3,729	3,400	4,934
MXN	1,453	1,803	1,423
AUD	1,037	1,335	1,049
DKK	1,028	1,055	1,799
NZD	646	505	609
PLN	437	159	144
RUB	412	185	113
COP	402	369	99
SKK	312	482	304
CHF	170	273	305
Other	1,126	1,033	745
TOTAL	38,389	38,828	34,931

NOTE 25 Provisions for pensions

SCA has both defined contribution and defined benefit pension plans. The most substantial defined benefit plans are based on period of service and the remuneration received by employees on or close to retirement. The total pension costs for the defined benefit plans are shown below.

SEKm	2006	2005	2004
Current service cost, excluding contributions by plan participants	616	547	461
Past service cost	-12	35	32
Interest expense	911	870	850
Expected return on plan assets	-951	-822	-765
Pension costs before effects of curtailments and settlements	564	630	578
Curtailments and settlements	-12	73	-12
Net pension costs after effects of curtailments and settlements	552	703	566

Of the pension costs for defined benefit plans, SEK 189m (210m; 244) is recognized as a financial expense which is calculated based on the net value of each plan at the beginning of the year.

Expected return on plan assets is determined on the basis of the assumption that the return on bonds will be the same as the interest on a 10-year government bond and that return on equities will reach the same interest with the addition of a risk premium. The interest decided for each country is weighted on the basis of how large a proportion comprises equities and bonds respectively. At year-end 65% (63; 64) of the total fair value of the plan assets was invested in equities. The remaining 35% (37; 36) comprised fixed-income investments. The actual return on the plan assets in 2006 was SEK 2,239m (2,751; 1,601).

Pension plans with balance sheet surpluses are reported as an asset in the balance sheet, Surplus in funded pension plans. Other pension plans, which in balance sheet terms are not fully funded or unfunded, are reported as provisions for pensions. The value of all pension plans is distributed among surplus in funded pension plans and provisions for pensions respectively as shown below.

Provision for pensions, net, SEKm	2006	2005	2004
Provisions for pensions	2,793	4,810	4,388
Surplus in funded pension plans	-1,419	-470	-418
Provision for pensions, net value	1,374	4,340	3,970

The summaries below specify the net value of the defined benefit pension obligations.

SEKm	2006	2005	2004
Defined benefit obligations	20,270	20,936	16,924
Fair value of plan assets	-18,810	-16,513	-12,949
Net value	1,460	4,423	3,975
Unrecognized past service costs	-86	-83	-5
Provision for pensions, net value	1,374	4,340	3,970

Actuarial gains and losses for the year, reported in Consolidated statement of recognized income and expense, are positive and amount to SEK 2,254m (neg. 255; neg. 319). The accumulated gains and losses recognized in this manner thus amount to SEK 1,680m (neg. 574; neg. 319).

In addition to the effect of changes in actuarial assumptions, such as change of discount rate etc., actuarial gains and losses arose as a result of deviation from initial assumptions based on experience. Experience based deviations include unexpectedly high or low figures for employee turnover, early retirement, mortality or salary increases as well as deviation from expected rate of return on plan assets. The percentage effect of such adjustments is negative and amounts to 1% (0; 0) for the defined benefit obligations and 7% (12; 6) for the plan assets. This means that the return on the plan assets was better than expected in 2006, 2005 and 2004. In addition to what is recognized in the net value as plan assets for existing obligations, there are assets in two Swedish foundations amounting to SEK 1,017m (708; 620) which can be used for possible future undertakings for early retirement for certain categories of employees.

SCA has obligations for disability and family pensions for salaried employees in Sweden, secured through insurance with the insurance company Alecta. These benefits are reported as a defined contribution plan since SCA did not have access to sufficient information to report this obligation as a defined benefit plan. Premiums during the year for disability and family pension insurance with Alecta amounted to SEK 40m (41, 33).

The following table shows the net value distributed taking funded, partly funded and wholly unfunded pension plans into account. The financing level varies depending on the plan.

SEKm	2006	2005	2004
Funded plans			
Defined benefit obligations	18,381	18,952	15,304
Fair value of plan assets	-18,810	-16,513	-12,949
Net value funded plans	-429	2,439	2,355
Unrecognized past service costs	-73	-75	-4
Provision for pensions, funded plans	-502	2,364	2,351
Unfunded plans			
Defined benefit obligations	1,889	1,984	1,620
Unrecognized past service costs	-13	-8	-1
Provision for pensions, unfunded plans	1,876	1,976	1,619
Provision for pensions, net	1,374	4,340	3,970

Funded plans include partially funded plans, which were previously recognized separately.

As in the previous year, no financial instruments issued by the company are included in the fair value of plan assets at 31 December 2006.

SCA's budgeted contribution for the defined benefit obligations amount to SEK 280m for 2007.

The following table explains the development of the net pension liability.

SEKm	2006		2005		2004	
	Defined benefit obligations	Plan assets	Defined benefit obligations	Plan assets	Defined benefit obligations	Plan assets
Opening balance	20,936	-16,513	16,924	-12,949	15,193	-10,765
Current service cost	698		622		530	
Interest expense	911		870		850	
Expected return on plan assets		-951		-822		-765
Past service cost	-12		35		32	
Acquisitions			45	-24	27	
Curtailments, settlements and transfers	34		72		60	
Contributions by plan participants		-82	-75	-75	-69	-69
Contributions by the employer		-1,184		-823		-1,308
Benefits paid	-968	968	-816	816	-759	759
Actuarial gains and losses	-961	-1,288	2,117	-1,787	874	-562
Exchange differences	-368	240	1,142	-849	186	-239
Closing balance	20,270	-18,810	20,936	-16,513	16,924	-12,949

Principal actuarial assumptions, %

	2006	2005	2004
Discount rate	4.8	4.4	5.1
Expected return on plan assets	6.5	5.9	6.2
Future salary increases	4.0	3.6	3.6
Future cost of living increases	2.5	2.4	2.4

The actuarial assumptions comprise a weighted average of assumptions applied in calculating the defined benefit obligation on the balance sheet date and the pension cost for the following year.

NOTE 26 Other provisions

SEKm	Acquisitions and divestments	Efficiency programmes	Current operations	Tax risks	Environment	Legal disputes	Other	Total
Opening balance	41	2,311	54	1,151	168	39	18	3,782
Provisions during the year	0	3	12	4	276	11	-23	283
Utilization during the year	-24	-1,310	-47	-662	-110	-16	-59	-2,228
Reclassifications	0	50	29	-47	0	0	2	34
Dissolved during the year	-12	0	-7	-27	-1	-4	-37	-88
Exchange differences	-1	-74	-4	-16	-9	-2	-8	-114
Closing balance	4	980	37	403	324	28	-107	1,669
Provisions comprise:								
Short-term component								1,153
Long-term component								516

Other provisions amount to SEK 1,669m (3,782; 1,836).

Of the efficiency programmes' provisions, SEK 1,310m was paid in 2006 and SEK 776m is expected to be paid in 2007 and the remaining SEK 206m in 2008. The efficiency programme is proceeding according to plan, but because deficits and surpluses arose in individual cases, transfers were made with a net effect of SEK 3m. All transfers relate to the original efficiency programme from 2005. Due to these transfers, certain payments will con-

tinue in 2008 and will not be completed during 2007, as was previously announced.

During the year new provisions were made totaling SEK 283m. Provisions for the environment mainly consist of the debt for carbon dioxide emission in 2006 of SEK 259m. "Other" includes provisions for payroll tax receivable relating to actuarial gains and losses recognized directly in equity of SEK -113m.

NOTE 27 Other long-term liabilities

SEKm	2006	2005	2004
Derivatives, operating	16	55	–
Other long-term liabilities	141	153	–
TOTAL	157	208	90

Of other long-term liabilities, SEK 54m (63; 68) falls due for payment later than within 5 years.

NOTE 28 Other current liabilities

SEKm	2006	2005	2004
Liabilities to associated companies	2	3	10
Derivatives, operating	48	69	–
Accrued expenses and prepaid income	5,354	5,520	5,415
Other operating liabilities	2,051	2,268	1,940
Total other current liabilities	7,455	7,860	7,365

Accrued expenses and prepaid income

Accrued social security costs	371	391	407
Accrued vacation pay liability	790	810	785
Other liabilities to personnel	840	889	795
Accrued financial expenses	197	153	392
Bonus and discounts to customers	1,190	1,299	1,134
Other items	1,966	1,978	1,902
Total	5,354	5,520	5,415

NOTE 29 Joint ventures

Joint ventures—companies that SCA owns together with other parties and in which the parties by agreement exercise joint control are consolidated according to the proportional method. Most of the joint ventures operate within the hygiene area, mainly in South America. One joint venture company produces newsprint and has its operations in the UK. Companies in Australia, Mexico and China which were consolidated in 2004 according to the proportional method, were consolidated as subsidiaries in 2005 following acquisition of additional shares in the companies. Please see note 52.

