

Annual Report 1997



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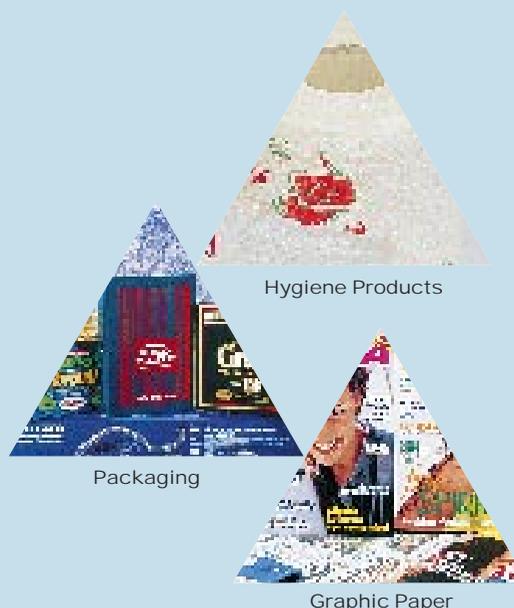
SCA in brief

SCA is an integrated paper company that manufactures hygiene products, packaging and graphic papers. Europe is SCA's primary market, concurrent with ongoing expansion in Central and Eastern Europe, Asia and America. SCA owns 1.8 million hectares of productive forest land and conducts extensive sawmill operations.

Operations are based on the company's wide expertise in wood fiber properties. Its know-how is used to develop new products characterized by higher added value for private consumers, institutions, industry and trade. SCA is Europe's foremost user of recovered paper with equal quantities of recycled and fresh wood fibers in its products.

At the beginning of 1998, the number of employees amounted to approximately 33,000 in more than 30 countries.

The SCA share is listed on the stock exchanges in Stockholm and London, and is available in the form of ADRs (American Depositary Receipts) in the U.S.



1997 in brief

SCA's cash flow from current operations remained strong in 1997, amounting to SEK 4,850 M.

Operations in the hygiene products area were reorganized under one management staff following SCA's offer to acquire all minority shares outstanding in PWA. Continued acquisitions outside Europe are increasing globalization of the operations.

The Packaging business area acquired several companies in Europe.

Graphic Paper's profitability improved due to higher volumes and prices for LWC paper as well as measures implemented to enhance efficiency and general improvements in fine paper operations.

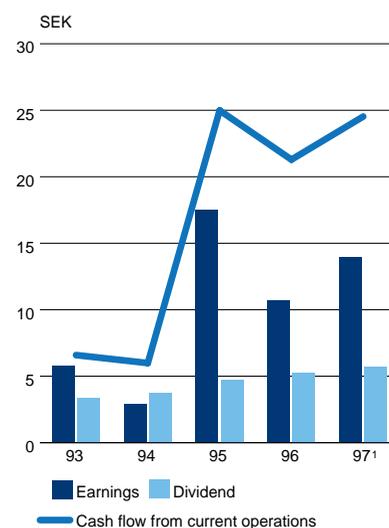
KEY RATIOS

	1997	1996
Net sales, SEK M	58,595	55,405
Earnings after financial items, SEK M	4,457	3,573
Earnings per share after tax, SEK	13.98	10.71
Cash flow from current operations, per share, SEK	24.54	21.30
Dividend, SEK	5.75¹⁾	5.25
Strategic investments, incl. acquisitions, SEK M	4,230	2,684
Shareholders' equity, SEK M	24,653	22,906
Return on shareholders' equity, %	12	10
Debt/equity ratio, multiple	0.73	0.67
Average number of employees	33,399	34,106

¹ Board proposal

See page 55 for definitions.

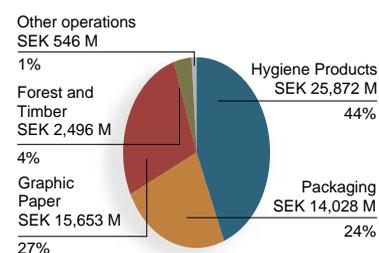
Earnings, dividend and cash flow per share



The Group's earnings capacity remains stable.

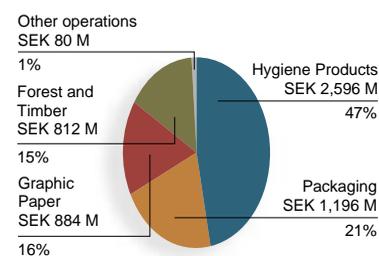
¹ Board proposal

Net sales by business area 1997 (excluding intra-Group deliveries)



The three strategic business areas, Hygiene Products, Packaging and Graphic Paper combined account for 95% of the Group's net sales.

Operating profit by business area 1997



The Hygiene Products business area accounts for nearly half of the Group's operating profit.



President's letter

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

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

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

Earnings from SCA's hygiene operations showed strong growth in 1997, with return on capital employed totaling 23 percent. Corresponding return from Packaging and Graphic Paper business areas was much weaker due to low

prices. A gradual improvement was noted toward year-end, however. Group return on capital employed and shareholders' equity was 12 percent, which is slightly below established target levels for a complete economic cycle. Objectives for growth and cash flow were met during 1997, however. Volume growth amounted to 8 percent, with an operating surplus of 16 percent and cash flow from operations totaling SEK 4,850 M, clearly in excess of the Group's objective of SEK 3 billion. Ongoing investments were maintained at 4 percent, while the potential for expansion investments was fully utilized.

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

Present position

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

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

The product portfolio shows favorable balance, with fiber-based hygiene

products, packaging and graphic paper. The portfolio's inherent synergies and economies of scale are manifested most strongly in a regional perspective, but rapidly lose their prominence in the global perspective.

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

Hygiene products and global competition

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

The new structure will provide better potential to develop overall hygiene operations with continued strong profitability. SCA places particularly sharp focus on the institutional customer segment and private label products, which account for two-thirds of hygiene product sales. SCA's strategy requires lower advertising expenditures compared with a more established brand name strategy that characterizes SCA's American competitors. SCA has the potential, however, to enhance its profile through greater focus on selective brand names in

regions where the Group has particularly strong and concentrated operations and/or product areas in which the Group commands a marketing edge based on technological, commercial or other unique strengths.

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

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

The greatest challenge in packaging operations, accordingly, is to increase profitability – a sustained return of 15

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

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

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

Growth markets
Western Europe will continue to be SCA's primary and domestic market in the foreseeable future. Top priority is placed on various efforts to strengthen the Group's market position in Western Europe. However, there is also good reason to assign greater importance during the next

few years to increased efforts in neighboring Central and Eastern European markets, particularly in view of their strong growth in paper consumption.

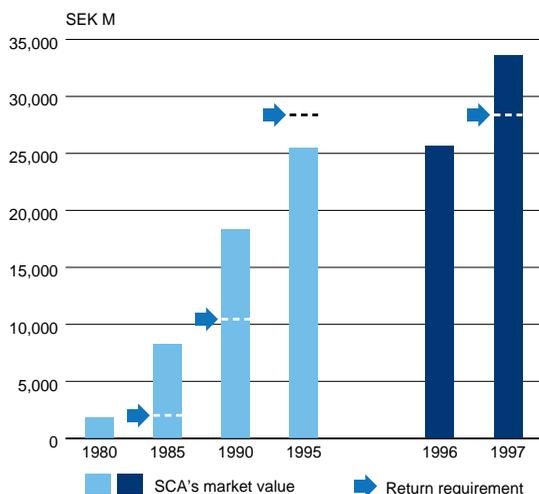
Dividend
Cash flow from current operations can be used for dividends and strategic expansion investments. During the strategy review conducted in 1996, the Board of Directors concluded that SCA's present Group structure and earnings capacity should successively provide opportunities for a higher level of dividend payments to shareholders. For 1997, the Board has proposed a dividend of SEK 5.75 per share. During the past five years, dividend growth has averaged 13 percent. The dividend amounted to about 4 percent of shareholders' equity.

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

Stockholm, 19 February 1998

Sverker Martin-Löf
President and CEO

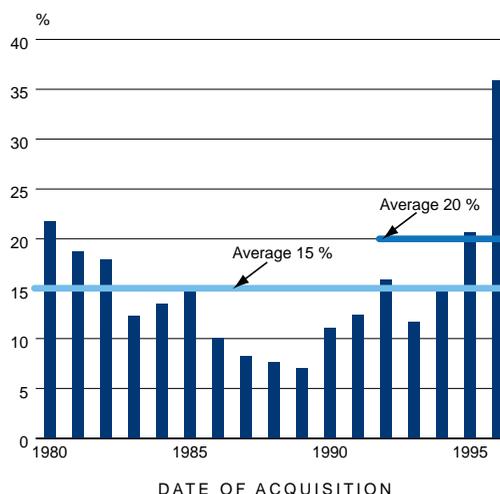
SCA's return on capital requirement*
Doubled value every five years



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

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

Effective return on the SCA share
based on time held and average share prices



The diagram illustrates the annual effective return, through 1997, based on the date of acquisition of the SCA share. For example, if the SCA shares were purchased in 1996, the effective return through 1997 amounted to 36%. Effective return is defined as the share's appreciation in value and the annual dividend being continually reinvested in SCA shares.

The horizontal lines show that the average over the entire period is 15% and 20% for the past five years.

Business concept

SCA's business concept is to offer the market customized and value-added products based on the tree's wood fiber.

SCA is an integrated company that manufactures hygiene products, packaging and graphic paper. Its primary market is Europe.

SCA's business concept is founded on the company's broad expertise in the many different application areas for wood-fiber-based products for individual consumers, various institutions, industry and trade. Using the unique properties of wood fiber and SCA's expertise, products are adapted to meet user needs in terms of moisture absorption (hygiene products), strength (packaging) and quality printing surface (graphic paper and packaging).

SCA's expertise, products and service offer customers higher product quality, reliability, productivity and profitability, while also enhancing the quality of life for end-users.

The business concept is focused strongly on minimizing consumption of natural resources. As a result, a dominant percentage of the company's prod-

ucts, consists of renewable and recyclable materials. SCA uses equal quantities of recycled fibers and fresh wood fibers in production.

Objectives

SCA shall establish a position of leadership on the European market and maximize profitability based on the integrated industrial structure which characterizes the Group's operations. The company will continue to expand operations in Central and Eastern Europe and strengthen market positions in Asia and America in such rapid-growth areas as tissue, incontinence and feminine hygiene products and packaging.

Strategy

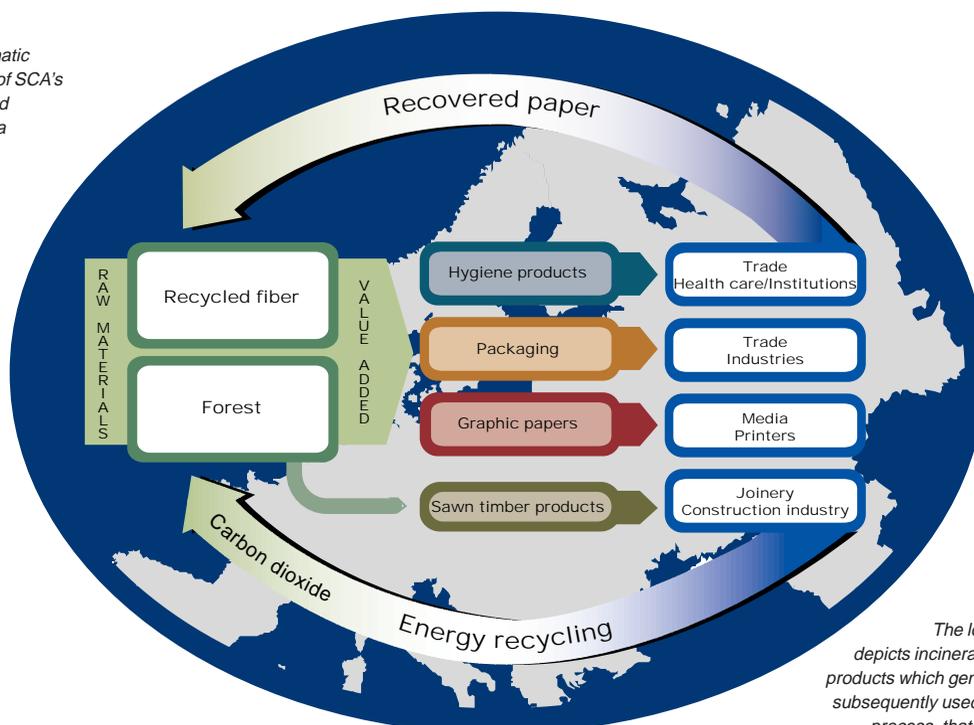
SCA's strategy is to increase its range of high value-added products and actively pursue product development and customer adaptation to further establish leading market positions. This strategy lays the foundation for satisfactory and sustained profitability.

Demands on SCA's profitability (also see "Business control and financial goals," page 5), combined with its business concept, form the base of the Group's business strategy.

Basic prerequisites for this strategy include a corporate structure designed to create competitive advantages in the form of high product quality and low production costs. Accordingly, SCA has divested and acquired several different business operations in pursuit of its strategy and now reflects a streamlined, integrated corporate group. The structure provides valuable synergies between the Group's present business areas: for example, optimal utilization of raw materials and coordinated purchasing, joint transport solutions and sales channels, the concentration of resources in R&D and the Group's management of environmental issues etc.

THE SCA CLOSED LOOP

The illustration is a schematic presentation of the focus of SCA's operations on value-added products and their role in a closed-loop society.



The lower arrow, energy recovery, depicts incineration of used wood and paper products which generates carbon dioxide that is subsequently used in the tree's photosynthesis process, that is, the regrowth of the forest.

Business control and financial goals

The Group's financial objective is to generate strong growth in stock value and a high dividend level for the shareholders. To achieve these goals, SCA has developed calculation methods used to continuously evaluate the long-term earning power and profitability of its business operations.

SCA's objective is to provide its shareholders with a return on investment that is competitive in the forest industry. The return on market value of SCA shares should be 13–15% per year over the course of a complete business cycle. The target level for capital return varies with inflation and changes in real interest rates, as well as the company's risk profile. The value of SCA shares (the sum of share price changes and reinvested dividends), accordingly, should double about every five years. SCA's goal will remain unchanged at 13–15%, despite a decline during 1997 in company-specific risks calculated in beta values (see SCA share, page 8) – a relationship which is aimed at reducing investor expectations regarding capital return.

The achievement of SCA's objective necessitates a stable and rising cash flow, defined as high earnings capacity and financial stability.

Business control

SCA has introduced a method based on cash flow to control the Group's business operations. In accordance with the Cash Value Added (CVA) method, every business unit is assigned an annual cash flow requirement based on the present value of strategic investments, economic life span and the level of capital return each unit should generate. Similar requirements are placed on new strategic investments in acquisitions and new property, plant and equipment. Based on CVA criteria, for example, investment proposals will be rejected if they do not meet CVA cash flow requirements. To achieve value-added growth for shareholders, SCA controls the expansion of business activities, directing them into areas believed to offer the greatest surplus, Cash Value Added. This method is developed from the EVA (Economic Value Added) method, but with the advantage that the CVA method is entirely independent of the influence of traditional accounting principles.

Cash flow

During 1998, SCA is increasing its long-term operating cash flow objective from

SEK 6.0 billion to SEK 6.4 billion. Of the total SEK 400 M increase, SEK 300 M pertains to strategic expansion investments made in 1997 to increase operating cash flow. Compensation for anticipated inflation accounts for the remaining SEK 100 M. The objective for operating cash flow, accordingly, is slightly more than SEK 3 billion¹.