Income statement and balance sheet items and average number of employees in joint ventures included in the SCA Group, pertain to SCA's share:

INCOME STATEMENT	2006	2005	2004
Net sales	4,261	3,828	5,211
Operating expenses	–3,917	–3,662	–4,997
Operating profit	344	166	214
Financial items	–46	–46	–138
Profit after financial items	298	120	76
Taxes	–54	–13	–59
Net profit for the year	244	107	17
Profit attributable to:			
Parent company shareholders	244	107	17
Minority interests			
BALANCE SHEET			
Fixed assets	2,685	2,938	2,302
Current assets	1,451	1,484	1,079
Total assets	4,136	4,422	3,381
Shareholder's equity	2,460	2,426	1,909
Minority interests	0	0	0
Long-term liabilities	425	721	657
Current liabilities	1,251	1,275	815
Total shareholders' equity and liabilities	4,136	4,422	3,381
	2006	2005	2004
Average number of employees	2,551	2,244	3,119
of whom women	24%	28%	23%

Number of employees by country

	2006		2005		2004	
		of whom women, %		of whom women, %		of whom women, %
Australia	–	–	–	–	36	12
Chile	200	10	176	9	182	8
Colombia	1,193	28	1,037	37	1,031	27
Ecuador	325	33	301	23	286	25
Mexico	–	–	–	–	892	18
UK	186	15	187	14	191	13
Tunisia	270	9	216	12	167	13
Turkey	131	5	114	6	–	–
Other countries	246	44	213	46	334	36
Total	2,551	24	2,244	28	3,119	23

Salaries and remuneration

SEKm	2006	2005	2004
Boards of directors, Presidents and Executive Vice Presidents		15	9
of which variable salary		1	4
Other employees	284	308	379
Total salaries and remuneration	299	317	409
Social security costs		119	82
of which pension costs ¹⁾		88	15

¹⁾ Of pension costs, SEK 1m (1; –) relates to boards, presidents and Executive Vice Presidents. Former presidents and their survivors are also included. Outstanding pension obligations to them amount to SEK 11m (11; –).

NOTE 30 Contingent liabilities

SEKm	2006	2005	2004
Discounted bills	0	0	5
Guarantees for			
– employees	6	8	9
– associated companies	37	39	62
– customers and others	36	36	36
Tax disputes	223	455	356
Other contingent liabilities	96	117	93
TOTAL	398	655	561

Contingent liabilities relating to tax disputes mainly involve a claim from the Spanish tax authorities for additional taxes amounting to EUR 19.5m, including interest. The claim is related to restructuring measures that the sellers of a Spanish company carried out prior to SCA's acquisition of the company in 1997. SCA has provided a surety for payment of the taxes but is challenging the claim and assesses that the claim will not be upheld in court. Consequently, no provision has been made in the closing accounts.

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 termination period of six months and entails a liability for the German holding company to carry any losses that arise in SCA Hygiene Products AG and guarantees a certain minimum annual dividend (EUR 8.77) during the term of the agreement. SCA has provided a surety for the German holding company's commitments pursuant to the agreement. The remaining minority shareholders' (3.4% of the shares in the company) exercise rights priced according to the control agreement at EUR 144 are still in effect pending a final legal decision in the underlying valuation dispute. The valuation issue was ruled on in the first instance, which in October 2004 decided to set the value at EUR 188.67 per share and the annual dividend to EUR 17.32 per share (reduced by applicable corporate tax). The minority shareholders and SCA have appealed the ruling, as a result of which there is as yet no legally binding decision. The valuation dispute will affect the outstanding minority shareholders' exercise price if they decide to exercise their right, the guaranteed dividend level, and the price of the shares that SCA has redeemed during the term of the control agreement. A final court decision may be forthcoming in 2007.

SCA entered into lease-out/lease-in transactions during 1996 with American banks as counter parties pertaining to the two LWC plants in Ortviken, Sweden. The terms of the contracts were originally 32 and 36

years. However, SCA has the opportunity to cancel the transactions in 2014 and 2015, respectively, 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 amounted to about SEK 4 billion or USD 611m. This amount, in accordance with the agreements, is partly deposited in accounts in banks with at least AA rating, and partly in US securities with an AAA rating. SCA carries the credit risk against the depositary banks, but this is considered, as a result of the structure of the agreements, to be insignificant. Should the rating of a depositary bank decline in the future, SCA has the possibility to transfer the deposit to another bank with a better rating. Moreover, SCA is liable to take such action if the depositary bank's rating falls below A. The counter parties 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 fulfil, or cannot fulfil the leasing contracts, SCA is liable to compensate the counter parties 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 present value of the leasing amount. 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.

During 2000, SCA entered into a leasing transaction with American banks as counter parties pertaining to the Östrand pulp mill in Timrå, Sweden. The term of the transaction was originally 30 years. However, SCA has the opportunity to cancel the transactions in 2017 without incurring any financial consequences. At the time the transactions were effected, the current value of the leasing amount which SCA has undertaken to pay amounted to about SEK 4 billion or USD 442m. Of this amount, in accordance with the agreement, an amount corresponding to SEK 3.6 billion is partly deposited in accounts in banks, partly in US securities, both with AA ratings. SCA carries the credit risk against the depositary banks, but this is considered, as a result of the structure of the agreements, to be insignificant. Should the rating of a depositary bank decline in the future, SCA has the possibility to transfer the deposit to another bank with a better rating. The counter parties have accepted that the deposited funds are applied for the leasing undertakings. The advance payments and deposits were netted during 2000 in the balance sheet. Should SCA as the result of extraordinary events (of a force majeure nature) elect not to fulfil, or cannot fulfil the leasing contracts, SCA is liable to compensate the counter parties for economic losses that may be incurred as a result. Compensation varies during the lifetime and can amount to a maximum of about 15% of the present value of the leasing amount. The agreements, as in the 1996 transactions, were composed and examined by legal experts in Sweden and the US and are considered to follow the standard practice for this type of transaction.

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 Rederi AB Transatlantic under three so-called bare-boat charters and are placed at the disposal of SCA Transforest by Rederi AB Transatlantic under three time charters. In the event that Rederi AB Transatlantic does not fulfil its obligations to the owners, SCA Transforest is committed to assume the bare-boat charters on behalf of Rederi AB Transatlantic or acquire the vessels.

In 2005, SCA signed an eight-year fixed-price agreement with a Swedish electricity supplier for electricity deliveries to the company's Swedish plants. The agreement covers approximately 45% of estimated consumption at these plants.

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 certain 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 has provided the customary seller guarantees.

NOTE 31 Pledged assets

SEKm	Pledged assets relating to financial liabilities		Total		
	Other		2006	2005	2004
Real estate mortgages	486	53	539	556	706
Chattel mortgages	5	25	30	63	150
Other	0	130	130	41	36
TOTAL	491	208	699	660	892

Liabilities for which some of these assets were pledged as collateral amounted to SEK 1m (45; 360) at 31 December 2006.

NOTE 32 Remuneration to senior executives

A fee is paid to the Board Chairman and other members elected by a General Meeting in accordance with the decision of the General Meeting. A separate fee is paid for work carried out in Board committees. Distribution of fees in 2006 is presented in Note 34.

Principles

Remuneration to the CEO and other senior executives comprises a fixed salary (basic salary), any variable remuneration, other benefits and pension. Other senior executives include executive vice president, business group presidents and heads of corporate staff units; see page 102–103 for the composition of the Group. Total compensation must be at market rates and competitive in the labour market in which the executive works.

The fixed salary and variable remuneration shall be in proportion to the executive's responsibility and authority. For the CEO, as well as other senior executives, the variable remuneration is maximized and related to the base salary. The variable remuneration shall be based on the outcome in relation to set targets and, as far as possible, be linked to the value development for SCA shares that accrues to the shareholders. With regard to the company's programme for variable remuneration, see below under Variable remuneration.

In the event of termination of employment a notice period should normally apply of two years, if notice is initiated by the company, and one year, if notice is initiated by the executive. Severance pay should not arise.

Pension benefits are either defined benefit or defined contribution, or a combination, and give the executive the right to receive a pension from the age of 60 at the earliest. Earned pension benefits are contingent on employment being sustained for a long period, currently 20 years. Upon termination of employment prior to retirement age, the executive will receive a paid-up policy for pension from age 60. Variable remuneration does not provide pension entitlement.

Questions relating to remuneration to company management are handled by a Remuneration Committee, and with regards to the CEO, decided by the Board.

NOTE 32 cont.**Remuneration and other benefits during the year**

SEK	Base salary/ Board fees	Variable re- muneration	Other benefits	Pension costs	Total
Board chairman	1,265,000	–	–	432,570	1,697,570
CEO	6,254,400	–	348,044	4,100,873	10,703,317
Other senior executives	34,191,445	5,535,163	3,000,581	15,852,862	58,580,051
Total	41,710,845	5,535,163	3,348,625	20,386,305	70,980,938

Comments to the table

- In applying the company's earlier contract with the Chairman of the Board, who was previously President and CEO of SCA, from the date he left employment in 2002 and until he reaches age 65, he will essentially remain at the remuneration level that is comparable to his previous employment benefits (excluding variable remuneration). In addition to contractual pension, he will accordingly receive an annual supplementary amount, which for 2006 amounted to SEK 1,963,080. As shown in the table above he also received fees for serving as SCA's Board Chairman and on the Remuneration Committee and as a member of the Audit Committee totalling SEK 1,265,000. A salary increase of 3.5% was decided for the CEO in 2006 and 4.0% for 2007.
- Variable remuneration covers fiscal 2006 but is paid during 2007. For information about how the variable remuneration is calculated, see below under Variable remuneration.
- Other benefits pertain to housing and company car.
- Most of the Group's senior executives have defined benefit pension plans. Pension costs pertain to the costs that affected earnings for the year, excluding special payroll tax. For additional information about pensions, see below under Pensions and severance pay.

Variable remuneration

SCA's variable remuneration programmes involve executives at the Group and business group level. The programmes for 2006 include a cash-flow and a share-related component, which for 2006 can give a maximum remuneration amounting to 60% (90% for North American managers) of the annual base salary and which for 2007 can provide a maximum remuneration of 75% (90% for North American managers) of the base salary.

The cash-flow-related component is based on an earning period of one year. The outcome, which for 2006 may amount to a maximum of 35% (60% for North American managers) of the base salary and for 2007 to a maximum of 50% (60% for North American managers), is dependent on whether or not the set targets are achieved. The 2007 targets for the CEO, the executive vice president and the heads of corporate staff units will be measured with respect to profit before tax, while the target for the business group presidents will continue to be based on cash-flow. Any result is paid in cash after the close of each earning year. The target for the CEO, the executive vice president and business group presidents is set annually by the Board of Directors' Remuneration Committee. The targets for other executives are determined by the CEO.

Similarly, the share-related component is based on an earning period of one year. The result depends on how the value (measured as total shareholders' return) of SCA's series B shares progresses over a three-year period in relation to the value trend among SCA's competitors in Sweden and abroad. The result requires that the real return for SCA Class B shares exceeds the average real return among a comparative group. The maximum annual return is 25% (30% for North American managers) of the base salary during the particular earnings period. Any result is paid in cash.

The CEO, the executive vice president and heads of central staffs will not receive any variable remuneration for 2006.

For other senior executives, the programme resulted in an average remuneration corresponding to 23% of the base salary, which will be paid during 2007.

Financial instruments, etc.

Previous year's programmes	Employee stock options	
	2001/2008 Number	2002/2009 Number
Board Chairman (formerly CEO)	40,000	40,000
CEO	20,000	35,000
Other senior executives	46,000	103,000
Total	106,000	178,000

Comments to the table

- At 31 December 2006, senior executives held stock options from the 2001/2008 and 2002/2009 programmes. For more detailed terms and conditions for these programmes, see below. Other programmes from previous years have now terminated.
- During 2001 and 2002, about 200 senior executives received stock options at no cost at a value (theoretically calculated) which on the date did not exceed about 20% of the executive's base salary. The total number of stock options for both years allocated to these executives amounted to about 1,800,000. The maturity of the options is seven years and 1/3 of them may be exercised after one year, 1/3 after two years and the remaining 1/3 after three years. When exercising the options, the employee must make payments corresponding to the average latest paid price for Class B shares in SCA during a certain period prior the allocation date. For options allocated in 2001, the exercise price was set at the average share price during a ten-day period in May 2001, SEK 220.00. For the options allocated in 2002, the exercise price was set at the average share price during a ten-day period in May 2002, SEK 347.50. The options have so many entitlement restrictions that they are considered to lack market value. With the share price at year-end, SEK 357.50, the value of all outstanding options amounted to SEK 49.6m, of which SEK 40.6m for options allocated in 2001 and SEK 9.0m for options allocated in 2002. The expenses for social security costs at exercise of the stock options have been hedged with regard to increases in the SCA share price. The risk of a downturn in the share price is not hedged. Hedging is conducted in share swaps at a nominal SEK 104m. The market value at year-end was approximately SEK 12m. The market value of the hedging transaction will be established and recognized in income as incurred.
- During 2006, senior executives exercised 33,000 options from the 2001/2008 or 2002/2009 programmes.

Pensions and severance pay

The pension agreement for the CEO, who has a defined-benefit plan, is formulated so that retirement pension (including national pension benefits) is paid from the age of 65 at 70% of salary at retirement (excluding variable remuneration). However, he is entitled to retire at 60, with 70% of salary at retirement (excluding variable remuneration) between the ages of 60 and 65 and subsequently with 50% of salary at retirement (excluding variable remuneration). In both cases, full pension is contingent upon employment being sustained in the Group during at least 20 years from the date the CEO reached 40 years of age. Upon termination of employment prior to age 65, a paid-up policy is received for pension payments from age 65 or 60. This is contingent upon employment being sustained in the Group during at least 3 years from the date the CEO reached 40 years of age. In addition, beneficiaries' pension amounts to about 50% of retirement pension.

The agreement with the CEO stipulates a period of notice of termination of two years if such notice is given by the company. The CEO has a corresponding right with a period of termination of one year. If notice is given by

the company, the CEO is not obligated to serve during the period of notification. The agreement does not contain any stipulations with regard to severance pay.

In the case of most of the other senior executives in the Group there is a defined benefit pension plan, which grants the executive the right at age 65 to receive a pension (including general pension benefits) at up to 70% of the salary (excluding variable salary). However, they are entitled to retire at 60 with 70% of the salary at retirement (excluding variable remuneration), between 60 and 65 and subsequently with 50% of the salary at retirement (excluding variable remuneration). 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 or 60, under the condition that the executive, after reaching the age of 40, has been employed in the Group for at least three years. In addition, beneficiaries' pension amounts to about 50% of retirement pension.

The applicable pension plan for the CEO and most of the other senior executives has been closed for new entries. Accordingly, during 2004 a new pension plan was established. The new plan is a combination defined benefit and defined contribution pension plan that provides the executives the right at age 60 to receive a retirement pension (including national pension benefits) of up to 45% of the average salary (excluding variable remuneration) for three years prior to retirement age. For full pension, the individual must have been employed for at least 20 years calculated from 40 years of age. Upon termination of employment prior to reaching retirement age, a paid-up policy is received for pension payments from age 60, under the condition that the executive, after reaching the age of 40, has been employed in the Group for at least three years. In addition, beneficiaries' pension amounts to about 50% of retirement pension. In addition to the defined benefit pension, a pension is paid based on premiums paid by the company. The premiums paid for each year of service amount to 10% of the executive's base salary and are invested in a fund or insurance chosen by the executive.

Between the company and other senior executives a period of notice of termination of two years normally applies if such notice is given by the company. The executive has a corresponding right with a period of notice of termination of one year. The executive is normally expected to be available to the company during the notice period. The agreements have no stipulations with regard to severance pay.

Preparation and decision processes

During the year, the Remuneration Committee submitted to the Board recommendations regarding the principles for remuneration of senior executives. The recommendation contained the proportions between fixed and variable remuneration and the size of any salary increases. In addition, the Remuneration Committee proposed criteria for assessing variable remuneration and pension terms.

The Board discussed the Remuneration Committee proposal and decided based on the committee's recommendations.

The remuneration to senior executives for fiscal 2006 was based on the Remuneration Committee's recommendation, and with regards to CEO decided by the Board. The affected executives did not participate in remuneration matters pertaining to themselves.

When it was deemed appropriate, the work of the Remuneration Committee was carried out with the support of external expertise. For information amount the composition of the Remuneration Committee, see page 95-96.

NOTE 33 Other external expenses

2006 other external costs include costs for efficiency programme of SEK 0m (18).

Fees and remuneration to auditors are included with:

SEKm	2006	2005
Ohrings PricewaterhouseCoopers		
Auditing assignments	9	9
Other assignments	2	11
TOTAL	11	20

Leasing

Future payment commitments for non-cancellable operating leases are as follows:

SEKm	2006	2005
Within 1 year	43	20
Between 2-5 years	120	49
Later than 5 years	106	-
Total	269	69

Cost for the year for leasing of assets amounted to SEK 26m (24). Leasing assets comprise means of transportation, premises and technical equipment. In reality, such contracts can be terminated early.