Cash flow from current operations, that is, after current and other investments, may be used for dividends and strategic expansion investments. If long-term cash flow from current operations exceeds opportunities to pursue profitable strategic expansion investments, the percentage of dividend payments to shareholders will be increased.

Risk profile

The risk profile comprises operating and financial risks. Operating risk includes variations in SCA's earning power, and financial risk may be expressed as the relation between net debt and the value of shareholders' equity, for example. The level of net debt is established based on the company's requirements, taking into account the fact that SCA's total risk profile should provide financial freedom of action and a favorable negotiating position for borrowing purposes.

Based on its present product portfolio, SCA's debt/equity ratio should amount to a multiple of about 0.6 times shareholders' equity (about 0.7 including pension liabilities). However, the market value of shareholders' equity (capitalization value) is higher than the book value, which implies a lower debt/equity ratio from the shareholder's perspective.

The interest coverage ratio, defined as the ability to pay interest charges from the company's own funds, should be a multiple of approximately 4.5.

Both objectives are measured over a complete business cycle and should be permitted to vary somewhat, for example, in connection with major acquisitions.

Yield requirements

At the target debt/equity ratio and at current interest rate and tax levels, the yield requirement on shareholders' equity is 13%, with a corresponding requirement of 15% return on capital employed.

¹ The objective is expressed in present monetary values, with an ambition of at least compensating for inflation through improvements in productivity. The objective does not include working capital accrued through strategic expansion. Depending on the rate of expansion, the impact of accrued working capital might result in charges against cash flow in the range of SEK 500 M.

KEY RATIOS AND FINANCIAL GOALS

Key ratios are reported excluding non-recurring items through 1995.

The cash flow measurement is reported from the date of the PWA acquisition (1995).

	Result					Average result	Goal
	1993	1994	1995	1996	1997	5-yr	
Cash flow							
Operating cash flow (SEK billion) ¹			6.6	5.8	6.5	6.3 ²	6.0 ³
Cash flow from current operations (SEK billion)			4.9	4.2	4.9	4.7 ²	3.0 ³
Rates of return							
Capital employed (%)	7	10	15	11	12	11	15
Shareholders' equity (%)	6	7	16	10	12	10	13
Financial measurements							
Debt/equity ratio (multiple)	0.5	0.5	0.7	0.7	0.7	0.6	0.6
Market-adjusted debt/equity ratio (multiple)	0.4	0.5	0.7	0.6	0.5	0.5	–
Interest coverage rate (multiple)	2.2	4.0	4.4	4.5	5.0	4.0	4.5

See page 55 for definitions.

- 1) Comparison figures changed to reflect reclassifications.
- 2) Average values pertain to 1995–97.
- 3) Target values pertain to 1997 only.

Financial risk management

SCA Finans manages corporate financial risks and operates as an inhouse bank for SCA Group companies.

SCA is exposed to financial risk through its international, competitive and capital-intensive operations. The term financial risk is used to denote variations in SCA's cash flows due to unexpected changes in foreign exchange rates and interest rate levels, refinancing and counterparty risks. Group financial risks are managed in accordance with guidelines established by SCA's Board of Directors.

ORGANIZATION AND ACTIVITIES

SCA's financial activities are concentrated centrally within AB SCA Finans, a wholly owned subsidiary. The finance company's activities are divided into treasury operations and corporate finance. Treasury operations offer in-house bank services for Group companies and meet their needs for financial transactions. The net total of internal financial dealings is managed through transactions in financial markets. Corporate finance identifies and analyzes the Group's financial risks and proposes norms and control values. It is also responsible for the Group's long-term financing, project financing and cash management.

The SCA Group's expansion strategy in various emerging markets is placing new demands on the company's finance function. Many countries described as emerging markets are characterized by regulated currency and credit markets.

Accordingly, local financing solutions are necessary in many cases.

CURRENCY RISKS

Transaction exposure

Transaction exposure, defined as annual commercial net currency flow, amounts to SEK 10,906 M. The distribution of exposure in different currencies is shown in the table below.

The currency relations with the greatest profit impact are SEK, DEM and ATS against GBP and FRF (See table below). Group companies always hedge all their invoiced currency flows and when needed the value of pending deliveries during the time periods required to adjust product prices in line with a new currency situation.

At year-end 1997, flows representing 2.5 months were hedged, corresponding to a volume of SEK 1,885 M.

Translation exposure

SCA's net foreign assets, defined as the sum of shareholders' equity and acquired goodwill, totaled SEK 22,439 M at 31 December 1997. The distribution of exposure in different currencies is shown in the diagram below.

The currency impact on consolidated shareholders' equity is limited by matching net foreign assets with loans in corresponding currencies. The degree of matching may vary not more than the

value of net assets and the level at which the Group's debt/equity ratio is unaffected by foreign exchange rate fluctuations. In accordance with the SCA Group's financial market analyses at year-end 1997, priority was assigned to maintaining the debt/equity ratio at a level where it cannot be affected by currency rate movements. On 31 December 1997, net foreign assets were matched by loans in foreign currencies corresponding to SEK 6,400 M, equivalent to a matching ratio of about 30%. Based on the current structure, this corresponds to about 50% of the capital employed outside Sweden.

Long-term currency sensitivity

The distribution of SCA net sales and operating costs among different currencies shows the Group's long-term currency sensitivity (see table below). With the exception of SEK, SCA maintains a balance between revenues and expenses in major currencies.

SCA Group earnings are affected indirectly by foreign exchange rate trends for CAD, USD and FIM, since the forest industry companies in Canada, the U.S. and Finland are major exporters.

The impact of the EMU on SCA's currency exposure

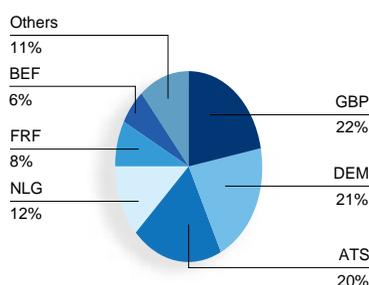
SCA conducts a significant part of its overall business activities in countries

Transaction exposure
12-month flows

Outflow	SEK M	Percentage
SEK	8,595	79%
ATS & DEM	2,047	19%
Others	264	2%
	10,906	100%
Inflow	SEK M	Percentage
GBP	2,517	23%
FRF	1,878	17%
ITL	1,027	9%
DKK	816	8%
USD	711	7%
ESP	692	6%
NOK	625	6%
NLG	488	4%
Others*	2,152	20%
	10,906	100%

* No single currency exceeds 4%.

Foreign net assets -
currency distribution



SCA's foreign net assets (total shareholders' equity and acquired goodwill) amounted to SEK 22,439 M at 31 December 1997.

Net sales and operating
expenses by currency

	Net sales	Operating expenses
DEM	19%	23%
GBP	17%	13%
FRF	11%	9%
SEK	10%	22%
NLG	7%	6%
ITL	7%	4%
USD	5%	6%
BEF	5%	5%
ATS	3%	5%
Others	16%	7%
Total	100%	100%

likely to be affiliated with EMU from its inception on 1 January 1999¹. These currencies account for 57% of consolidated net sales and 54% of operating costs. Capital employed by SCA in EMU countries amounts to 47% of total capital employed.

Introduction of the Euro will reduce SCA's currency exposure to fewer currencies. The transaction exposure against the SEK will remain and, based on present volumes and composition, will total approximately SEK 2,700 M annually against Euro, SEK 2,500 M against GBP and SEK 3,400 M against other currencies. Net foreign assets, in turn, will amount to SEK 15,300 M in Euro, SEK 5,000 M in GBP and SEK 2,100 M in other currencies. This assumes that SCA continues to maintain its accounting and share capital in SEK.

INTEREST-RATE RISKS

SCA applies a short-term norm for interest-rate commitments. Empirical studies indicate that, long-term, the lowest interest expenses are attained with a short fixed-interest period for most loan currencies. However, this is at the expense of greater variation in interest expenses over time than would be the case if a higher proportion of fixed-interest terms was applied. There is a positive covariation, however, between SCA's operating cash flow and interest rates. When interest rates are high, operating cash flow is higher, and the reverse applies when rates are low. The average term of fixed interest during 1997 varied between 7 and 10 months, settling at 7 months at year-end.

REFINANCING RISKS AND LIQUIDITY

At 31 December 1997, gross debt totaled SEK 22,647 M. After deductions for liquid funds, interest-bearing receivables and capital investment shares, net debt amounted to SEK 19,018 M.

Refinancing risk is defined as the risk that the refinancing of maturing loans becomes more difficult or expensive. The goal is that the liquid funds and committed lines of credit should total at least 10% of Group sales, and the average maturity period of Group borrowing should exceed three years.

The average maturity period at year-end 1997 was 3.7 years. Liquid funds, interest-bearing placements and interest-bearing receivables amounted to SEK 2,516 M and unutilized committed lines of credit totaled SEK 4,089 M, the combined total corresponding to 11% of Group sales in 1997.

Total liquidity in SEK is managed actively through trading in the Swedish money market with the objective of achieving maximum return within defined limits for market and credit risks. Liquidity is primarily a form of payment readiness, however, and special priority is assigned to accessibility.

A five-year bond loan was issued in the nominal amount of DEM 200 M in 1997 (SEK 880 M), which is linked to the Group's holding of shares in Industrivärden, featuring a so-called exchangeable structure.

SCA's short-term borrowing base was expanded during the year through a Belgian commercial paper program with a ceiling of BEF 5,000 M (SEK 1,050 M). In addition, short-term borrowing is se-

cured through an issue of commercial paper under terms of a Swedish commercial paper program with a ceiling of SEK 4,000 M and loans from Swedish and foreign banks in the form of uncommitted credit lines.

SCA has a long credit rating of A3/A- and a short rating of P2/A2 from Moody's and Standard and Poor's, respectively, and a K1 rating from Standard and Poor's in Sweden.

CREDIT RISKS

Financial risk management exposes SCA to credit risks from lending within the framework of liquidity management and claims on banks from market values of various derivative instruments that favor SCA. Counterparty rules stipulate the maximum credit risks allowed against various counterparties.

The degree of exposure to the credit risks inherent in derivative instruments is defined as the market value plus a supplementary amount based on credit risk factors which reflect the risk of increased exposure due to currency and interest-rate movements.

To reduce credit exposure, SCA employs agreements which, in countries where such arrangement are permissible, permit netting of receivables and liabilities.

At 31 December 1997, credit exposure in derivative instruments amounted to SEK 1,583 M.

RISK MANAGEMENT AND INSURANCE

SCA's central Risk Management function (RM) works with financing of hazard risks in the Group. The operations are conducted by developing and purchasing Group insurance policies, in many cases with the participation of SCA's own insurance companies, so-called captives. The approach provides optimal deductibles, integration gains and the advantages of scale in procurement.

The RM function also strives to systematically identify risks of accidents in the business activities and, wherever possible, to eliminate or limit such risks through high protection levels and continuous improvements.

Redemption structure for interest-bearing debts

Year	SEK M
1998	4,167
1999	2,075
2000	672
2001	3,229
2002	6,555
2003	5,688
2004	58
2005	48
2006	21
2007	9
2008	0
2009 and beyond	125
Total	22,647

The average maturity period at year-end 1997 was 3.7 years.

Gross debt by currency

Taking into account currency swaps and other derivative instruments SCA's gross debt is distributed among different currencies as follows:

Currency	Gross debt, SEK M	
	1997	1996
SEK	6,846	-7,180
GBP	4,546	7,441
DEM	2,661	7,502
NLG	2,515	4,417
ITL	2,480	1,162
ATS	1,597	3,171
FRF	831	2,080
USD	556	851
BEF	445	1,176
Others	170	776
Total	22,647	21,396

¹ Belgium, the Netherlands, Luxembourg, Germany, France, Italien, Spain, Portugal, Austria, Ireland and Finland.

SCA share

In 1997, the SCA share price rose by 29%, which is higher than both the general index and other forest industry shares on the Stockholm Stock Exchange.

Public trading in the SCA share

Trading in SCA shares is concentrated on the exchanges in Stockholm (A and B shares) and London (B shares). In addition, there is a Level 1 ADR (American Depositary Receipt) program in the U.S., which was established in 1995.

In 1997, the volume of trading of the SCA share on the Stockholm Stock Exchange was about 69 million shares (79), corresponding to a total value of SEK 12 billion. The volume of trading was higher than a year earlier. The number of shares traded corresponded to 35% (40) of the total number of shares at year-end. Based on available figures, the trading volume on the SEAQ International in London was 36 million shares (39). The number of shares traded corresponded to about 18% (20) of the total number of shares outstanding at year-end.

Share trend in 1997

The effective return on the SCA share during the year was 34%, based on the year's last paid price.

The price of the SCA B share rose 29% in 1997, which is more than both the Affärsvärlden General Index for the Stockholm Stock Exchange and the Affärsvärlden Forest Index, which rose by 25% and 12%, respectively. The

FTSE 100 London Stock Exchange Index rose by 25%. The last-paid price on the Stockholm Stock Exchange at year-end was SEK 178.50, corresponding to a market capitalization of about SEK 35 billion, compared with about SEK 27 billion for 1996.

The SCA share rose sharply until the end of September, when the share price fell in conjunction with the decline on stock exchanges worldwide. The share rebounded somewhat during the last days of the year.

The lowest price for the B share during the year was SEK 137 on 2 January 1997, and the highest price was recorded on 13 August at SEK 198, corresponding to a market capitalization of about SEK 39 billion.

Net export of SCA shares was SEK 136 M, compared with net imports of SEK 688 M in 1996. Foreign ownership represented 20% of shareholders' equity, which is an increase of 4 percentage points compared with 1996. During the past five years, foreign ownership in SCA has more than doubled.

ADR program in the U.S.

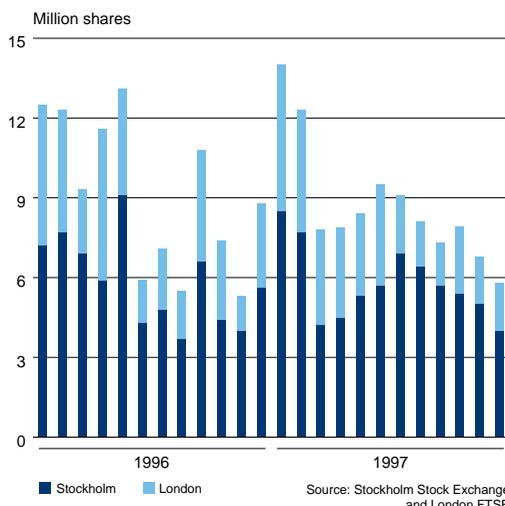
In order to make the SCA share more readily available to American investors, SCA established a Level 1 ADR Program

in the U.S. in December, 1995. This means that B shares are available as depositary receipts in the U.S. without any formal stock exchange registration. These receipts, which are listed in U.S. dollars, are regarded as U.S. securities. One ADR corresponds to one share. The custody bank is the Bank of New York.

Beta

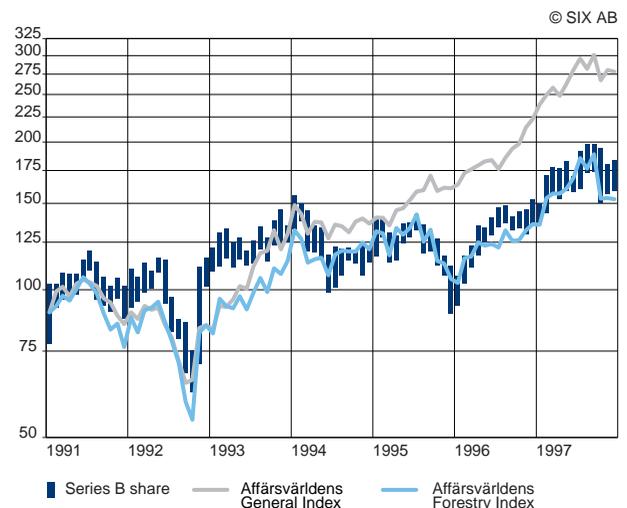
Beta is a measure of the sensitivity of a share price change due to changes in the market as a whole. The beta for the SCA share was 0.93 (0.95), according to the Stockholm Stock Exchange's measurement over a rolling 48-month period. This means that the SCA share in 1997 varied 7% less than the Stockholm Stock Exchange average, measured in terms of a value-weighted index. Ten years ago, the price varied about 20–30% more than the Stockholm Stock Exchange. Accordingly, the risk in the SCA share is considered to have been reduced. The clarifying value was 0.44 (0.52), which means that 44% of the change in price of the SCA share is attributable to the total market trend.