NOTE 34 Personnel costs and employees

Total personnel costs for 2005 include costs of SEK 93m related to staff cutbacks in connection with ongoing efficiency programmes within the Group. This amount also includes costs for employees who were previously not employed in the Parent Company.

Salaries and remuneration

SEKm	2006	2005
Boards ¹⁾ , President and Executive Vice Presidents	14	17
of which variable salary	0	0
Other employees	72	73
TOTAL SALARIES AND REMUNERATION	86	90

Of salary total for 2005, SEK 8m related to efficiency programmes.

¹⁾ Board fees decided by the general meeting are included with SEK 3.4m (2.8) distributed with SEK 1,140,000 to the Board Chairman and SEK 380,000 each to the other general meeting elected Board members. In addition, remuneration is paid for committee work of SEK 50,000 to each Board member in the Remuneration Committee and for directors in the Audit Committee, remuneration of SEK 100,000 is paid to chairman of the Audit Committee and SEK 75,000 to each of the other members.

Social security costs

SEKm	2006	2005
Total social security costs	72	118
of which pension costs ²⁾	42	87

In social security costs for 2005, SEK 30m pertained to costs for efficiency programmes of which SEK 27m comprised pension costs. Provisions for pensions include SEK 26m (25) attributable to costs for efficiency programmes.

²⁾ Of the Parent Company's pension costs, SEK 24m (31) pertain to the Board, President and Executive Vice Presidents. Former Presidents and Executive Vice Presidents and their survivors are also included. The company's outstanding pension obligations to them amount to SEK 226m (215).

NOTE 34 cont.

Pension costs	2006	2005
SEKm		
Self-administered pension plans		
Costs excl. interest expense	21	55
Interest expense (reported in personnel costs)	11	8
Pension payments PRI	2	1
Compensation pension funds	-12	-1
Cost of self-administered pension plans	22	63
Retirement through insurance		
Insurance premiums	13	17
Other	-1	-9
	34	71
Policyholder tax	0	0
Special payroll tax on pension costs	7	15
Cost of credit insurance etc	1	1
Pension costs for the year	42	87

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK 4m (4). (See also Note 25 Pension Provisions, Page 82).

Average number of employees

	2006	2005
Sweden	89	89
of whom women	50%	53%

Of the total number of Board members 9% (10) are women and 18% (13) of senior executives are women.

Total absence due to illness amounts to 3% (4) (women 4% (5); men 2% (2)). Of absence due to illness, 68% (66) is long-term.

NOTE 35 Depreciation of tangible and intangible assets

SEKm	2006	2005
Buildings	5	5
Land improvements	35	36
Machinery and equipment	0	1
Sub-total	40	42
Capitalized development costs	6	7
TOTAL	46	49

NOTE 36 Financial items

SEKm	2006	2005
Income from participations in group companies		
Dividends from subsidiaries	1,669	1,565
Income from participations in other companies		
Capital gains	10	9
Reversed write-down	-	3
Other interest income and similar profit/loss items		
Interest income, external	1	2
Interest income, subsidiaries	201	167
Other financial income, external	24	1
Interest expenses and similar profit/loss items		
Interest expenses, external	-1	-6
Interest expenses, subsidiaries	-1,166	-914
TOTAL	738	827

NOTE 37 Appropriations and untaxed reserves

Of the parent company's untaxed reserves SEK 124m (121) pertains to accumulated depreciation in excess of plan.

NOTE 38 Taxes

Tax on profit for the year	2006	2005
SEKm		
Current tax income (-)	-404	-234
Deferred tax expense (+), tax income (-)	15	-129
TOTAL REPORTED TAX	-389	-363

Reconciliation percentage tax:

%	2006	2005
Tax expense	-98.8	-107.6
Expected tax expense	28.0	28.0
DIFFERENCE	-126.8	-135.6

Difference is due to:

Taxes related to prior periods	-7.6	-4.6
Non-taxable dividends from subsidiaries	-118.6	-129.7
Other non-taxable/non deductible items	-0.6	-1.3
TOTAL	-126.8	-135.6

The Parent Company participates in the Group's tax pooling arrangement and pays the majority of the Group's total Swedish taxes. Reported current tax revenues represent the portion of the Group's total Swedish taxes attributable to the Parent Company. Other Group companies that participate in the arrangement have current tax expenses totaling SEK 380m (222). The Parent Company's claim on subsidiaries for taxes on their account is reported as current receivables from subsidiaries.

Current tax income	2006	2005
SEKm		
Income tax for the period	-380	-222
Adjustments for prior periods	-24	-12
CURRENT TAX INCOME	-404	-234

Current tax liability (+), tax assets (-)

Change during the period of current tax liability is explained below:

SEKm	2006	2005
Opening balance	-7	251
Current tax income	-404	-234
Tax payments	23	-246
Tax expense other Group companies	380	222
CLOSING TAX ASSET	-8	-7

Deferred tax expense (+), tax income (-)

SEKm	2006	2005
Changes in temporary differences	21	-126
Adjustments for prior periods	-6	-3
DEFERRED TAX EXPENSE (+), TAX INCOME (-)	15	-129

Deferred tax liability

Change in deferred tax liability during the period is explained below:

SEKm	Opening balance	Deferred tax expense	Closing balance
Land and buildings	1,465	2	1,467
Provisions for pensions	-82	-4	-86
Loss carry forwards	-112	13	-99
Other	-44	4	-40
TOTAL	1,227	15	1,242

NOTE 39 Intangible assets**Capitalized development costs**

SEKm	2006	2005
Opening cost	34	34
Closing accumulated cost	34	34
Opening amortization	-17	-10
Amortization for the year	-6	-7
Closing accumulated amortization	-23	-17
CLOSING PLANNED RESIDUAL VALUE	11	17

NOTE 40 Tangible assets

SEKm	Buildings		Land		Machinery and equipment	
	2006	2005	2006	2005	2006	2005
Opening cost	146	147	1,337	1,276	16	16
Investments	4	-	129	69	-	-
Sales and disposals	-	-1	-14	-8	-1	-
Closing accumulated cost	150	146	1 452	1 337	15	16
Opening amortization	-58	-54	-461	-425	-15	-15
Sales and disposals	-	1	6	-	1	1
Amortization for the year	-5	-5	-35	-36	0	-1
Closing accumulated depreciation	-63	-58	-490	-461	-14	-15
Opening revaluations	-	-	5,079	5,079	-	-
Closing accumulated revaluations	-	-	5,079	5,079	-	-
CLOSING PLANNED RESIDUAL VALUE	87	88	6,041	5,955	1	1
Tax assessment value	35	14	9,823	9,738		

Land includes forest land with SEK 5,662m (5,591).

NOTE 41 Shares and participations

SEKm	Subsidiaries		Other companies	
	2006	2005	2006	2005
Opening cost	53,874	45,768	70	73
Investments	-	8,106	-	-
Increase through acquisition of subsidiaries	2,783	-	-	-
Divestments	-	-	-	-3
Closing accumulated cost	56,657	53,874	70	70
Opening revaluations	140	140	-	-
Closing accumulated revaluations	140	140	0	0
Opening write-downs	-140	-140	-45	-48
Reversal of earlier impairment losses for the year	-	-	0	3
Closing accumulated write-downs	-140	-140	-45	-45
CLOSING PLANNED RESIDUAL VALUE	56,657	53,874	25	25

Increase through acquisition of subsidiaries for the year comprises a purchase from another Group company. Other companies include shareholding in the French listed company Otor SA, which is recognised at fair value, SEK 14m.

Parent Company's holdings of shares and participations in subsidiaries, 31 December 2006

Company name	Reg. no.	Domicile	No. of shares	Equity percent- age, %	Book value SEKm
Swedish subsidiaries:					
Fastighets- och Bostads- aktiebolaget FOF	556047-8520	Stockholm	1,000	100	0
SCA Försäkrings- aktiebolag	516401-8540	Stockholm	140,000	100	14
SCA Kraftfastigheter AB	556449-7237	Stockholm	1,000	100	0
SCA Recovered Papers Holding AB	556537-5739	Stockholm	1,000	100	0
SCA Research AB	556146-6300	Stockholm	1,000	100	0
SCA Hedging AB	556666-8553	Stockholm	1,000	100	0
Foreign subsidiaries:					
SCA Group Holding BV	33181970	Amsterdam	246,347	100 ¹⁾	53,860
SCA Packaging Coordination Center NV	BTW BE 864.768.955	Diegem	1,079,999	100	985
SCA Packaging Marketing NV	BTW BE 0421.120.154	Diegem	731,279	100	1,798
Total book value subsidiaries					56,657

¹⁾ During the year the Company moved ownership of SCA Verwaltungs GmbH down to SCA Group Holding BV, whose carrying amount was increased by an equivalent amount.

NOTE 42 Current receivables from and liabilities to subsidiaries

SEKm	2006	2005
Current assets		
Interest-bearing receivables	52	91
Other receivables	1,235	1,467
Total current assets	1,287	1,558
Current liabilities		
Interest bearing liabilities	41,562	37,385
Other liabilities	3,669	3,311
Total current liabilities	45,231	40,696

NOTE 43 Other current receivables

	2006	2005
Prepaid expenses and deferred income	10	9
Other receivables	169	106
TOTAL	179	115

NOTE 44 Shareholders' equity

Change in equity is shown in the financial report relating to Equity presented on page 59. The share capital and number of shares have increased since 1993 with new issues and conversions as set out below:

Year	Event	No. of shares	Increase in share capital	Paid-in amount SEKm
1993	Number of shares 1 January 1993	172,303,839		
1993	Conversion of debentures and new subscription through warrants 1	4,030,286	40.3	119.1
	New issue 1:10, issue price SEK 80	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	–
1999	New issue 1:6, issue price SEK 140	32,899,989	329.0	4,579.0
2000	Conversion of debentures	101,631	1.0	15.0
2001	New issue, private placement	1,800,000	18.0	18.0
2002	New subscription through warrants IIB	513	0	0.1
2003	Conversion of debentures	1,127,792	11.3	288.4
	New subscription through warrants IIB	1,697,683	17.0	434.5
2004	Conversion of debentures	9,155	0.1	1.1
2006	Number of shares, 31 December 2006	235,036,698		

SCA's share capital, 31 December 2006

	Number of votes	Number of shares	Nominal amount SEKm
A shares	10	37,635,069	376
B shares	1	197,401,629	1,974
SUMMA		235,036,698	2,350

No change in number of shares will occur in the event of utilization of outstanding stock options since these are totally covered by the Parent Company's treasury shares.

The quota value of the Parent Company's shares amounts to SEK 10.

Treasury shares at the beginning of the year amounted to 1,602,283 shares and at year end to 1,253,138 shares. Shares are held as part of the employee stock option programme described in Note 32. During the year 349,145 shares were redeemed by employees included in the programme.

NOTE 45 Provisions for pensions

Parent Company has both defined contribution and defined benefit pension plans. Below is a description of the Parent Company's defined benefit plans.

PRI pensions

Pension liabilities pertaining to PRI pensions have been secured through a common Swedish SCA pension fund. The market value of the Parent Company's portion of the foundation's assets at 31 December 2006 amounted to SEK 72m (69). During the year compensation of SEK 12m (1) was received. The capital value of the pension obligations at 31 December 2006 amounted to SEK 57m (51). Pension payments of SEK 2m (1) were made during 2006. Since the assets exceed the pension obligations, no liability is recognized in the balance sheet.

Other pension obligations

The Group's note 32, Remuneration to senior executives, describes the other defined benefit pension plans that the Parent Company offers. The table below shows the change between the years.

Capital value of pension obligations relating to self-administered pension plans SEKm	2006	2005
Opening balance	306	242
Compensation received for takeover of pension obligation	–	18
Cost excluding interest expense	21	55
Interest expense (reported in personnel costs)	11	8
Payment of pensions	–17	–17
Closing balance	321	306

External actuaries have carried out capital value calculations pursuant to the provisions of the Swedish Act on Safeguarding of Pension Obligations. The discount rate is 3.5% for both years.

NOTE 46 Other provisions

Total provisions for efficiency programmes amount to SEK 23m (51), including SEK 12m (24) long-term and SEK 11m (27) short-term. The short-term provisions are reported under Other current liabilities. Long-term provisions of SEK 8m are expected to be paid in 2008 and SEK 4m in 2009.

NOTE 47 Interest-bearing liabilities

SEKm	2006	2005
Bond Loans	–	6
Total current interest bearing liabilities	–	6
Other long-term loans with maturity > 5years	–	44
Total long-term interest bearing liabilities	–	44
TOTAL EXTERNAL BORROWING	–	50

During the year the Parent Company chose to prematurely redeem an STP loan from AMFK with a redemption discount of SEK 18m, which is reported in other financial income.

NOTE 48 Other current liabilities

SEKm	2006	2005
Accrued expenses and prepaid income	55	63
Current provision	11	27
Other operating liabilities	4	4
Total other current liabilities	70	94

SEKm	2006	2005
Accrued expenses and prepaid income		
Accrued social security costs	8	6
Accrued vacation pay liability	8	9
Other liabilities personnel	4	–
Accrued financial expenses	–	1
Other items	35	47
TOTAL	55	63

NOTE 49 Contingent liabilities

SEKm	2006	2005
Guarantees for		
– employees	1	2
– subsidiaries	37,036	35,854
Other contingent liabilities	8	8
TOTAL	37,045	35,864

In addition to this, the Parent Company has signed subsidiary guarantees for 18 Dutch companies within the SCA Packaging business group. The Parent Company guarantees all the company's obligations as for own debt.

The Parent Company is also a guarantor as for own debt for all the subsidiary SCA Graphic Sundsvall AB's obligations according to contracts regarding physical deliveries of electric power in 2005–2013.

NOTE 50 Pledged assets

SEKm	Owed to credit institutions	Other interest-bearing liabilities	Other	Total 2006	Total 2005
Real estate mortgages	481			481	481
Chattel mortgages		20		20	20
Other			130	130	35
TOTAL	481	20	130	631	536

NOTE 51 Adoption of the annual accounts

The annual accounts will be adopted by SCA's Annual General Meeting and will be presented for decision at the Annual General Meeting on 29 March 2007.

NOTE 52 List of major subsidiaries, associated companies

Group holdings of shares and participation in major companies 31 December 2006.

The selection of subsidiaries and joint venture companies includes firms with sales greater than SEK 500m in 2006.

Company name	Corporate identity number	Domicile	Number of shares	Capital %	Book value, SEKm
Subsidiaries					
SCA Hygiene Products GmbH, Mannheim	HRB3248	Mannheim		100	
SCA Hygiene Products GmbH, Wiesbaden	HRB5301	Wiesbaden		100	
SCA Hygiene Products AG	0203917992-8	Regensburg		99	
SCA Hygiene Products GmbH, Vienna	FN49537Z	Vienna		100	
SCA Hygiene Products SA-NV, Belgium	Verviers 038415	Stembert		100	
SCA Hygiene Products S.A., France	475581948	Linselles		100	
SCA Hygiene Products (Fluff) Ltd	577116	Dunstable		100	
SCA Hygiene Products Nederland B.V.	30135724	Zeist		100	
Uni-Charm Molnlycke B.V.	330631	Hoogezaand		40	
SCA Hygiene Products S.r.l.	3318780966	Busto Arsizio		100	
SCA Hygiene Products S.A., Spain	A28451383	Madrid		100	
SCA Hygiene Paper España SL	B61534731	Valls		100	
SCA Hygiene Products Slovakia s.r.o.	36590941	Gemerska Horka		100	
SCA Hygiene Products AB	556007-2356	Härbyda		100	
SCA Hygiene Products A/S, Denmark	30877	Allerød		100	
SCA Hygiene Products A/S, Norway	915620019	Tønsberg		100	
SCA Hygiene Products Kft	13-09-063186	Budapest		100	
OY SCA Hygiene Products AB	FI01650275	Helsinki		100	
SCA Tissue North America LLC	58-2494137	Delaware		100	
Tuscarora Inc	25-1119372	Pennsylvania		100	
Alloyd Co.Inc	36-3723056	Delaware		100	
ooo SCA Hygiene Products Russia	4704031845	Svetogorsk		100	
SCA Hygiene Australasia Limited	1470756	Auckland		100	
SCA Hygiene Australasia Pty Ltd	62004191324	South Yarra		100	
Sancell Pty Ltd	55005442375	Springvale		100	
SCA Consumidor México, SA de CV	SCM931101 3S5	Mexico City		100	
Sancela, SA de CV	SAN-790424-8KI	Mexico City		100	
Papeles Higiénicos del Centro SA de CV	PHC 970421DZ0	Mexico City		100	
SCA Graphic Sundsvall AB	556093-6733	Sundsvall		100	
SCA Timber AB	556047-8512	Sundsvall		100	
SCA Timber (UK) Ltd	2541468	Scunthorpe		100	
SCA Skog AB	556048-2852	Sundsvall		100	
SCA Transforest AB	556431-6965	Sundsvall		100	
SCA Graphic Laakirchen AG	FN171841H	Laakirchen		100	
SCA Emballage France SAS	B352398796	Nanterre		100	
SCA Packaging Nicolle SAS	B766500011	Neully sur Seine		100	
SCA Packaging Belgium NV	RPR0436-442-095	Gent		100	
SCA Packaging Switzerland AG	400.3.006.269-5	Oftringen		100	
SCA Packaging Ltd	192236	Aylesford		100	
SCA Packaging Benelux BV	8046917	Eerbeek		100	
SCA Packaging Stiftung & Co KG	HRA 3009	Mannheim		100	
SCA Packaging Containerboard Deutschland GmbH	HRB7360	Aschaffenburg		100	
SCA Packaging Denmark Holding AS	A/S220103	Grenå		100	
SCA Packaging Obbola AB	556147-1003	Umeå		100	
SCA Packaging Munksund AB	556237-4859	Piteå		100	
SCA Packaging Sweden AB	556036-8507	Värnamo		100	
SCA Packaging Fulda GmbH	HRB902	Fulda		100	
SCA Packaging Ceska republica S.R.O	44222882	Jilove u Decina		100	
SCA Packaging Italia SpA	MI6562/1999	Milan		100	
SCA Recycling Deutschland GmbH	HRB 12280	Traunstein		100	
SCA Recycling UK Ltd	214967	Aylesford		100	
Joint Ventures					
Aylesford Newsprint Holdings Ltd	2816412	Aylesford		50	
Productos Familia S.A., Colombia	Sharecertif. 1260	Medellin		50	
Associated companies					
Staper Ltd	1130403	Aylesford	100,000	50	6
Lantero Carton SA	A-81907701	Madrid	100	25	277
Cartografica Galeotti SPA	1333330464	Lucca	16,666	33	11
Herrera Holding Inc	A200100676	Makati City	18,296	40	3
Papyrus	FN124517p	Vienna	1	32	15
GAE Smith	1075198	Leicester	44,300	50	75
Sundsvallshamn AB	556015-8072	Sundsvall	27,000	45	19
Tianjin China Packaging Group SCA Packaging Products Co Ltd	014887	Tianjin	99	25	15
STAG-Frischholz GmbH	FN113626y	Steyrermühl	1	33	4
Belovo Paper Mill AD	BG822104867	Bulgaria	1,633,508	28	9
Other associated companies					5
Book value, associated companies					439