Share trading



Interest in the SCA share was high on the London Stock Exchange during the first half of the year.

Price trend



The SCA B share rose 29% during 1997. On 13 August, the SCA B share reached an all-time high of SEK 198.

Per-share data

SEK unless otherwise noted	1997	1996	1995	1994	1993
Earnings per share after full tax:					
After full conversion	13.98	10.71	17.55	2.94	5.82
Before full conversion	13.98	10.71	17.55	2.86	5.52
Quotation for Series B shares:					
Average quotation	169.20	127.70	125.20	123.80	128.60
Year-end quotation	178.50	138.50	103.00	116.50	135.00
Cash flow from operations ¹	24.54	21.30	25.02	5.94	6.64
Dividend	5.75 ²	5.25	4.75	3.75	3.40
Dividend growth rate, % ³	13	11	9	6	8
Direct return, %	3.2	3.8	4.6	3.2	2.5
P/E ratio ⁴	13	13	6	40	23
Price/EBIT ⁵	10	11	6	19	18
Pay-out ratio before dilution, %	41 ²	49	27	131	62
Shareholders' equity	125	116	112	101	103
Net worth	181	165	153	135	129
Shareholders' equity after full conversion and new subscription	125	116	111	99	101
Net worth after full conversion and new subscription	181	165	153	134	129
Number of shares registered, 31 December (in million)	197.4	197.4	197.4	194.0	194.0
Number of shares after full conversion (in million)	197.6	197.6	197.6	197.7	197.7

1) See Definitions of key financial ratios on page 55.

2) Board proposal.

3) Five-year moving total.

4) Year-end quotation divided by earnings per share after tax and full conversion.

5) Market value plus net debt and minority interest divided by operating profit.

(EBIT= earnings before interest and taxes)

SCA's share capital

31 December 1997

	Voting rights	Shares	Par value, SEK M
Series A	10	62,145,880	621.5
Series B	1	135,254,055	1,352.5
Total		197,399,935	1,974.0

Upon full conversion of the convertible debentures outstanding at 31 December 1997, excluding debentures issued by SCA Group Holding B.V., the number of Series B shares would increase to a maximum of 135,478,222.

Ten largest shareholders

According to the Värdepapperscentralen VPC AB (Swedish Central Securities Depository - CSD) official share register for directly-registered and trustee-registered shareholders, as of 31 December 1997, the following companies, foundations and mutual funds were the ten largest registered shareholders on a voting rights basis. Approximately 69% (70) of the share capital was owned by Swedish institutions and about 20% (16) by foreign nominees.

	No. of votes	Interest %	No. of shares	Interest %
Industrivärden AB	182,470,000	24.1	18,382,000	9.3
AB Custos	151,735,910	20.1	15,173,591	7.7
SHB*	75,450,351	10.0	10,985,708	5.6
Fjärde AP-Fonden	44,902,478	5.9	14,480,084	7.3
S-E-Banken	37,401,313	4.9	6,973,537	3.5
Femte AP-Fonden	28,800,000	3.8	2,880,000	1.5
Skandia	17,463,107	2.3	5,441,717	2.8
Nordbanken	16,797,827	2.2	9,766,577	4.9
Trygg-Hansa	11,749,090	1.6	3,919,090	2.0
AMF	10,041,080	1.3	8,575,457	4.3

* Handelsbankens Pensionsstiftelse, Oktogonen, Handelsbankens Personalstiftelse, Handelsbanken Fonder.

Source: CSD

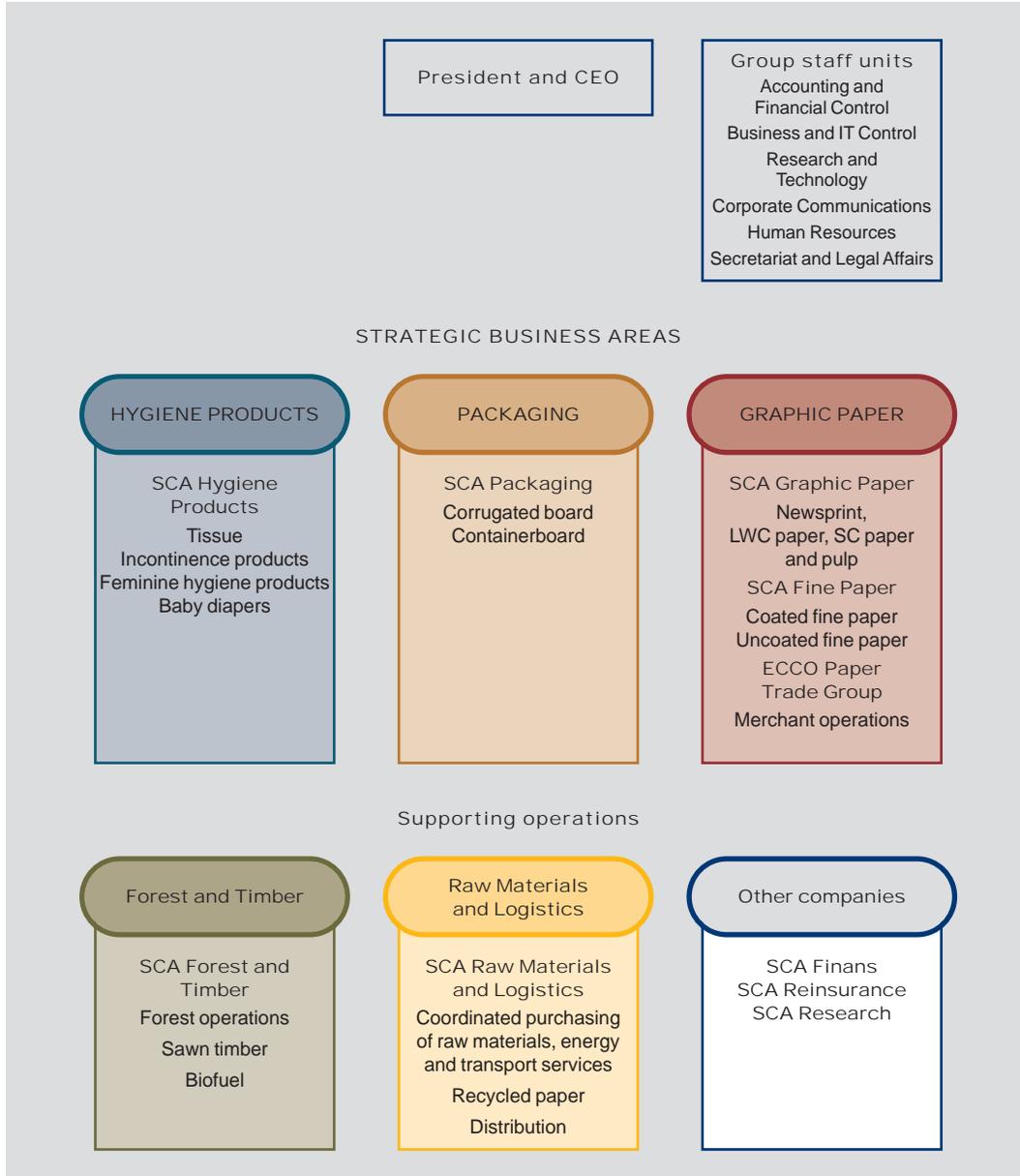
Ownership structure

Shareholding	No. of shares	%	No. of shareholders	%	No. of votes	%
1-500	6,865,555	3.5	43,418	75.9	19,421,734	2.6
501-1,000	5,348,409	2.7	7,033	12.3	14,956,944	2.0
1,001-2,000	5,277,794	2.7	3,603	6.3	15,685,313	2.1
2,001-5,000	6,115,350	3.1	1,929	3.4	17,496,075	2.3
5,001-10,000	3,753,117	1.9	521	0.9	9,554,229	1.3
10,001-20,000	3,779,329	1.9	256	0.4	7,519,369	1.0
20,001-50,000	5,676,385	2.9	176	0.3	13,021,771	1.7
50,001-100,000	5,908,451	3.0	85	0.1	10,648,382	1.4
100,001-	154,675,545	78.3	154	0.4	648,409,038	85.6
Total	197,399,935		57,175		756,712,855	

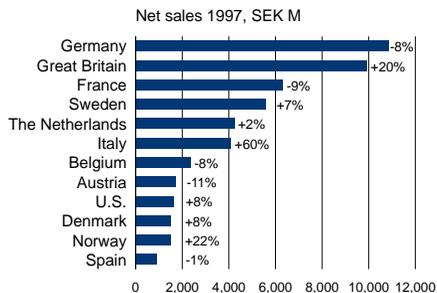
Source: CSD

Organization, products and markets

OPERATING STRUCTURE 1998

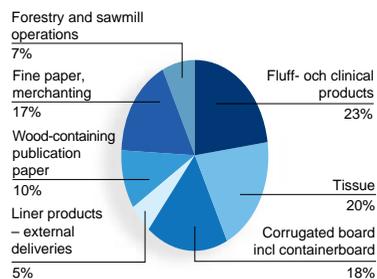


Group's 12 largest markets



SCA's 12 largest markets combined account for 87% of consolidated net sales. (Percentage figures refer to change compared with 1996)

Net sales by product group 1997



SCA Hygiene Products accounts for 43% of consolidated net sales.

Operations in brief 1997

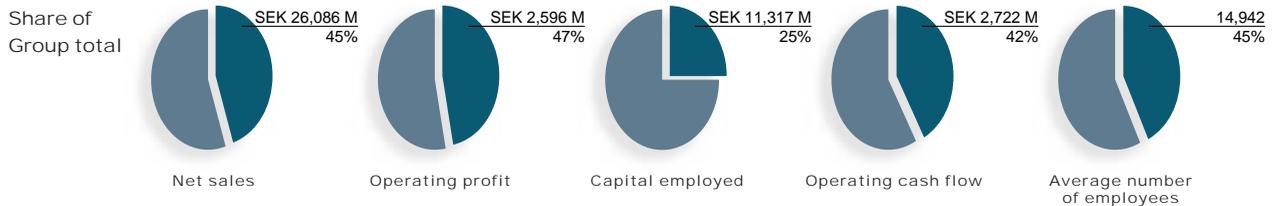
Group total¹



STRATEGIC BUSINESS AREAS¹

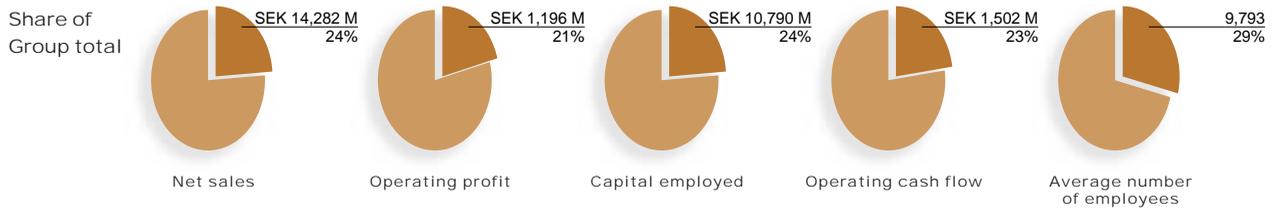
HYGIENE PRODUCTS

Pages 12-15



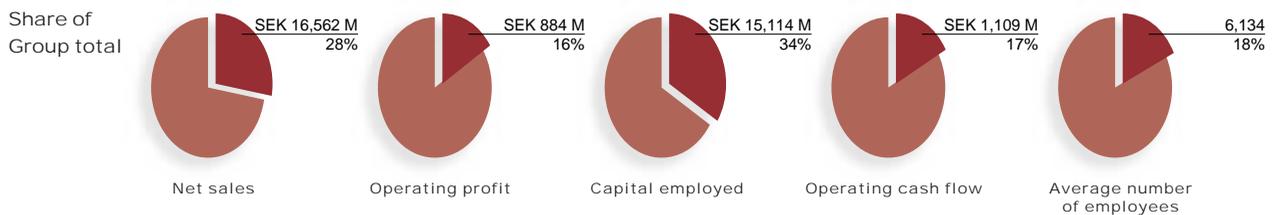
PACKAGING

Pages 16-19



GRAPHIC PAPER

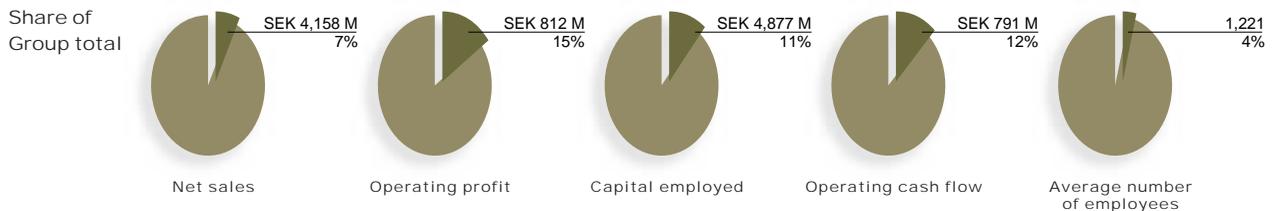
Pages 20-22



Supporting operations¹

Forest and Timber

Page 23



Raw Materials and Logistics

Page 24

Coordinated Group purchasing of recycled paper and other raw materials, energy and transport services.

¹ Consolidated net sales does not include intra-Group deliveries. Net sales reported for the business areas include intra-Group deliveries, however. The Group totals also cover other operations not included in the business areas.

Hygiene Products

GREATER COMPETITIVENESS

The merger of SCA Hygiene Paper and SCA Mölnlycke yields enhanced competitiveness. The new organization took effect on 1 January 1998. Expansion continues, mainly in Europe, but selective efforts are focusing on North America, South America and Southeast Asia.

The Hygiene Products business area is one of Europe's largest manufacturers of tissue and fluff products. With Europe as the main market, sales operations are conducted in some 40 countries. SCA commands a position of world market leadership for incontinence products. Future expansion plans are focused on tissue, incontinence and feminine hygiene products as well as baby diapers. The institutional and the retail trade private label segments are assigned particular priority. In certain regions, there is also a focus on local brands.

The business area's new market-oriented organization will create strong synergy effects in sales, distribution and marketing. By concentrating operations, Hygiene Products will also create increased resources for product development.

Earnings amounted to SEK 2,596 M and cash flow was SEK 2,722 M.

MARKET

The market for fiber-based hygiene products has been characterized by strong consolidation during recent years. In Europe, the four largest producers have a combined market share of 60%. New products are introduced continuously and represent an important competitive weapon.

A trend toward greater concentration and internationalization has also been noted in the retail chain sector, which accounts for distribution and sales to private consumers. In many European countries, only a few retail chains dominate more than half the market. In line with current trends, retail chains have also expressed greater interest in selling products under their own brand names, so-called private labels.

World market sales of fiber-based hygiene products in 1997 totaled nearly SEK 400 billion in the production chain, with one-third booked in Europe.