Proposed distribution of earnings

Annual accounts 2006

Distribution of earnings, Parent Company

Distributable equity in the Parent Company:

retained earnings	11,146,390,876
net profit for the year	783,031,979
Total	11,929,422,855

The Board of Directors and the President proposes:

to be distributed to shareholders, a dividend of SEK12.00 per share	2,805,402,720 ¹⁾
to be carried forward	9,124,020,135
Total	11,929,422,855

Stockholm, 27 February 2007

The Board of Directors and the President confirm that, to the best of our knowledge, the annual accounts have been prepared in accordance with generally accepted accounting standards for listed companies, the information provided is consistent with the actual circumstances, and nothing of significant importance has been omitted that would affect the impression of the company created by the annual report.



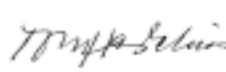
Sverker Martin-Löf
Chairman of the Board



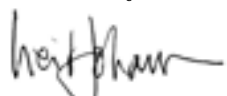
Rolf Börjesson



Sören Gyll



Tom Hedelius



Leif Johansson



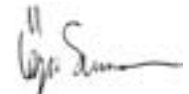
Lars Jonsson



Lars-Erik Lundin



Anders Nyrén



Örjan Svensson

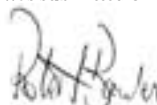


Barbara Milian Thoralfsson



Jan Åström
President and CEO

Our audit report was submitted on 27 February 2007



Robert Barnden
Authorized Public Accountant

¹⁾ Based on the number of outstanding shares as of 31 December 2006. The amount of the dividend may change if any treasury share transactions are executed before the record date, 3 April 2007.

Audit report

To the annual meeting of shareholders in Svenska Cellulosa Aktiebolaget SCA (publ)
Corporate identity number 556012-6293

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the president of Svenska Cellulosa Aktiebolaget SCA (publ) for the year 2006. The company's annual accounts are included in the printed version of this document on pages 43–92. The board of directors and the president are responsible for the accounts and the administration of the company, as well as for ensuring that the annual accounts and consolidated accounts are prepared in accordance with the Annual Accounts Act. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

The audit was performed in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain a high level of but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the president and significant estimates made by the board of directors and the president when preparing the annual accounts and consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and the company's circumstances in order to be able to determine the liability, if any, to the company of any board member or the president. We also examined whether

any board member or the president has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's and the Group's results of operations and financial position in accordance with generally accepted accounting principles in Sweden. The Board of Directors' report is consistent with the other parts of the annual accounts and consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheets of the parent company and the group be adopted, 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, 27 February 2007

PricewaterhouseCoopers AB



Robert Barnden
Authorized Public Accountant

Corporate Governance Report for Svenska Cellulosa Aktiebolaget SCA (publ)

SCA applies the Swedish Code of Corporate Governance. Information about the Code is available on the website of the Swedish Corporate Governance Board, www.bolagsstyrningskollaget.se. Here foreign investors will find a description of the Swedish corporate governance model in “Special Features of Swedish Corporate Governance.”

This Corporate Governance Report is not a part of the formal annual report and has not been reviewed by the company’s auditors.

Articles Of Association

The articles of association are adopted by the general meeting of shareholders and contain a number of basic mandatory details about the company. The full articles of association are available on SCA’s website, www.sca.com.

SCA’s articles of association stipulate, among other things, that the Board of Directors shall consist of three to twelve members, that Class A shares shall carry ten votes and that Class B shares shall carry one vote.

General Meetings

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

The company’s Board of Directors is elected at the Annual General Meeting (AGM). Other mandatory tasks of the AGM include adopting the company’s balance sheet and income statement, and deciding on disposition of the earnings from the company’s operations and on discharging the Board members and the President from liability. The AGM also appoints the company’s auditors.

Annual General Meeting 2006

The Annual General Meeting of shareholders in SCA was held on Thursday, 6 April 2006 in Stockholm.

Full details of the 2006 AGM can be found on SCA’s website www.sca.com.

Annual General Meeting 2007

The next Annual General Meeting of shareholders in SCA will be held on 29 March 2007 in Stockholm (see page 113).

Nomination Committee

The Nomination Committee represents the company’s shareholders. The Committee is assigned the task of providing the best possible information on which the AGM can base its decisions and of submitting proposals for decisions on the election of Board members and appointment of auditors, and on their remuneration.

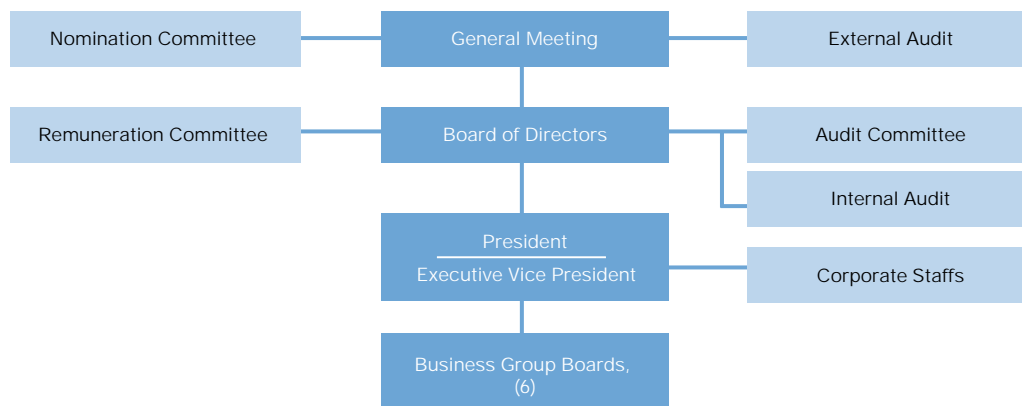
The 2006 AGM decided that the Nomination Committee should, ahead of the 2007 AGM, consist of representatives from the five main shareholders in terms of voting rights and the Chairman of the Board, who is also the convener.

The Nomination Committee ahead of the 2007 AGM

The Nomination Committee ahead of the 2007 AGM has the following members:

- Carl-Olof By, AB Industrivärden, Chairman of the Nomination Committee
- Curt Källströmer, Handelsbanken’s pension foundations and other appointments
- Björn Lind, SEB Funds

Corporate governance at SCA is organized as set out below.



- Carl Rosén, Second Swedish National Pension Fund
- Caroline af Ugglas, Skandia Liv
- Sverker Martin-Löf, Chairman of SCA

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

The Nomination Committee has submitted its proposals for the 2007 Annual General Meeting. The proposals are available on the company's website, www.sca.com, with an account of how the Nomination Committee conducted its work.

Board Of Directors

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

Board members

The Board of Directors consists of eight members elected at the Annual General Meeting with no deputies, and three members with three deputies appointed by the employees. The President is a member of the Board.