The market for *tissue products* in Europe is valued at a total of SEK 60

Key ratios	1997	Group share %	1996
Net sales (SEK M)	26,086	45	24,131
Operating profit (SEK M)	2,596	47	2,323
Operating margin (%)	10		10
Operating cash flow (SEK M) ¹	2,722	42	2,564
Capital employed, excl. goodwill (SEK M)	11,317	25	10,983
Return (%)	23		21
Capital expenditures (SEK M)			
– strategic	352	36	445
– current	684	31	1,006
Average no. of employees	14,942	45	14,785

¹ Comparison figures changed to reflect reclassifications.

Production capacities shown on page 62.

BUSINESS UNITS

Tissue

Production of tissue paper for consumer and institutional applications at 15 plants in Belgium, France, the Netherlands, Great Britain, Sweden, Germany, Austria, Spain and U.S. as well as joint venture companies in Colombia and Ecuador.

	1997	1996	Change %
Produced volume, tons*	714,000	657,000	9
Deliveries, tons*	714,000	657,000	9

* Converted volume.

Sales: SEK 12,227 M (11,467), of which consumer products SEK 6,949 M and AFH products SEK 4,125 M.

Employees: 6,655 at 31 December 1997.

Incontinence products

Production of incontinence care products for adults at seven plants in Sweden, the Netherlands, Great Britain, France, U.S. and Canada as well as joint venture companies in Australia, Taiwan and Colombia.

Sales: SEK 5,679 M

Employees: 2,068 at 31 December 1997.

Baby diapers and feminine hygiene products

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

Sales: SEK 6,505 M, of which baby diapers SEK 3,595 M and feminine hygiene products SEK 2,910 M.

Employees: 3,725 at 31 December 1997.

BRAND NAMES

Consumer tissue: Domex, Danke, Double Velvet (used with Kleenex trademark), Edet, Zewa

AFH tissue: Tork

Incontinence: Tena, Promise

Feminine hygiene: Bodyform, Libresse, Libra, o.b.

Fleur, Nana, Nosotras, Nuvenia, Saba

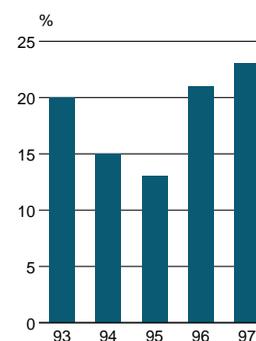
Baby diapers: Libero

Net sales and operating profit



Operating profit improved by 12% to SEK 2,596 M.

Return on capital employed



Return on capital employed rose from 21% to 23%.

SCA's brand names for tissue products includes Edet Ultra, a household paper with high absorbency. Edet holds a strong market position in the Netherlands and Scandinavia.



billion. Growth in 1997 amounted to 2–3%. The market is divided into a consumer sector, with sales to private households via retailers, and the institutional Away From Home (AFH) sector.

Consumer products marketed under manufacturers' own brand names and private labels are sold in similar quantities. In the AFH sector, products are distributed by distributors or directly to various customer categories – manufacturing companies, hotels and restaurants, hospitals and other medical and public health-care institutions.

In markets for fluff products, Western Europe and North America accounted for sales of adult incontinence products valued at approximately SEK 10 billion each. Market growth was in the range of 8–10%. Products for light incontinence problems show a much stronger growth rate. The products are distributed directly to medical and health care institutions as well as through pharmacies or conventional retail trade outlets, depending on public health services in different countries.

Sales of baby diapers in Europe amounted to nearly SEK 30 billion in 1997, and sales of feminine hygiene products totaled approximately SEK 20 billion. The products are distributed through retail sales outlets and show relatively weak growth of about 1–2% annually.

Growth for all hygiene products is very strong in Central and Eastern Europe.

SCA'S STRATEGY AND MARKET POSITION

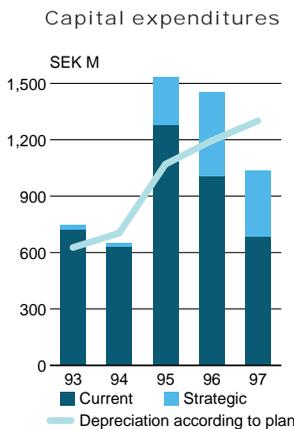
SCA will strengthen its position as a leading European manufacturer of fiber-based hygiene products and expand business operations in priority markets in other parts of the world. A primary objective is to increase sales and cash flow by 10–15% annually through organic growth and acquisitions. SCA has also prioritized expansion in Central and Eastern Europe as well as Southern Europe. Operations in markets outside Europe and North America will be established mainly in the form of joint ventures.

A decision was made in 1997 to merge the SCA Hygiene Paper and SCA Mölnlycke business areas to form a single unit. The new management organizational format was effective 1 January 1998. The merger will improve SCA's ability to meet growing competition in Europe. The new business area will also benefit from several synergy effects in distribution, marketing and product development.

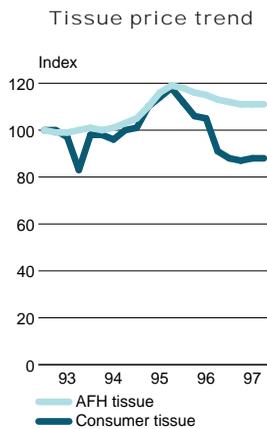
SCA's expansion will be focused primarily on incontinence products, tissue

products for the AFH market and private label products (both tissue and fluff products) for private consumers. Existing brand names for feminine hygiene products and tissue products will also be strengthened.

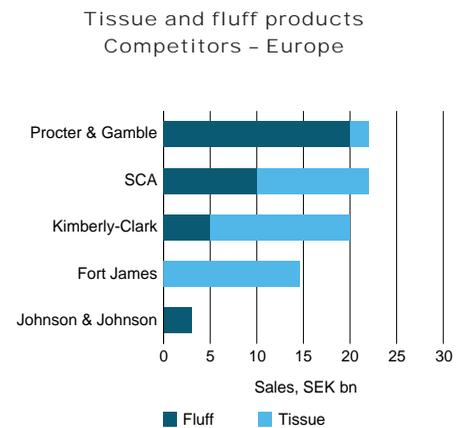
Market shares for all products in Europe averaged about 20% in 1997. SCA has its strongest positions in Northern and Central European



Current capital expenditures returned to a normal level.



Price trends stabilized in 1997 due to rising raw material costs and increased demand. Prices reflect the German market.



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

markets. Of all product groups, incontinence products command the highest market shares.

SCA plans to increase its market share in Southern Europe. The acquisition of Marpo, a Spanish tissue company, is part of the strategy. In addition, a new machine for production of extra-soft and fluffy tissue will be installed at SCA's plant in Mannheim. Expansion in Central and Eastern Europe continues, with SCA sales in the region up about 75% in 1997. In Russia, the business area has established its own sales force for baby diapers, tissue and feminine hygiene products. Construction of a new tissue product plant was started last year in Poland.

Agreement was reached in 1997 covering divestment of SCA's clinical products operations (SCA Mölnlycke Clinical Products) in order to focus exclusively on fiber-based hygiene products. Efforts were also continued to streamline the structure of tissue production. The total number of mills will be reduced to a lower number of strategic plants, with higher productivity and a more concentrated product range. Among other changes in 1997, several large machines were transferred to different production plants, while the converting unit in Chester, England was sold.

Consumer tissue

SCA is currently the leading manufacturer of private label products in Northern Europe. To further strengthen

its position in Southern Europe, SCA has acquired Marpo of Spain, the Spanish market's leading producer of private labels.

The existing range of SCA brand names will be retained and strengthened, including Zewa and Danke (Germany, Austria and Switzerland) as well as Edet (Scandinavia and the Netherlands). In the U.K., SCA works with the Kleenex Double Velvet brand name. All brand names have strong market positions in their respective countries. The tissue production plant in Prudhoe, acquired in the U.K. in 1996, was integrated in SCA's production structure during 1997.

Investments in increased resources for product development resulted in a new kitchen towel product in 1997, "Zewa wisch & weg." The new product offers improved absorption qualities. Favorable market reception was noted during product launch in the autumn of 1997.

SCA tissue production operations were also established in South America in 1997 through the acquisition of 20% of the shares in Productos Familia, a Colombian company that ranks as a domestic market leader with operations in Ecuador and other countries in the region.

AFH tissue

SCA is the second largest European supplier of tissue to the AFH sector. Its strategy is to develop special products, customized to meet specific customer requirements, and to compete in the mar-

ket for standard products. SCA also conducts limit, niche-oriented operations in the U.S. and Canada focused on supplies of complete systems for wiping products.

The aim is to expand SCA's presence in the AFH sector through organic growth in existing markets, complemented by strategic acquisitions. The acquisitions of Marpo and Productos Familia strengthens operations in the AFH segment.

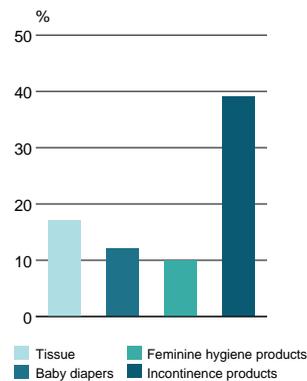
All former brand names have been concentrated under the Tork trademark. This new complete coverage brand name for AFH tissue products was launched among distributors and to customers with favorable success during the year.

Incontinence products

SCA's Tena and Promise brand names command positions of global market leadership in the sector for incontinence products. The product range includes all types of protection for light and heavy incontinence problems. The latter product group is sold primarily to institutional health care facilities and nursing homes, with products for light incontinence sold through pharmacies and retail trade.

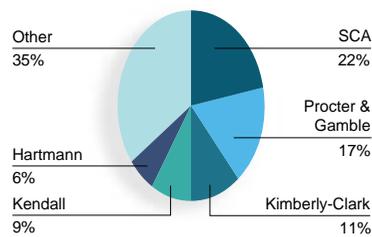
SCA's major objective is to expand operations by creating stronger presence in vital markets in Europe, North America and other world regions as well as through leadership in new product development. Tena products for light incontinence, were introduced in Italy during 1997.

Tissue and fluff products
Market shares - Europe



SCA holds strong market positions in most product areas in Europe.

Incontinence products
Market shares - the world



SCA is the world's leading supplier of incontinence products.



SCA's well-established brand names for fluff products include a number of new products launched in recent years: the Libero Baby Comfort baby diaper with better fit and absorption, Tena Lady with more comfortable design and absorption, the new Libresse sanitary pad with Efficapt which is based on the Group's specially developed pulp.

Favorable development was noted during 1997 for new sales operations in Japan, conducted in cooperation with Uni-Charm, a Japanese hygiene products company. Sales activities were also established in Taiwan last year. The new Taiwanese company will serve as the base for continued expansion in the Far East.

Tena Slip, an improved product with a more comfortable design for heavy incontinence patients, was introduced during the year. A new, more comfortable design, Tena Lady, was also launched in the rapid growth sector for light incontinence products.

Feminine hygiene products
SCA is one of the largest manufacturers of feminine hygiene products in Europe. The products are also manufactured and

sold in more than 20 other markets in Latin America, Australia and Africa.

Marketing is focused strongly on the Libresse brand name, but SCA also sells products under other brands in some markets.

A new Libresse with Efficapt, a sanitary pad based on a pulp specially developed by SCA, was introduced on the market in 1997. Favorable market reception was noted.

Baby diapers

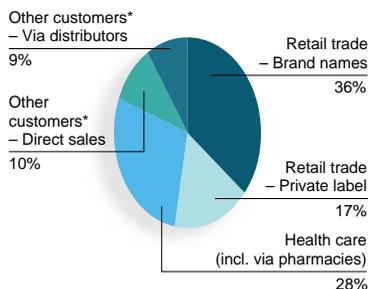
SCA holds a significant market share for baby diapers in Northern Europe. Libero, a popular brand name, defended its leading market position in the Nordic countries last year, and strengthened positions in Central and Eastern Europe in a climate of increased competition. An

increasingly more advanced position was secured during the year in the private label segment.

Libero Baby Comfort, a new baby diaper, was introduced in the autumn of 1996. With its improved fit and absorption qualities, the new product was an immediate success and generated higher market shares. Up&Go, SCA's pant diaper, has a strong market position in Western Europe. The product segment shows rapid growth.

Efforts continued during 1997 to improve the operating efficiency of existing production plants. Among other improvements, new diaper machines developed in-house by SCA were installed at the Falkenberg plant.

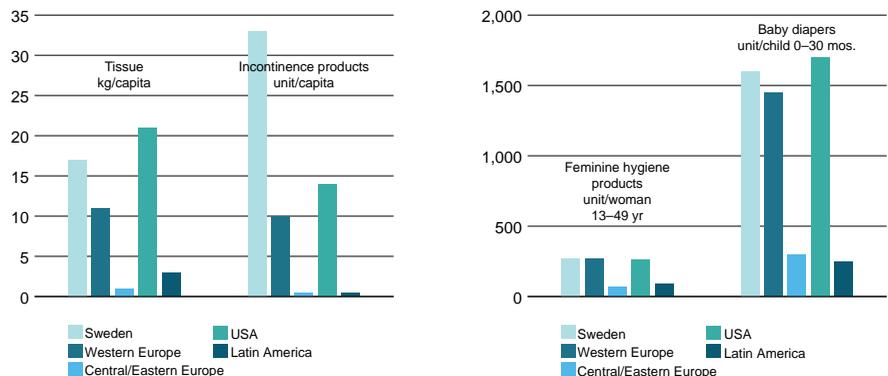
Tissue and fluff products
Sales by customer segments
- Europe



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

Retail trade is the dominant customer segment for SCA in Europe.

Annual per capita consumption



The diagram illustrates annual consumption in important countries/regions.

Packaging

ACQUISITIONS COVER EUROPE

Acquisition of packaging companies in Austria, Italy and Spain, combined with the start-up of production in Central Europe, gives SCA Packaging increasingly more complete market coverage in Europe.

SCA Packaging is Europe's leading manufacturer of corrugated-board packaging, with a 12% market share. SCA's 102 plants in 14 countries produce about 35 million packaging units daily. SCA offers customized packaging solutions, modern design and printing technology as well as local service close to the customer's facilities.

SCA Packaging also produces containerboard: kraftliner, testliner and fluting. Containerboard is based on fresh wood fiber from the Group's own forest resources in Sweden as well as on recycled fiber from SCA's own collection organization.

Earnings for the year improved somewhat compared with the preceding year due to rising prices for corrugated board and liner as well as continued cost reduction in operations. Acquisitions of companies increased net sales by SEK 743 M. Cash flow amounted to SEK 1,502 M. Earnings amounted to SEK 1,196 M.

CORRUGATED BOARD

Market

The total market for transport packaging is increasing in Europe. Corrugated board is the dominant packaging material.

The Western European market is increasingly influenced by major buyers of packaging. Moreover, the large producers of foodstuffs and consumer products are becoming more global, with increasing presence in Central and Eastern Europe as well as Asia. These customers demand reliable deliveries as well as customized packaging solutions and a good graphic representation of the product on the packaging.

Central Europe and Asia show a favorable market growth and several Western European companies, including SCA Packaging, are therefore expanding in these regions.

The demand for corrugated board increased slowly during the first six months of the year and more rapidly in the second half in all European markets

Key ratios	1997	Group share %	1996
Net sales (SEK M)	14,282	24	13,697
of which, intra-Group	254		435
Operating profit (SEK M)	1,196	21	939
Operating margin (%)	8		7
Operating cash flow (SEK M) ¹	1,502	23	1,363
Capital employed, excl. goodwill (SEK M)	10,790	24	8,727
Return (%)	11		11
Capital expenditures (SEK M)			
– strategic	191	19	166
– current	668	30	629
Average no. of employees	9,793	29	10,036

¹ Comparison figures changed to reflect reclassifications.

Production capacities shown on page 62.

Produced volumes, tons*	1997	1996	Change %
Corrugated board**	1,515,000	1,503,000	1
Kraftliner	702,000	656,000	7
Testliner	1,405,000	1,414,000	-1

* metric tons

** excl. Cochis

Deliveries, tons*	1997	1996	Change %
Corrugated board	1,522,000	1,503,000	1
Kraftliner	689,000	661,000	4
Testliner/fluting	1,418,000	1,413,000	0
– of which, intra-Group**	1,125,000	1,320,000	-15

* metric tons

** pertains to kraftliner/testliner

BUSINESS UNITS

Corrugated board

Production of transport packaging at 102 plants in Belgium, France, Germany, Great Britain, Hungary, Ireland, Italy, Poland, the Netherlands and Sweden. Plants in which the company has minority holdings in Switzerland, Turkey, Spain and Portugal.

Sales: SEK 11,164 M (10,419).

Employees: 8,166 at 31 December 1997.

Containerboard

Production of testliner and kraftliner in Sweden (Obbola and Munksund). Production of testliner/fluting in the Netherlands (Eerbeek), Italy (Lucca and Modena), Great Britain (Aylesford), Germany (Aschaffenburg and Witzhausen) and minority holdings in Switzerland (Oftringen) and Turkey (Izmir).

Sales: SEK 3,118 M (3,278).

Employees: 1,813 at 31 December 1997.

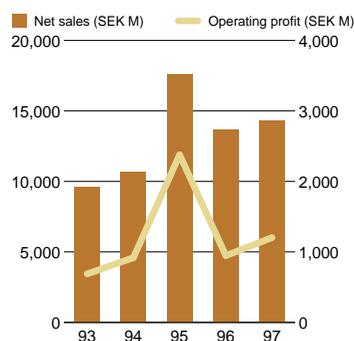
BRAND NAMES

Kraftliner: Nordliner

Testliner: Euroliner

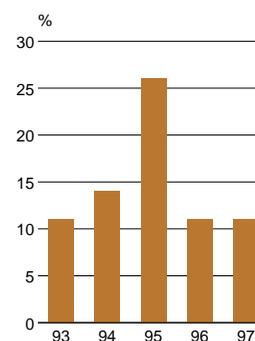
In addition, the Packaging business area has some 60 brands in difference European countries.

Net sales and operating profit



Operating profit rose to SEK 1,196 M.

Return on capital employed



Return on capital employed amounted to 11%.

More than 50% of all whiskey produced in Scotland is shipped in corrugated board packaging from SCA. Name and logotype of the products are ideally displayed on the good printing surface of the packaging.

as a result of rising industrial production. Price increases for corrugated followed the slow rise in price increases for containerboard.

SCA's strategy and market position SCA Packaging's strategy for higher growth and profitability, is to broaden market coverage through organic growth and acquisitions in order to support pan-European customers in Europe. SCA is also following the expansion of customers' business into new markets, in Central and Eastern Europe, Asia and Latin America.

Key elements in SCA's offering are just-in-time deliveries and customized packaging solutions developed in close cooperation with the customer. These standards of manufacturing excellence enabled SCA Packaging U.K. to obtain the double award of best corrugated case maker in 1997 as well as best packaging supplier (of all types of packaging) for the year.

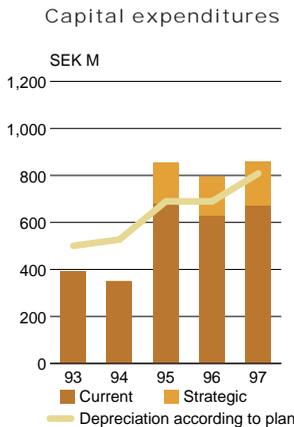
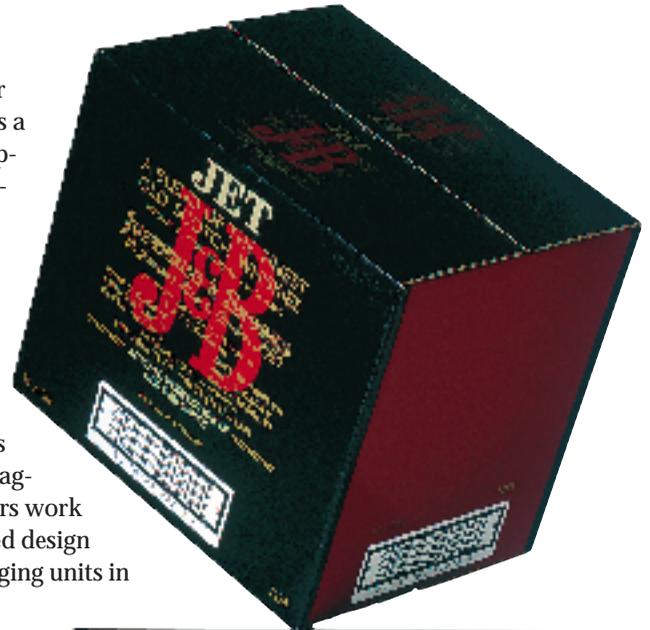
Western Europe

Western Europe is SCA Packaging's home market. Acquisitions of packaging companies during 1997 have resulted in a virtually complete network of plants. In this area, SCA pursues ISO quality programs as well as a productivity en-

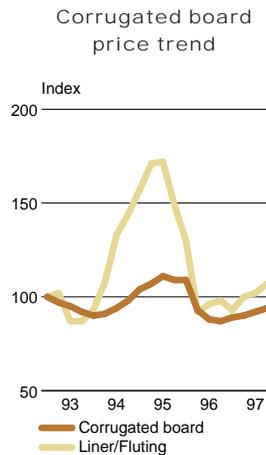
hancement program.

To achieve these quality goals and increase customer service, SCA Packaging uses a number of IT systems to support operations. The Corrugated Business System (CBS) is successfully being rolled out at SCA Packaging plants. The CBS system controls all the stages of the process, from receipt of orders and the purchasing of raw materials to the final delivery of packaging products. SCA's designers work with advanced computerized design programs to develop packaging units in accordance with customer specifications. Packaging design, function and durability can be tested in a computer environment without the need to produce any prototypes.

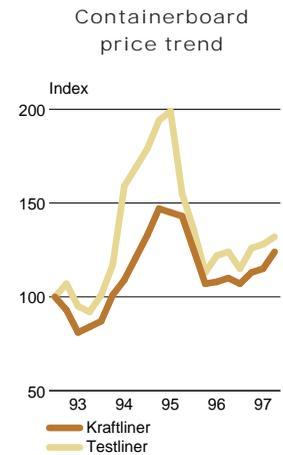
SCA Packaging assigns great importance to employee work safety. As a result of a new program introduced at the business area's liner mills, the number of job-related injuries could be reduced.



Capital expenditures in the business area are at a uniform level.



Prices for corrugated board were unchanged in the early part of 1997, but rose somewhat toward year-end.



The price for kraftliner recovered during 1997 due to increased demand and rising prices in the U.S. The price rise for testliner was not as marked as a result of overcapacity and continued low recovered paper prices.

In the U.K., SCA is the market-leading producer of packaging for spirits and supplies more than 40 million packaging units annually.



The acquisitions during the year were implemented in line with SCA's policy of long-term profitability, a strong cash flow and increased market coverage.

The largest acquisition was the Italian company Cochis. This acquisition makes SCA the largest packaging company in Italy, with a total market share of 15%. Cochis has four integrated packaging plants (box plants) as well as four separate converting facilities (sheet plants) and a small testliner mill. The Italian packaging market is the second largest in Europe, with favorable growth.

In Austria, SCA acquired a minority interest in the beginning of 1998 in Welpa, with an option to later acquire a majority shareholding. Welpa has a modern integrated packaging facility in Vienna. The company has a 10% share of the Austrian market and substantial sales in Central Europe. SCA's sales in Austria as well as Central and Eastern Europe are now being coordinated through Welpa.

The Spanish packaging company Lantero holds 6% of the large Spanish

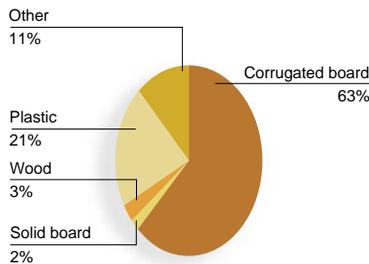
market. The company has four integrated packaging plants. Following SCA's purchase of 25% at the beginning of 1998 of the shares in Lantero, construction of a converting plant, which will enable production of packaging for heavy goods, will be initiated.

Central and Eastern Europe
Production was started up at three plants in Poland and Hungary during year. The units deliver packaging to Western European customers with newly started operations in the region. This

network will be extended through acquisitions or new establishments.

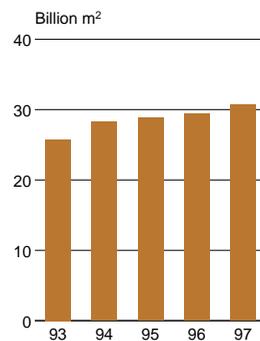
Asia
The establishment in China, which SCA started in a joint venture with an alliance partner, the U.S. forest company Weyerhaeuser, is proceeding. A packaging plant is being constructed in Wuhan. The packaging units produced are intended mainly for the large beverage and brewing industry established in the area. A second plant is planned to be constructed in Shanghai.

Transport packaging (type of material) in Europe



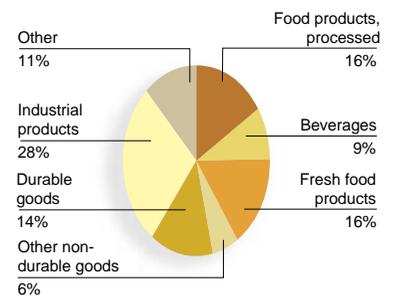
Corrugated board is the predominant packaging material.

Total deliveries of corrugated board in Europe



Deliveries of corrugated board increased by approximately 5 billion m² in the 1993–1997 period.

Sales of corrugated board by end-user



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

CONTAINERBOARD

Market

Demand for containerboard reflects the demand for corrugated board. Deliveries of kraftliner and testliner increased during the year, with a rising price trend.

SCA's strategy and market position

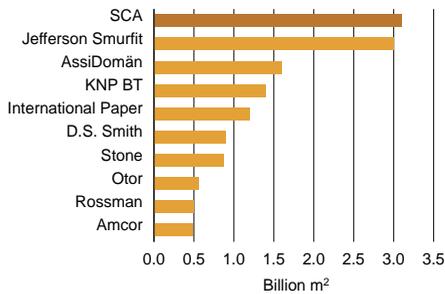
In Europe, SCA Packaging is the market leader in the production of containerboard, with a capacity of 2.4 million tons. SCA's market share was 15% in 1997. SCA sells containerboard externally as well as internally to SCA Packaging's plants. During 1997, 980,000 tons were sold externally and 1,130,000 tons internally. The white product range was strengthened with investments in the kraftliner mill at Munksund, Sweden. The sale of white-top, high-quality kraftliner currently represents 10% of the total. SCA Packaging has sales offices in Europe, China and Southeast Asia.

The Paper Manufacturing System (PMS) was installed at all European paper mills and sales offices. PMS improves the level of service by creating the conditions for guaranteed delivery dates and a substantial reduction in lead times for paper deliveries, thus permitting customers to reduce their inventories and working capital.

Production enhancing investments were carried out in the Swedish and German liner mills. The start-up of a biological wastewater treatment plant at the mill in Obbola, Sweden, improved the environmental situation. The older and outdated liner mill at Redenfelden in southern Germany was divested at year-end, as well as an adjacent sheet feeder.

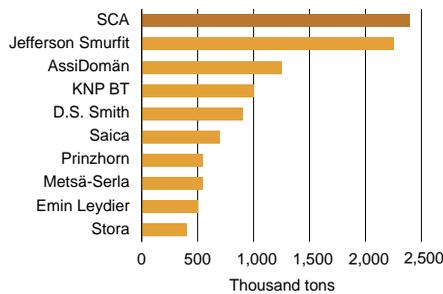


Corrugated board
Competitors - Europe



SCA, closely followed by the Irish company Jefferson Smurfit, is the European market leader in corrugated board.

Containerboard
Competitors - Europe



SCA and Jefferson Smurfit are also the main suppliers of containerboard.

SCA offers a wide selection of containerboard. In addition to the traditional brown grades, SCA also produces containerboard with a white surface which ensures a better printability. Containerboard is sold under the brand names Nordliner and Euroliner.

Graphic Paper

STRONG DEMAND IN EUROPE

Rising prices and strong demand characterized market trends during the latter part of 1997. During the year, SCA Laakirchen, Austria, regained the quality leadership in SC paper. The new LWC grade from the Ort- viken papermill in Sweden, is gaining strong market acceptance. Fine paper operations yield higher profitability in accordance with plans.

The Graphic Paper business area is a full-range supplier of publication paper and fine paper primarily in the European market. SCA owns seven mills in Europe with combined production capacity of slightly more than 2 million tons of publication and fine papers as well as 470,000 tons of pulp. Production of publication paper includes newsprint, SC and LWC paper. Primary application areas are daily newspapers, popular and trade press media, catalogues and advertising materials. Production of fine paper comprises uncoated fine paper used mainly for office applications as well as uncoated and coated grades for magazines, other printed matter and advertising materials.

Earnings in 1997 showed an increase compared with the preceding year. Earnings in fine paper operations improved by slightly more than SEK 900 M. Cash flow amounted to SEK 1,109 M.

producers of publication paper and fine papers. The largest newsprint producer in the world was created by a merger of two North American companies, Abitibi-Price and Stone Consolidated. Finnish UPM-Kymmene and April, a Southeast Asian company, announced the first significant alliance between Europe and Asia in the fine paper segment.

The market remains fragmented. However, events during the past year indicate a weak trend toward greater consolidation with few players moving toward global positions.

For SCA's purposes, the trend of structural change offers few synergy effects. Although more paper mills in different countries provide increased delivery reliability and reduced transport costs. Nevertheless, production cost-efficiency of individual paper mills, logistics and product quality are the most important factors for all manufacturers of graphic paper.

European market demand for publication paper was relatively weak at the

Key ratios	1997	Group share %	1996
Net sales (SEK M)	16,562	28	15,872
of which, intra-Group	909		697
Operating profit (SEK M)	884	16	510
Operating margin (%)	5		3
Operating cash flow (SEK M) ¹	1,109	17	1,139
Capital employed, excl. goodwill (SEK M)	15,114	34	15,111
Return (%)	6		3
Capital expenditures (SEK M)			
– strategic	69	7	515
– current	667	30	682
Average no. of employees	6,134	18	6,098

¹ Comparison figures changed to reflect reclassifications.

Production capacities shown on page 62.

Produced volumes, tons	1997	1996	Change %
Newsprint	672,000	643,000	5
SC paper	294,000	307,000	-1
LWC paper	334,000	252,000	33
Fine paper	804,000	747,000	8
Pulp*	440,000	401,000	10

* Dried pulp

Deliveries, tons	1997	1996	Change %
Newsprint ¹	497,800	466,700	7
SC paper	293,900	305,800	-4
LWC paper	341,800	236,000	45
Fine paper ²	808,000	804,000	1
Pulp	662,000	613,500	8
– of which, intra-Group	472,400	452,200	4

¹ Incl. SCA's share of Aylesford Newsprint Ltd (50%).

² Incl. Tatra.

BUSINESS UNITS

SCA Graphic Paper

Production of LWC and SC papers, newsprint and pulp at four plants in Sweden, Great Britain and Austria.