Detailed information about individual Board members and deputies is provided on page 100–101.

A majority (Rolf Börjesson, Sören Gyll, Leif Johansson, Anders Nyrén and Barbara Milian Thoralfsson) of the AGM-elected members are independent of the company and senior management. Of these Board members, four (Rolf Börjesson, Sören Gyll, Leif Johansson and Barbara Milian Thoralfsson) can also be considered independent of the company's major shareholders. Only one Board member (Jan Åström) is a member of senior management. All of the Board members understand the requirements a listed company must meet.

The matter of independence has been assessed based on the Swedish Code of Corporate Governance.

The work of the Board

There is no specific allocation of duties within the Board other than the specific duties of the Chairman and the tasks incumbent on the Board's committees.

The Board works according to an annual schedule and rules of procedure established by the Board relating to the allocation of duties among the Board members, its committees and the President. These rules of procedure stipulate the specific content and presentation of the information that management provides to the Board and also state that the Board is to conduct an annual review of its procedures.

The Board has formed an Audit Committee and a Remuneration Committee from within its ranks. SCA's General Counsel is the Secretary to the Board. In 2006 the Board held nine meetings.

Audit Committee

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

The Audit Committee, which consists of Anders Nyrén, Chairman, Sören Gyll and Sverker Martin-Löf, held six meetings in 2006.

Board of Directors

	Attendance	Independent ¹⁾	Attendance Audit Committee	Attendance Remuneration Committee	Fees ²⁾
Rolf Börjesson	8/9	■		2/2	430,000
Sören Gyll	9/9	■	5/6		455,000
Tom Hedelius	9/9			2/2	430,000
Leif Johansson	6/7	■			380,000
Sverker Martin-Löf, Chairman	9/9		6/6	2/2 (chairman)	1,265,000
Anders Nyrén	9/9	■	6/6 (chairman)		480,000
Barbara M. Thoralfsson	7/7	■			380,000
Jan Åström, President	9/9				0
Total					3,820,000 SEK

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

²⁾ This amount relates to fees to Board members.

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

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

Members appointed by representative/trade unions, see page 100–101.

Remuneration Committee

The Remuneration Committee handles salaries, pension benefits, incentive programmes and other terms of employment for the President and other senior executives. The Committee is not authorized to make decisions. Senior executives in this context include the Executive Vice President, business group presidents, individuals within the parent company who report to the President, and other executives that the Committee decides to include. The terms of employment for the President and other senior executives are determined by the Board.

The Remuneration Committee, which consists of Sverker Martin-Löf (Chairman), Tom Hedelius and Rolf Börjesson, held two meetings in 2006. In addition, a number of issues were dealt with per capsulam.

Chairman of the Board

According to the Board's rules of procedure, the Chairman of the Board, in addition to presiding over the Board's activities, must communicate with the President in order to monitor the Group's operations and development on a continuous basis. In addition, the Chairman represents the company in ownership matters and ensures that the Board's work is evaluated annually and that the Board continuously updates and increases its in-depth knowledge of the Group's operations.

The 2006 Annual General Meeting decided to appoint Sverker Martin-Löf as Chairman of the Board.

Evaluation of the work of the Board

The work of the Board, like that of the President, is evaluated annually using a systematic and structured process, one purpose of which is to obtain a sound

basis for the Board's own development work.

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

Remuneration of the Board

The total fees for AGM-elected Board members were set by the AGM at SEK 3,820,000. The Chairman of the Board received an annual fee of SEK 1,140,000 and the other Board members who are not employees each received SEK 380,000. Members of the Remuneration Committee received an additional SEK 50,000 and members of the Audit Committee, an additional SEK 75,000, and the Chairman of the Audit Committee received an additional fee of SEK 100,000.

Operational Management*The President*

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

The President is supported by an Executive Vice President, who is also the CFO, a group management team and corporate staffs (see page 102–103).

The Board's rules of procedure and instructions for the President outline, among other things, the allocation of duties between the Board and the President.

Business Group management

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

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

The rules of procedure for the business group boards ensure that all matters of importance within each business group are handled by the business group's board, of which the Group CEO is normally the chairman. The various rules of procedure that exist within the Group are coordinated such that a number of issues of significant importance must be referred to the parent company's Board of Directors.

Remuneration to Management*Principles for remuneration to senior executives*

The 2006 Annual General Meeting adopted the following principles for remuneration to senior executives.

“Remuneration to the CEO and other senior executives comprises a fixed salary, variable remuneration, other benefits and pensions. Other senior executives include the Executive Vice President, business group presidents and the Senior Vice Presidents in charge of the corporate staffs. Total remuneration must be in line with market rates and competitive in the field in which the executive works. Fixed salary and variable remuneration shall be in proportion to the executive's responsibilities and authority. For the CEO as well as other senior executives, the variable remuneration is maximized and related to the fixed salary. The variable remuneration shall be based on results in relation to set targets and, as far as possible, be linked to the growth in value of SCA shares that accrues to the shareholders. In the event of termination of employment, a notice period of two years should normally apply if notice is initiated by the company, and one year if notice is initiated by the executive. There should be no severance pay entitlement.

Pension benefits are either based on defined benefit or defined contribution plans, or a combination of both, and give the executive the right to receive a pension from the age of 60 at the earliest. Earned pension benefits are contingent on employment being sustained for a long period, currently 20 years. Upon termination of employment prior to the retirement age, the executive will receive a paid-up policy for pension from age 60. Variable remuneration is not pensionable. Questions relating to remuneration to senior management are handled by the Remuneration Committee, and in the case of the CEO, are determined by the Board of Directors.”

Under the Swedish Companies Act, the shareholders must now establish principles for remuneration and other employment terms for senior executives at each Annual General Meeting. The Board’s proposals in this regard for the 2007 AGM are available at the company’s website: www.sca.com.

Salaries and other remuneration for the President and other senior executives

For information about salaries and other remuneration and benefits for the President and other senior executives, see Note 32.

Outstanding stock and share-price related incentive programmes

In 2001 and 2002 some 200 senior executives received stock options at no cost to a value (theoretically calculated) that, on the date of allocation, did not exceed

about 20 % of each executive’s base salary. The total number of stock options for both years allocated to these executives amounted to around 1,800,000. For additional information, see Note 32.

Audit

Auditors

The 2004 Annual General Meeting appointed the accounting firm PricewaterhouseCoopers AB as the company’s auditors. In conjunction with this appointment, the firm appointed Robert Barnden, Authorized Public Accountant, to be senior auditor. Barnden has been a senior auditor since 2000.

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

Barnden has no shares in SCA.

Audit work

The International Financial Reporting Standards (IFRS) are applied in the preparation of the Group’s financial reports.

The Group’s nine-month report was reviewed by the company’s auditors. This review was conducted according to recommendations issued by FAR (the institute for the accounting profession in Sweden).

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

Remuneration to auditors

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

According to its instructions, the Audit Committee must draw up guidelines stipulating which services, other than auditing, the company may purchase from its auditors.

Remuneration paid to auditors in 2006 is specified below.

Financial Reporting

Financial reporting to the Board

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

The Board’s instructions for the President require him to ensure that the Board receives the necessary reports in order to continuously assess the financial position of the company and the Group. The instructions also specify which types of reports the Board must receive at every meeting.

External financial reporting

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

Remuneration to auditors (PWC)

SEKm	Group			Parent Company		
	2006	2005	2004	2006	2005	2004
Remuneration for audit assignments	62	64	58	9	9	5
Remuneration for other consultations	29	25	43	2	11	6

The tasks assigned to the company's internal control unit include examining accounting processes critical for financial reporting and communicating any observations to the Audit Committee and the Board.

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

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

Communication with the company's auditors

In accordance with its instructions, the Audit Committee meets regularly with

the company's auditors to obtain information on the focus and scope of the audit and to discuss the issue of coordination between the external audit and internal control, as well as opinions on the company's financial risks.

In addition, the Board, in accordance with its rules of procedure, meets the auditors at no fewer than three regular board meetings during the course of the year.

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

Furthermore, at the Board's third regular autumn meeting, the auditors deliver an in-depth report on the audit for the current year. The rules of procedure specify a number of issues that must be covered. These include matters of importance that have been a cause for

concern or discussion during the audit, business routines and transactions where differences of opinion may exist regarding the choice of accounting procedures, as well as accounting for consultancy work assigned to the audit firm by SCA and for its overall dependence on the company and its management.

On each occasion, Board members have an opportunity to ask the auditors questions and some detailed discussion of the accounts takes place without representatives from company management being present.

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

Board of Directors' Report on Internal Control regarding financial reporting

Under the Swedish Companies Act, the Board of Directors is responsible for internal control.