Sales: SEK 8,838 M (8,905), of which intra-Group SEK 1,350 M (2,195).

Employees: 2,514 at 31 December 1997.

SCA Fine Paper

Production of coated and uncoated fine papers and pulp at three plants in Sweden, Germany and Austria.

Sales: SEK 5,426 M (5,836), of which intra-Group SEK 1,214 M (938).

Employees: 2,149 at 31 December 1997.

ECCO Paper Trade Group, Germany

Merchandising of fine papers in Europe.

Sales: SEK 4,862 M (4,264)

Employees: 1,194 at 31 December 1997.

BRAND NAMES

Newsprint: Grapho News, Grapho Bright, Grapho Bright Extra, Renaissance. **LWC paper:** Grapho Cote, Grapho Lux, Grapho Matt. **SC paper:** Grapho Gravure, Grapho Set, Grapho Grande. **Pulp:** Grapho Celeste.

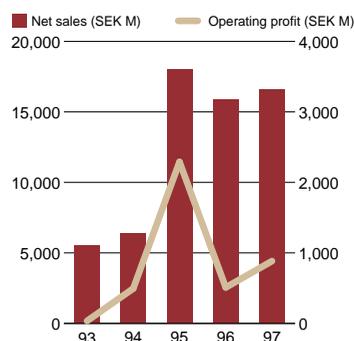
Commercial print: Euro Art, Euro Web, Tauro.

Office papers: Wifsta Office (Mosaique, Astral, Celeste), Special-Copy-Lux, Special-Copy, Wifsta Green Line (Mosaique, Astral, Celeste, Premium, Classic).

MARKET

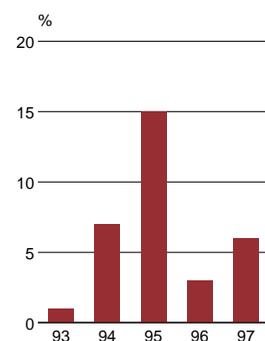
Several acquisitions were made during 1997 in parallel with mergers of major

Net sales and operating profit



Operating profit rose sharply due to improved profitability in fine paper operations.

Return on capital employed



Return on capital employed was 6%.

Large European publishing houses purchase SCA's publication papers for production of popular and trade press magazines and daily newspapers.



beginning of 1997, with the exception of Great Britain. Stronger demand was noted during the summer for coated and uncoated magazine paper as a result of increased advertising investments and high activity in publishing companies. During the autumn, demand for newsprint also grew stronger. At year-end, the market was characterized by strong demand for all products.

With the exception of newsprint, prices were highly unsatisfactory for all products during the first few months of 1997. Prices for coated magazine paper rose during the second half of the year. Price increases on pulp were also introduced.

Demand for coated fine paper increased sharply during the summer and latter part of 1997, while demand for uncoated paper remained unchanged compared with 1996. Demand for office and copying paper was stronger than for other uncoated paper products.

SCA'S STRATEGY AND MARKET POSITION

Based on cost-efficient production facilities, SCA shall serve the European market as a competitive and service-oriented supplier of high-quality paper products.

SCA Graphic Paper has some of the most efficient production units for SC, LWC paper and newsprint in Europe. The limited synergy effects in coordinat-

ing diverse regions means that operations in the future should also be limited to Europe. Accordingly, the current range and geographical presence will basically remain the same.

SCA's fine paper operations are centrally situated in close proximity to large market areas in Western and Central Europe. With short transport distances from production units in Austria and Germany, and widespread merchant operations, the Group's fine paper business activities are concentrated on broad coverage in regional European markets.

SCA GRAPHIC PAPER

Publication paper

LWC paper

The new LWC machine at the paper mill in Ortvisken, Sweden, means that SCA now offers a broader range of coated magazine paper.

SC paper

At the beginning of 1997, a program to increase the quality of paper products from the Laakirchen mill in Austria was

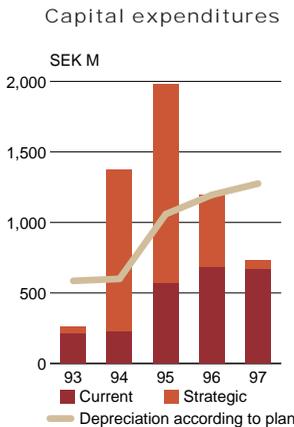
completed. The program included rebuilding the mill's largest machine for production of uncoated magazine paper. Production has been satisfactory since completion of the program. A new grade of high-brightness SC paper was introduced on the market in 1997.

Newsprint

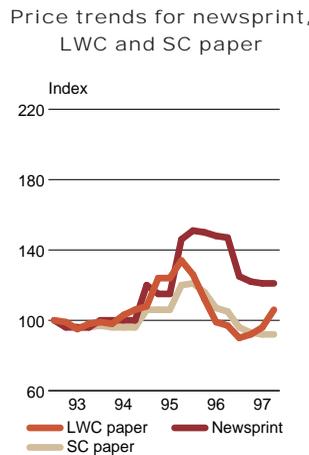
The newsprint plant at Aylesford in the U.K., where all production is based on recovered paper, is now operating at full capacity with satisfactory paper quality and production. Since 1995 deliveries of newsprint to markets in Europe have gradually been transferred from Ortvisken to Aylesford, resulting in much shorter transport distances.

Pulp

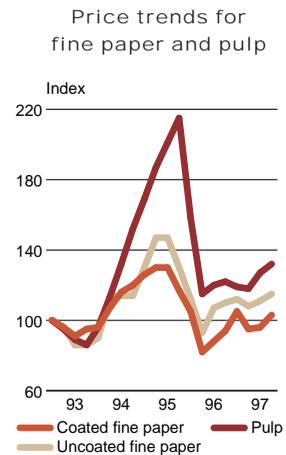
A new material with very high absorption capabilities was developed in cooperation with SCA's hygiene operations. Called Efficapt, the material is used in feminine hygiene products. It consists of high-temperature, chemi-mechanical pulp formed and dried with a patented method.



Capital expenditures within Graphic Paper continued to decline.



Newsprint prices were stable in 1997. Increased demand resulted in higher prices for LWC.



Prices for fine paper rose during the summer and latter part of the year. Pulp prices rose at a steady rate during 1997, with a slight downward trend toward year-end.

The continued quality development of totally chlorine-free kraft pulp has proceeded as planned, and product quality is now in a class with the former pulp grades bleached with chlorine dioxide.

A breakdown occurred at the Östrand pulp mill in Sweden in February, when a great horned owl collided with a high-voltage cable, resulting in a power outage in a large part of the Sundsvall region. The owl survived. The breakdown required soda boiler repairs and inspection, which halted production for more than three weeks. Operations have since been restored at full capacity utilization. Measures have been implemented to prevent similar damage from future power outages.

SCA FINE PAPER

Fine paper

The comprehensive program of efficiency enhancement and improvement measures started in 1996 was basically completed during the past year. As originally planned, the changes increased the annual earnings improvement by slightly more than DEM 80 M and is expected to amount to DEM 100 M during 1998 when the program is fully completed. Measures included improvements in product quality that have led to increased sales in local European markets.

Productivity was increased in parallel with changes in the product mix to include a large percentage of paper produced in sheets. One of two coating machines and an older paper machine were shut down at the Hallein paper mill in Austria. Cost savings were generated in all areas of operation.

In Stockstadt, Germany, a new research unit was established for product development focused on fine papers.

Fine paper for commercial printing

Sales of coated and uncoated paper in sheets, which comprises the bulk of SCA Fine Paper's overall operations, increased 20–25%.

Office papers

A new range of products was introduced during the year for the highest quality segment, including a new paper grade for color copying.

Merchant operations

ECCO Paper Trade Group, SCA's wholesale business operations, is the fifth largest paper merchant in Europe. With annual sales of SEK 4,862 M, ECCO sells and markets fine papers and special paper grades in all parts of Europe. SCA's fine paper operations is ECCO's largest supplier.

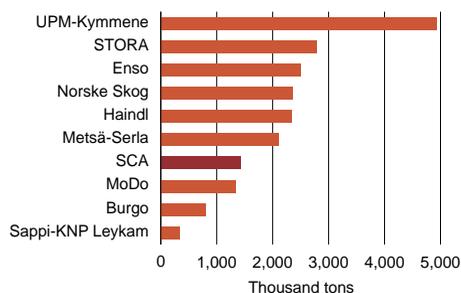
ECCO has strong market positions in Great Britain, Belgium, the Netherlands and Austria. To solidify its position in Great Britain, the company invested in a new distribution center.

In Central Europe, ECCO has been represented for several years in Slovenia and Poland, where it commands leadership positions. In 1997, strong expansion continued in other parts of Central Europe with the establishment of new merchant operations in Hungary, the Czech Republic, Slovakia, Croatia and Yugoslavia.



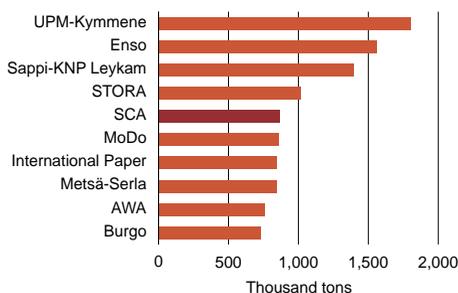
Coated fine papers are used for books, magazines and other publications which require high print quality to achieve good image display. The book "Sahara" was printed on SCA's EURO ART matt chlorine-free fine paper.

Publication papers
Competitors – Europe



SCA is a full-range supplier of publication papers on the European market.

Fine paper
Competitors – Europe



SCA has strengthened its market positions in Europe.

Forest and Timber

HIGHER PROFITABILITY

Higher average prices and continued efficiency enhancement measures contributed to higher earnings in 1997. The focus on higher timber refinement, "Developed Timber," continues.

Forest and Timber manages and develops the Group's forest resources. SCA also conducts comprehensive sawmill operations and supplies SCA Group plants in Sweden with fresh wood fiber for production of paper, packaging and hygiene products. Production by the sawmills is mainly based on timber from SCA's own forests. About 50% of total pulpwood and sawmill chip requirements are purchased on the open market.

The business area's strong improvement in earnings, compared with the preceding year, was attributable to higher prices for sawn timber products. Higher volumes and lower operating costs in forestry operations offset declining prices for pulpwood and chips. Operating cash flow totaled SEK 791 M.

MARKET

Sawn timber

Strong demand, increased deliveries and higher prices characterized the market for sawn timber products during the first half of 1997. Prices fell later in the year due to excess supply and weaker trends in Europe and Japan.

Saw logs and pulpwood

Strong conditions for sawmill operations generated favorable demand and rising prices for saw logs. Prices rose 8% compared with 1996.

Market supplies of saw logs and pulpwood were limited during 1997, consisting primarily of saw log consignments.

SCA'S STRATEGY AND MARKET POSITION

Market positions of sawmill operations will be strengthened by meeting customer requirements for sawn timber products refined and adapted to the specific needs of end-users in a concept called Developed Timber. Forest and Timber produces about 750,000 cubic meters of sawn timber for applications in the joinery, furniture and construc-

tion markets. Increased sales and higher profitability will be achieved through further product refinement and focus on selected customer segments.

An evaluation of SCA's sawmills was conducted in 1997 to establish plans to ensure effective production of Developed Timber and other products. Improvements in productivity were implemented at the Tunadal sawmill in Sweden.

Continuous rationalization programs in the forest industry during recent years have contributed to higher production efficiency. A sharp increase has been noted in annual production statistics of harvesting machinery over the past five years. Harvesting costs incurred during 1997 were equal to the level of nominal harvesting costs in 1982. Improved logistics, from forest to end-consumer, has reduced SCA's inventory requirements by 50% and contributed to improved wood quality. Based on gains from these and other efficiency enhancements, cash flow and earnings increased.

Norrbränslen, SCA's separate profit center for bioenergy, and Luleå Energi AB, an independent power company, initiated cooperation in a new plant for production of fuel pellets. The cooperation has strengthened Norrbränslen's position as one of Sweden's largest suppliers of energy based on biofuels.

Key ratios	1997	Group share %	1996
Net sales (SEK M)	4,158	7	3,948
of which, intra-Group	1,662		1,730
Operating profit (SEK M)	812	15	607
of which, capital gains on sales of forest land	7		31
Operating margin (%)	20		15
Operating cash flow (SEK M) ¹	791	12	625
Capital employed, excl. goodwill (SEK M)	4,877	11	5,010
Return (%)	17		12
Capital expenditures (SEK M)			
– strategic	–		–
– current	118	5	133
Average no. of employees	1,221	4	1,283

¹ Comparison figures changed to reflect reclassifications.

Production capacities shown on page 62.

Sawn timber	1997	1996	Change %
Produced volume, m ³	750,300	684,700	10
Deliveries, m ³	704,300	686,200	3

Forest value

(2.3 million hectares, of which 1.8 million hectares are productive forest land)

	1997	1996
Book value (SEK M)	4,570	4,187
Forest land tax assessment value (SEK M)	10,209	9,588
Estimated market value after tax (SEK M)*	15,100	13,500
after tax, per hectare (SEK)	8,600	7,600

* This value is calculated on the basis of average earnings for forest operations (excl. capital gains) in the period 1994–1997 and an assessment for 1998, capitalized at a real rate of interest of 4%. See note 24, page 48.

Wood consumption, million m ³ fub	1997	1996
SCA's Swedish forest products mills	5.83	5.53

Fellings, million m ³ fub	1997	1996
On own forest land	3.78	3.65
As a % of wood consumption	65	66

BUSINESS UNITS

Forest

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

Sales: SEK 3,647 M (3,546), of which intra-Group SEK 870 M (774).

Employees: 460 at 31 December 1997.

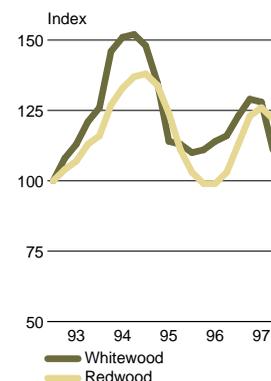
Timber

Sawmills at Tunadal (Sundsvall), Lugnvik (Kramfors), Holmsund (Umeå) and Munksund (Piteå). Marketing companies in the Netherlands, Great Britain and Sweden as well as a partly owned market company in France.

Sales: SEK 1,583 M (1,415), of which intra-Group SEK 202 M (243).

Employees: 597 at 31 December 1997.

Price trend for sawn whitewood (spruce) and redwood (pine)



After a sharp price gain during the first half of 1997, prices fell at the end of the year.

Raw Materials and Logistics

JOINT PROCUREMENT STRATEGY

Internal network coordinates SCA Group procurements and logistics.

Raw Materials and Logistics utilizes and develops opportunities for synergies between the Group's strategic business areas, Hygiene Products, Packaging and Graphic Paper. An internal network links the three business areas and coordinates support operations conducted as projects that offer strong synergy effects in the procurements of energy, raw materials and transport services. Through this specialized and systematic cooperation effort, the exchange of information between business areas is improved while overall knowledge about SCA Group raw materials increases. In addition to reduced costs, cooperation between SCA's business areas also generates favorable environmental effects in the form of coordinated transports which reduces the total number of shipments.

SCA has formulated a strategy for Group relations with major suppliers. Central elements of the strategy include development of close cooperation or partnerships with selected suppliers. By working with a limited number of suppliers, SCA will develop and improve products and services purchased by the Group.

Raw materials

SCA's annual purchases of pulp, recycled paper, chemicals and other materials are valued at approximately SEK 15 billion. SCA is one of Europe's largest consumers of recycled fiber and also uses a large proportion of fresh wood fiber in its production. It is also the largest player in the European market for recycled paper. In addition, SCA's net purchases of pulp on the open market are in the range of 600,000 tons annually.

SCA Recycling supplies the Group with recycled paper via wholly owned collection operations and direct purchases. The recycling company is represented in eight European countries, and the total amount of paper for recycling handled in 1997 was 2.8 million tons.

Energy

Like other pulp and paper companies, SCA purchases and consumes large

amounts of energy every year (see Environmental management, page 28).

In 1997, SCA renegotiated all of its electrical power agreements in Sweden, seizing opportunities to benefit from the Nordic region's deregulated electricity market. Efforts within SCA are aimed at achieving comparable advantages within the entire European electricity market. SCA uses co-generation power and other techniques to produce energy generated in-house to meet more than 50% of its total energy requirements.

Transports

SCA's land and sea-freight systems transport 15 million tons of products annually. SCA Transforest is responsible for SCA shipments between Sweden, the Continent and U.K., with a new sea-freight system for SCA Transforest's own terminals in Europe. SCA Transforest is also responsible for the Group's continued road transportation services in Europe. SCA Transport UK coordinates and procures SCA's road transport services in Great Britain, utilizing the company's own modern fleet of trucks and independent transport services.

Coordination of SCA's overall transport requirements provides more efficient utilization of all transport services between Group installations in Europe and individual customers.

BUSINESS UNITS

SCA Recycling

Sales: SEK 1,250 M (1,046), of which intra-Group SEK 822 M (588).

Employees: 644 at 31 December 1997.

SCA Transforest

Sales: SEK 1,206 M (998)

Employees: 86 at 31 December 1997.

SCA Transport UK

Sales: SEK 311 M (241)

Employees: 255 at 31 December 1997.



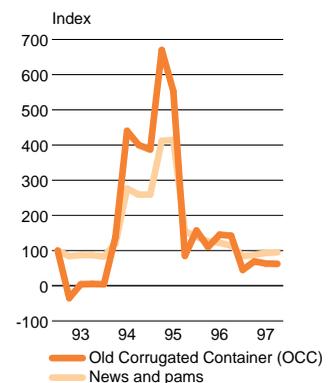
SCA's degree of self-sufficiency 1997

Total wood consumption	Felling own forest	Degree of self-sufficiency
8.3 million m ³	3.8 m ³	46%
Of which, Sweden ¹⁾ : 5.8 million m ³	3.8 m ³	65%
Total recycled fiber consumption	Own collection	Degree of self-sufficiency
2.8 million tons ²⁾	2.3 million tons ²⁾	82% ²⁾
Total pulp consumption	Own production	Degree of self-sufficiency
1.3 million tons	0.7 million tons	54%

1) Net consumption, less own sawmill chips.

2) Incl. Aylesford.

Recovered paper price trend



After a price hike at the beginning of 1997, prices stabilized.

Research and development

SOPHISTICATED TECHNOLOGY IN CUSTOMER SERVICE

Research and development concentrated on customer demands for quality and customized solutions were the focal points of the R&D work in 1997.

SCA has a solid and highly functional system for product and process development. Cornerstones for effective research within the framework of the Group's system are based on the following:

- A suitably dimensioned organization with access to comprehensive skills and expertise.
- A system to accommodate rapid development work from original concept to finished products.
- An R&D organization thoroughly familiar with customer problems.

SCA's present R&D organization meets all the requirements outlined above. Skills and expertise are available to solve product-related problems and build full-scale technical installations or prototypes used to test new technologies.

Some customer problems call for certain skills required to analyze various methods using sophisticated scientific equipment. Examples are computer tomography, a method used to analyze logs for cutting, and magnetic cameras that monitor the flow of liquids in a diaper.

The quality of fiber-based materials is often determined by their consistency, a factor that complicates analyses of the materials. Large numbers of analyses are often required, therefore, to establish variations in material properties. Applications of new information technologies are valuable tools for this purpose. Modern image analyses combined with high-resolution microscopy have made it possible to discover inconsistencies and formations of patterns in materials that may indicate shortcomings in the production process.

Today's modern laboratories consist primarily of computers used in tandem with various analytical sensors to identify problems and correct eventual faults that may occur during production.

Effective product development is contingent upon a combination of subjective experiences and measurable quantities. Computers and other technical equipment are not always adequate for determining characterizations of softness and smoothness. Test panels are still used for such purposes. The reactions of test personnel in connection with a product's quality and physical properties are important elements in development work.

The subjective impression created by a product is often a crucial factor in the consumer's choice process. The importance of a softer hygienic paper, a better print surface and attractive patterns is equal to such objective measurable properties as absorption and strength.

Large-scale tests are required in the final phase of all R&D projects. Group investments in new technology during 1997 resulted in a new facility in Italy (Lucca) for deinking of office paper.

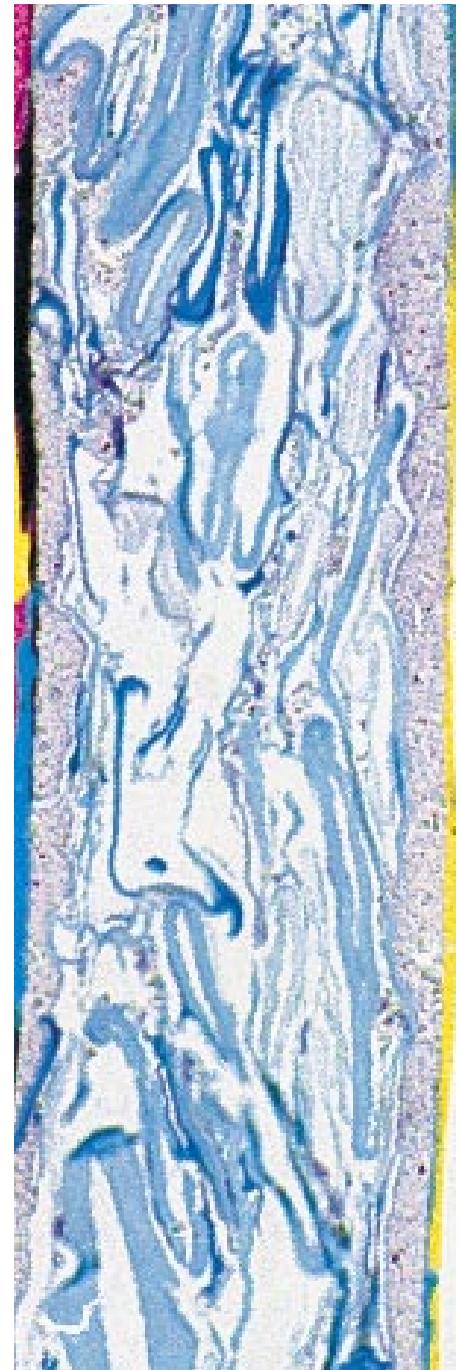
Products developed in-house by SCA gained market success during the past year. Libresse, with the new Efficapt absorption material, is one of the most prominent examples.

SCA patents

Strong patent protection is essential in securing the technological edge created by development work. SCA submits a large number of patent applications every year.

Year	1993	1994	1995	1996	1997
Number of patent applications	55	85	67	66	75

The SCA Group has approximately 1,500 individual patents valid in more than 30 countries, corresponding to about 350 inventions and innovations.



Cross-section of a 0.06-mm thick LWC paper. The photograph was taken using an optical microscope and illustrates the paper's complexity. The different colors show the distribution of mechanical (dark blue) and chemical pulp fibers (light blue), the coating layer (light red) and printing surface (cyan, magenta, yellow and black). Among other applications, the method is used to determine the strength and surface properties of the paper.

Photo: SCA Research

Environmental management

FOCUS ON ENVIRONMENTAL WORK

SCA's goal-oriented environmental commitment should permeate throughout all sections of the company to develop its long-term profitability. During the past year, a primary objective was to clarify SCA's environmental work based on the closed-loop philosophy.

SCA continues to instill a holistic approach to the environment in personnel at all levels of management. Individual employees should feel a sense of responsibility to detect and correct situations in which environmental impact can be reduced and environmental risks can be eliminated. SCA has chosen to focus on increased quality in the Group's own environmental work rather than to be controlled by environmental argumentation. SCA considers a product's environmental impact an important quality factor and assigns the customer demands in this area a paramount importance.

SCA makes substantial investments every year to improve the environmental performance and increase energy consumption efficiency. The Group has invested SEK 2,300 M over the past four years, all of which was related directly or indirectly to reducing the environmental impact. Examples, which are partly addressed to environmental improvements, include SEK 400 M invested in a new bleach plant at Östrand, Sweden, and SEK 153 M in a gas-fired power station at Ortmann, Germany.

Emissions from SCA's production plants are generally lower than average for comparable production plants in Europe. At some mills changes in concessions will require new investments to reduce emission levels of organic materials, COD (Chemical Oxygen Demand). The accompanying table shows total SCA discharges to air and water and in the form of solid waste.

SCA products

The main ingredients in SCA products are renewable materials, with only a minor amount of oil-based and inorganic materials. Renewable materials consist primarily of wood, wood fiber and recyclable fiber, comprising 93% of SCA product contents. SCA Graphic Paper and SCA Fine Paper use a small percentage of inorganic materials in the form of clay and marble used as filler and coating pigments to meet customer demands on high paper product quality. Oil-based materials are used mainly in high-absorption fluff products to enhance quality and functionality. The use of such materials reduces product weight and volume, thereby facilitating smaller packaging sizes and more efficient transports, all of which contributes to lower environmental impact per product unit.

Forest and wood fiber

SCA owns 2.3 million hectares of forest land, of which 1.8 million hectares are productive forests. The forests comprise the base of raw material supplies for SCA's forest industry operations in Sweden and guarantee a stable source of

Environmental policy and strategy

SCA's environmental policy is based on the following principal points:

- SCA assumes responsibility for the environment.
- All decisions must include environmental considerations.
- Environmental responsibility shall be a natural aspect of all operations.
- Information about SCA's environmental efforts shall be open and freely available.
- SCA's environmental initiatives shall be characterized by continuous review and improvements.

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

SCA's environmental endeavors in 1997 were based on the following strategic objectives:

- Cooperate with suppliers and customers to develop and market the unique closed-loop philosophy that characterizes SCA's business operations.
- Use SCA's strong environmental image to strengthen the company's long-term profitability.
- Clarify the company's environmental control efforts.

Following up objectives for 1997

Objective: To introduce RMS (SCA's system to monitor resource utilization) in all business areas, with special emphasis on transports.

Result: Today, all business areas participate in RMS, but a Group-wide reporting system still needs to be developed.

Objective: SCA shall pursue full implementation of eco-management in all areas of operation in which environmental effects may be anticipated.

Result: SCA now applies EMAS (the European Union's system for eco-management and environmental audits) at six plants. ISO 14001 is used as the environmental management system in forestry operations and at five Group production plants.

New objectives for 1998

- Develop RMS as a Group tool for environmental management.
- Increase knowledge of SCA's environmental efforts through improved communications with different interests in society.
- Upgrade and refine SCA's monitoring system for chemical control.

Some SCA units produce their own environmental reports.

Environmental impact from SCA plants	
1,000 tons	
Discharges to air	
NO _x as NO ₂	6.1
SO ₂	5.0
CO ₂ fossil	2,521
CO ₂ biogenous	2,836
Discharges to water	
COD	58.6
AOX	0.017
Landfill	
Solid waste	414

By-products of various forms of energy are not included. Road transportation excluded. The values show only the emissions at plants for SCA's main products.

wood raw materials with unique qualities. The degree of self-sufficiency is high compared with other Swedish forestry companies. Harvesting in the Group's own forests accounts for about two-thirds of wood consumption in SCA's Swedish business operations. The forests are situated in northern Sweden, with most woodlands concentrated in the north-central area of the country.

The sustainability of SCA's forest management operations is confirmed by the latest harvesting calculation (1997). Forest development shows a favorable trend, and total standing timber volume continues to increase. SCA's long-term approach also includes efforts to protect the biological diversity of its forests. The Nature Conservation Action Program adopted by the company in 1995 is intended to protect and preserve the natural qualities of Group forests in parallel with efficient forestry operations. Despite increased consideration for forest

areas with high nature values, annually felling is increasing by approximately 3 percent or slightly more than 100,000 m³ solid volume under bark.

In all final felling operations on SCA land a follow-up is made to secure the protection of the forest environment. Follow-up analyses are conducted by responsible harvesting groups through random checks. Results in 1997 are shown in the accompanying diagram.

Efforts to formulate ecological landscape plans have continued according to plan, with completion of the program scheduled toward late 1998 and early 1999. Based on the overall inventory of valuable natural environments, which was compiled during the period 1991–1995, initial findings are now being supplemented by detailed natural conservation inventories in areas of special environmental interest. The combined economic value of SCA's conservation measures in forestry operations is estimated at SEK 75–80 M annually.

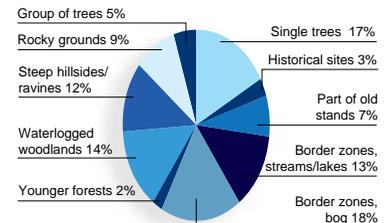
forestry operations is estimated at SEK 75–80 M annually.

Certification

Determined efforts in nature conservation and long-term forestry operations are central issues for the Group, underlining the importance of the environmental work. In 1997, SCA initiated the process of certifying its forestry operations in accordance with ISO 14001, an international standard for environmental management. Justification for certification under ISO 14001 is focused on strengthening environmental work efforts and creating a broad over-

Environmental consideration in final felling operations 1997

Total felling 3,485,663 m³sk
Total saved 144,368 m³sk (4%)



During 1997, 4.0% (4.3% in 1996) of the timber volume was left intact in felled areas for nature consideration. Random surveys showed that 88% of final felling operations during 1996 received an "approved" or "excellent" assessment. In 1995, this figure was 78%.

view of environmental issues in forestry operations. Some issues of particularly strong environmental interest include nature conservation, fossil fuels used in harvesting and transportation, utilization of lubricants and long-term forestry production.

Through its affiliation with the Swedish Forest Industries Association, SCA participated in efforts last year to develop national criteria for forest certification in the Swedish FSC (Forest Stewardship Council) work group. The agreement is unique being based on the establishment of a far-reaching common approach to defining responsible forestry operations. The work group includes representatives of the forestry industry, forest owner associations, environmental protection organizations, trade unions and the Sami people. SCA will implement the FSC criteria in forest management and monitor the compliance through ISO 14001.

Paper recycling and recycled fibers
SCA's environmental work is based largely on a closed-loop philosophy, with recycled fiber as a basic element. The company has many years of experience in recovering fiber from recycled

The protected Lady's Slipper orchid (*Cypripedium calceolus*) grows on SCA land.



paper and produces a range of high-quality, recycled fiber products. SCA applies the closed-loop approach by recovering its own products after consumption: old corrugated containers are used for the production of new packaging material and old newspapers and magazines are collected and recycled in newsprint and magazine paper; large amounts of paper recovered from offices and from printers are recycled for production in the hygiene sector.

Every year, SCA produces 1.6 million tons of liner based on recycled paper. SCA Graphic Paper uses recycled paper at the Laakirchen mill in Austria and at Aylesford Newsprint in Great Britain (SCA owns 50% of the British mill). SCA Hygiene Paper uses recycled paper to manufacture tissue at production plants in Sweden, the Netherlands, Germany, Austria and Great Britain.

Collection methods and systems vary considerably from one European country to another, for cultural reasons and due to legislative differences. The EU Directive on Packaging and Packaging Waste became effective in 1996, and will make the various systems more uniform. The directive has considerable strategic importance for SCA. Cooperation between consumers, government authorities and private industry will be extremely impor-

tant in establishing processing routines throughout the entire supply chain.