Control environment

For the purpose of creating and maintaining an efficient control environment, the Board has drawn up a number of basic documents of significance for the company's financial reporting. These in-

clude the rules of procedure for the Board and instructions for the President, accounting and reporting instructions, a financial policy and a code of conduct. The basic control documents are applied within all of the business groups and are reviewed on a regular basis. An efficient control environment also requires a satisfactory organizational structure that is reviewed on an ongoing basis.

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

Managers at different levels within the Group also have, within their respec-

tive areas, well-defined powers and responsibilities with respect to internal control. As part of the management system, there are several well-defined processes for planning and implementation of decisions and to support decision-making.

Risk assessment

SCA's risk involved with financial reporting is thought to consist mainly of the risk that a material error may be made in the reporting of the company's financial position and results. The company's accounting instructions and established follow-up routines are designed to lower this risk. SCA's Board of Directors and Audit Committee assess the financial reporting on an ongoing basis from a risk perspective.

Control activities

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

The company's extensive controller organization plays an important role in that it is responsible for ensuring that financial reporting from each unit is correct, complete and delivered in a timely

manner. Also, each business group has a Vice president Finance director with the same responsibilities for his/her respective business group.

In recent years SCA has introduced a standardized system of control measures involving five processes that are significant to the company's financial reporting. The system covers the ordering order-to-cash process (including customer payments), the purchasing purchase-to-pay process (including payments to suppliers), the closing of the books, the payroll process and management of fixed assets. Control of these processes is implemented through self-evaluation followed up by an internal audit. SCA has, in some cases, enlisted external help to validate these control measures.

Information and communication

SCA has information and communication channels intended to ensure that instructions, manuals, etc. of significance in the preparation of reliable financial reports are updated and communicated to the relevant individuals within the company. Regular reporting and examination of financial results is carried out both within the management teams of operating units and in the established board structure.

Supervision and follow-up

The Board of Directors and the Audit Committee reviews the annual accounts and interim reports before they are pub-

lished. The Committee discusses accounting principles and risk of particular importance and issues concerning the presentation of the reports. The company's external and internal auditors take part in these discussions.

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

SCA has established a corporate internal audit unit which reports regularly to the Audit Committee on issues concerning internal auditing and to the CFO on other issues.

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

Board of Directors and Auditors



Sverker Martin-Löf



Rolf Börjesson



Sören Gyll



Tom Hedelius



Leif Johansson



Anders Nyrén



Barbara Millian Thoralfsson



Jan Åström



Lars Jonsson



Lars-Erik Lundin



Örjan Svensson

Elected by the Annual General Meeting

Sverker Martin-Löf (1943)

Tech. Lic., Honorary PhD

Chairman since 2002, formerly President and CEO of SCA. Chairman of the Board of SSAB and Skanska. Vice Chairman of Industrivärden, Ericsson and the Confederation of Swedish Enterprise. Member of the Board of Handelsbanken. Elected 1986
A shares: 1,000
B shares: 25,941
Options: 80,000

Rolf Börjesson (1942)

MSc Eng.

Chairman of the Board of Rexam Plc and Ahlsell AB. Member of the Board of Avery Dennison. Elected 2003.
B shares: 5,950
Independent of the company, corporate management and SCA's major shareholders.

Sören Gyll (1940)

Honorary PhD Engineering

Member of the Board of Medicover Holding. Member of the Royal Swedish Academy of Engineering Sciences (IVA). Elected 1997.
B shares: 1,619
Independent of the company, corporate management and SCA's major shareholders.

Tom Hedelius (1939)

Honorary PhD Economics

Chairman of the Board of Bergman & Beving, Industrivärden and the Anders Sandrew Foundation. Vice Chairman of Addtech, Lagercrantz Group and the Jan Wallander and Tom Hedelius Foundation. Member of the Board of LE Lundberg-företagen and Volvo. Honorary Chairman of Handelsbanken. Elected 1985.
B shares: 1,940

Leif Johansson (1951)

MSc Eng.

President and CEO of AB Volvo. Member of the Board of Bristol-Myers Squibb Company, the Confederation of Swedish Enterprise and Teknikföretagen. Member of the Royal Swedish Academy of Engineering Sciences (IVA). Elected 2006.
B shares: 480
Independent of the company, corporate management and SCA's major shareholders.

Anders Nyrén (1954)

MSc Econ., MBA

President and CEO of Industrivärden. Vice Chairman of Handelsbanken and Sandvik. Member of the Board of SSAB, Skanska and Ernströmgruppen. Chairman of the Stock Market Company Association and the Association for Generally Accepted Principles in the Securities Market. Elected 2001.
B shares: 400
Independent of the company and corporate management.

Barbara Milian Thoralfsson (1959)

M.B.A., B.A.

Member of Board of Electrolux AB, Storebrand ASA, Tandberg ASA, Rieber & Søn ASA, Fleming Invest AS, Stokke AS and Norfolier AS. Elected 2006.
B shares: 1,000
Independent of the company, corporate management and SCA's major shareholders.

Jan Åström (1956)

MSc Eng.

President and CEO of SCA. Formerly Executive Vice President and Deputy CEO. Elected 2002.
B shares: 5,659
Options: 55,000

Appointed by the employees

Lars Jonsson (1956)

Chairman Swedish Paper Workers Union dept. 167 at SCA Graphic Sundsvall AB, Ostrand pulp plant, Timrå. Member of the Swedish Trade Union Confederation (LO). Appointed 2005.
Shares: 0

Lars-Erik Lundin (1948)

Maintenance Technician at SCA Packaging Obbola AB. Member of the Federation of Salaried Employees in Industry and Services (PTK). Appointed 2005.
Shares: 0

Örjan Svensson (1963)

Senior Industrial Safety Representative at SCA Hygiene Products AB, Edet Bruk, Lilla Edet. Member of the Swedish Trade Union Confederation (LO). Appointed 2005.
Shares: 0

Deputies

Bert-Ivar Pettersson (1955)

Works Manager at SCA Graphic Sundsvall AB, Ortviken paper mill, Sundsvall. Member of the Federation of Salaried Employees in Industry and Services (PTK). Appointed 2005.
Shares: 0

Anders Engqvist (1958)

Machine Operator at SCA Packaging Sweden AB, Värnamo. Member of the Swedish Trade Union Confederation (LO). Appointed in 2005.
Shares: 0

Harriet Sjöberg (1946)

Chairman, SIF local union, SCA Hygiene Products AB, Göteborg. Member of the Federation of Salaried Employees in Industry and Services (PTK). Appointed 2001.
B shares: 605

Secretary to the board

Anders Nyberg (1951)

Bachelor of Law

Senior Vice president, Secretariat, General Counsel
B shares: 10,132
Options: 18,000

Auditors

PricewaterhouseCoopers AB

Senior Auditor: Robert Barnden, Authorized Public Accountant.
Shares: 0

Honorary chairman

Bo Rydin, MSc Econ., Hon PhD Econ., Hon PhD Engineering

Corporate Senior Management Team



Jan Åström, John D. Williams and Mats Berencrutz



Rijk Schipper, Karin Eliasson and Kenneth Eriksson

Jan Åström (1956)
President and CEO
MSc Eng.
SCA employee since 2000
B shares: 5,659
Options: 55,000

Lennart Persson (1947)
Executive Vice President and CFO
Business Econ.
SCA employee since 1987
B shares: 13,755
Options: 27,000

Anders Nyberg (1951)
Senior Vice President, Secretariat,
General Counsel
Bachelor of law
SCA employee since 1988
B shares: 10,132
Options: 18,000

Bodil Eriksson (1963)
Senior Vice President, Corporate Communi-
cations
Berghs School of Communications
SCA employee since 2005
Shares: 0
Options: 0

Karin Eliasson (1961)
Senior Vice President, Human Resources
BSc
SCA employee since 2003
Shares B: 100
Options: 0

Gunnar Johansson (1956)
President, SCA Personal Care
MSc Econ., MBA
SCA employee since 1981
Shares: 0
Options: 24,000

Mats Berencrutz (1954)
President, SCA Tissue Europe
MSc Eng.
SCA employee since 1981
B shares: 114
Options: 7,500

John D. Williams (1954)
President, SCA Packaging Europe
BA
SCA Employee since 2000
Shares: 0
Options: 7,500

Kenneth Eriksson (1944)
President, SCA Forest Products
Mechanical Engineer
SCA employee since 1979
B shares: 5,791
Options: 40,000

Thomas Wulkan (1961)
President SCA Americas
Business Econ.
SCA employee since 2000
Shares: 0
Options: 12,000

Rijk Schipper (1952)
President, SCA Asia Pacific
MSc Econ.
SCA employee since 1980
Shares: 0
Options: 13,000

Information at 31 December 2006. One option corresponds to one share.



Bodil Eriksson and Anders Nyberg



Gunnar Johansson, Lennart Persson and Thomas Wulkan

Organization