SCA has made determined efforts to increase the degree of recycling in poorly developed areas of the closed loop, with particular emphasis on office paper. A special installation has been built, accordingly, to remove toner (color pigments) from office paper used for color copying applications. The project is linked strongly with a special recycling system based on office paper collection.

Other important efforts have included the formulation of specifications for products used in direct contact with foods and human skin, napkins, for example, and tissues as well as incontinence products and baby diapers.

Energy and energy recovery

The ecocycle concept also characterizes SCA's energy utilization. All production based on wood and wood fiber yields waste and other by-products with biological origins, which can now be used for energy recovery.

As shown in the diagram below, the amount of energy consumed varies significantly among the different production processes. Energy consumption is high in mills whose production is based mainly on mechanical pulp. In mills whose production is based on chemical pulp, total

fuel consumption is high, but on the other hand it involves mostly biofuels.

Because of increasingly stringent regulations governing water discharges, and higher costs for waste disposal, it has become more economically sound today to burn process waste for energy recovery purposes. Biological materials, accordingly, reduce the need for fossil fuels and, in parallel, the number of transports to landfills, thereby also reducing emissions of carbon dioxide.

For the past several years, co-generation power capacity at SCA's pulp and paper mills has been increased steadily through unilateral efforts by the Group and cooperation with local power supply companies. Utilization of the basic heat factor in plants, accordingly, has been optimized in electrical power production. The capacity for electrical power production at some plants is so high that very little outside electrical power is needed and, in some cases, the Group supplies power to the national grid. Of total electrical power produced by SCA's co-generation plants, 500 GWh is delivered to external customers.

When new co-generation power plants are built, SCA works in cooperation with neighboring communities and industrial companies. The cooperation is intended to provide more effective

Consumption of recycled paper in SCA paper products

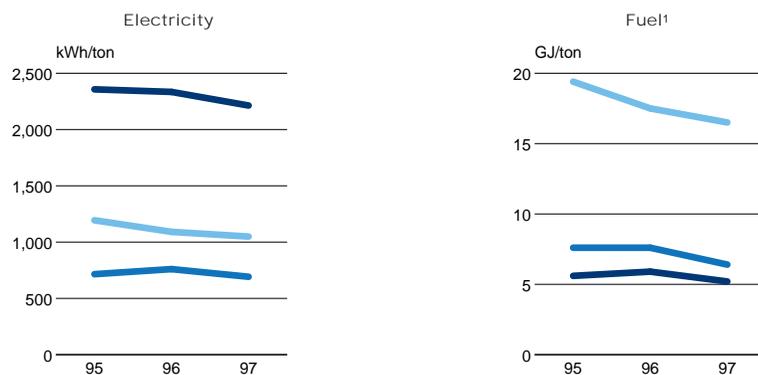
1,000 tons	Container board ¹	Printing papers ²	Hygiene products ³
Production	2,102	1,303	860
– of which recycled fibers	1,616	437	290
Rate of recovery, %	77	34	34

¹ Includes all paper mills of SCA Packaging.

² Includes the mills in Aylesford, Laakirchen and Ortvisken.

³ Includes all tissue mills of SCA Hygiene Products.

Mean value of electricity and fuel consumption in various production processes



Production process:

- Mechanical pulp (including the mills at Laakirchen and Ortvisken)
- Chemical pulp (including the mills at Mannheim, Stockstadt, Hallein, Östrand and Wifsta)
- Recovered fibers (including the mills at Edet, Tilburg, Ortmann, Kostheim, Prudhoe, Aylesford, Aschaffenburg, Widmer-Walzy, Witzenhausen, New Hythe, De Hoop and Lucca)

¹ Fuel for production of so called co-generated power not included.

utilization of the large amounts of waste heat not used by the factories, and which can be used most simply by municipal district heating networks to heat private households. Every year, SCA factories deliver approximately 20,000 cubic meters of oil-equivalent heat supplies to municipal district heating plants.

The balance of fuel supplies consists of 42% renewable fuels, and efficient co-generation power plants meet 41% of the Group's electrical power requirements. Fossil fuels are dominated by natural gas, accounting for 75% of fossil fuel requirements, which also offers environmental advantages over coal and oil. In addition, natural gas provides more effective co-generation power production.

Future costs for environmental damages

SCA has conducted an inventory of its large industrial operations to determine the need for land or water cleaning projects in areas where the company has dumped waste products in the past. The inventory has shown that, at the present time, there is no reason to calculate on anything more than limited future costs for so-called environmental liabilities. SCA also conducts comprehensive studies focused on the environmental impact related to acquired property, plant and equipment.

SCA's Environmental Council

SCA's Environmental Council is the core unit with full responsibility for coordination of all environmental work in the SCA Group. The council works under SCA's strategic council, a board comprising corporate management and the presidents of all SCA business groups. Every business group is represented in the Environmental Council, which meets quarterly. The executive vice president of SCA serves as Chairman of the council and is responsible for research and development within the Group.

The Environmental Council is a vital forum for discussions of environmental issues in the SCA Group, and its mission is to establish a functional environmental organization in all parts of the Group. SCA's Environmental Council has taken the initiative in several programs to guide SCA in questions concerning long-term environmental work and responsibility.

SCA's Environmental Council

Alf de Ruvo (Chairman)

Corporate Research and Technology

Patrik Isaksson (Convening Officer)

Corporate Research and Technology

Berit Gullbransson

SCA Hygiene Paper

Anders Hildeman

SCA Forest and Timber

Klaus Hoch

SCA Hygiene Paper

Björn Lyngfelt

SCA Graphic Paper

Elisabet Olofsson

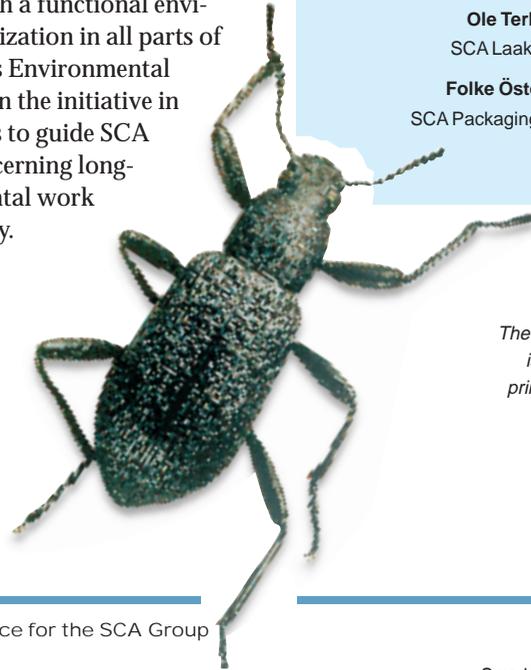
SCA Mölnlycke

Ole Terland

SCA Laakirchen

Folke Österberg

SCA Packaging Research



The Upis ceramboides beetle is a species depending on primeval-like forest habitats.

Energy balance for the SCA Group

Fuels (TJ)	Group				Sweden			
	1997	%	1996	1995	1997	%	1996	1995
Biofuels	29,593	42	28,370	27,633	20,024	84	17,832	19,493
Electric boilers	702	1	351	504	702	3	351	504
Fossil fuels	40,014	57	41,160	40,486	3,032	13	3,134	2,997
Total	70,309	100	69,881	68,623	23,758	100	21,317	22,994
– of which processes	56,462		57,439	57,028	21,990		19,747	21,322
– of which co-generation	13,847		12,442	11,595	1,768		1,570	1,672
Electricity (GWh)								
Co-generation	2,717	41	2,531	2,489	419	14	373	383
Internal hydro-power	41	1	40	44	0	–	0	0
External grid	3,766	58	3,796	3,852	2,633	86	2,566	2,536
Total	6,524	100	6,367	6,385	3,052	100	2,939	2,919

Human resources

AN ORGANIZATION IN TRANSITION

SCA's activities in human resources during 1997 were characterized by the Group's increasing internationalization, customer-orientation and work safety.

SCA's personnel policy

SCA's personnel policy is intended to develop and establish courses of action and methods which satisfy and support the operational demands placed on the knowledge, competence and behavior of employees.

Internationalization

SCA has expanded sharply during the past five years. Growing internationalization places increased demands on personnel skills and requires an alignment of the Group's organization which benefits coordination between employees in different countries. Major efforts are also required to establish common values among personnel.

Consequently, one of the aims underlying the integration of SCA Hygiene Paper and SCA Mölnlycke within the Hygiene Products business area is to create coordination across national borders. The employees are provided the potential inherent in a structured exchange of experience and the combined expertise in the organization is utilized optimally. The work to create common values includes a personnel development program for about 200 of the senior managers in the business area.

Moreover, SCA has established a number of new policies to facilitate mobility between SCA's operations in various countries. In line with this, SCA has assumed a more global perspective in its recruiting, among others, for the new markets in Asia where SCA is represented. Senior personnel also participate in development programs which are addressing the demands that establishment in these markets place on operations.

Customer orientation

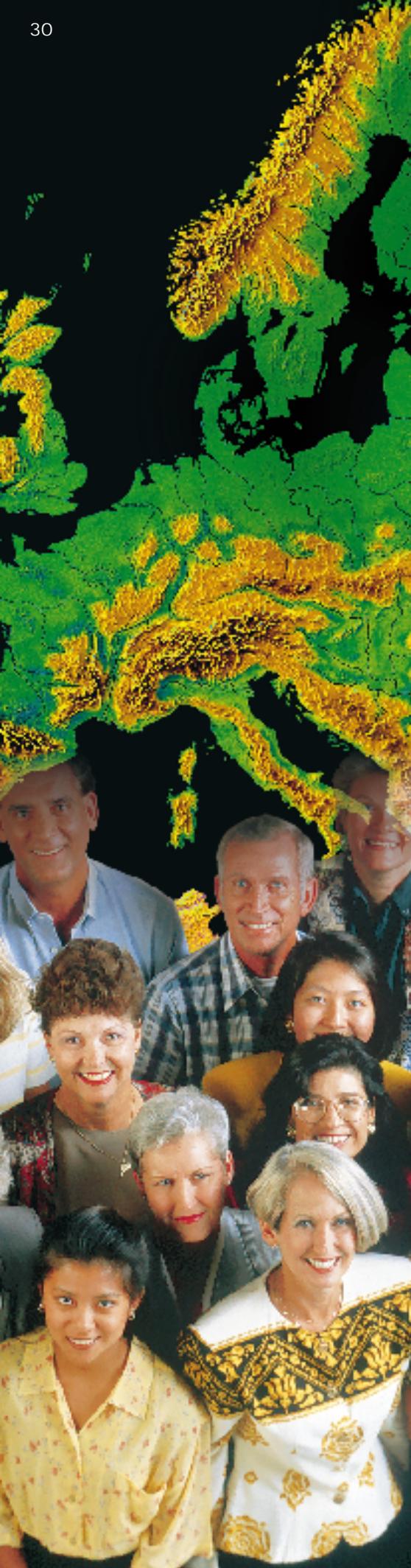
SCA's personnel activities are guided to a large extent by customer needs and demands on SCA. The aim is that each employee should have a personal re-

sponsibility in his/her work area and is therefore provided an opportunity to be able to better satisfy customer needs. This policy forms the foundation for SCA's recruiting and development programs. In addition, the Group's organization must facilitate decision-making close to the customer. The new organization within the Hygiene Products business area is a prime example of this approach. Another example is the process of change being carried out within Forest and Timber which resulted in an organization in which decisions are made closer to the daily operations. The goals for these measures have been higher productivity, enhanced product quality in accordance with customer needs and the creation of interesting work assignments for employees.

Increasing internationalization and customer orientation demands flexible work methods and working hours. With the aim of stimulating employee interest in SCA's development and to provide them an opportunity to participate in SCA's value growth, a proposal for an options convertible program will be presented to SCA's Annual General Meeting in March 1998. The program can also contribute to strengthening SCA's corporate culture and make it easier for more employees to become long-term owners in SCA.

Safety

SCA conducts an extensive program of activities to ensure that work sites are as safe as possible. This is an important management task in order to conduct efficient operations and to protect employees. Safety aspects are always considered in the development of new products, equipment and production process. Developing a local sense of responsibility in safety efforts is supported by providing statistics on the number of accidents at each workplace.



Financial review

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Board of Directors' report*

Changes in the SCA Group

It was decided during the year to establish a so-called control agreement between SCA and PWA, effective 1 January 1998. The control agreement makes it possible for SCA to implement desired structural changes and facilitate the continued integration between PWA and SCA. As a result, the possibilities to more rapidly release additional significant coordination effects, for example within the hygiene operations, are secured. The integration measures include establishing a joint management organization for SCA Hygiene Paper and SCA Mölnlycke which is based in Ismaning, outside Munich, Germany.

The SCA Skog AB and SCA Timber AB companies were merged with the parent company SCA Forest and Timber AB during 1997.

Capital expenditures

In addition to capital expenditures for current investments of SEK 2,207 M, SEK 983 M in strategic investments were made during the year. This amount includes investment in new diaper technology as well as investment in increased productivity through rationalization measures and new machines in the pack-

aging operations. In addition, forest land was acquired by the SCA Pension Foundation.

Acquisitions

During the latter part of 1997, SCA tendered a purchase offer to all of PWA's minority shareholders. The time-specified offer of DEM 335 per share expired on 17 December 1997. A separate offer approved by a General Meeting of Shareholders in PWA of DEM 281 per share remains outstanding, pending legal review of the underlying value. At 31 December 1997, SCA held nearly 94% of the shares in PWA. The acquisition cost incurred for the shares purchased during the autumn amounted to SEK 1,803 M. After year-end, additional shares in PWA were acquired, whereby SCA controls slightly more than 94% of the shares in PWA.

The Packaging business area acquired the Italian packaging group Cochis, which is included in the SCA Group for the full year. The acquisition is expected to result in integration gains of SEK 40–50 M annually. The purchase price was SEK 1,070 M on a debt-free basis.

Jointly with the U.S.-based Weyerhaeuser Company, Packaging signed a

cooperation agreement with a Chinese company. The agreement includes an investment in a new converting plant in Wuhan. The facility is scheduled to be completed in 1998.

Packaging acquired a 48% interest in the beginning of 1998 in the Austrian company Welpa, with an option to become majority owner at a later date. Welpa's sales in 1996 amounted to SEK 163 M. In addition, Packaging acquired a minority interest in the Spanish company Lantero's corrugated board operations, which had sales of SEK 1,700 M in 1996. The acquisition is being implemented in early 1998 through an issue of new shares. SCA's expenditure to attain 25% of the equity amounts to SEK 196 M. SCA has the opportunity to increase its share to 49%.

The Hygiene Products business area signed an agreement with a Taiwanese company to form a 50/50 joint-venture. The company will produce and market incontinence products in Taiwan and the Far East.

As of the autumn of 1997, Hygiene Products is conducting operations in Russia under its own management. The new company has 60 employees, with head office in Moscow.

* In addition to this page, the Board of Directors' Report includes the discussions and analyses accompanying the statement of earnings, balance sheets and cash flow statement (pages 35, 37 and 39).

In addition, Hygiene Products acquired 20% of the shares in the Colombian tissue company Productos Familia S.A. for USD 25 M, with an option on similar terms to increase the interest to 50%. Sales in 1996 amounted to USD 90 M. The purchase price was provided through a special new issue of shares. In January 1998, Hygiene Products acquired the Spanish tissue company Marpo, with annual sales of about SEK 550 M. The purchase price corresponds to EBIT multiple of about 6 in 1997.

Divestments

As part of streamlining the hygiene operations to fiber-based hygiene products, agreement was reached in autumn 1997 to divest the Clinical Products business unit for surgical and wound-care products. The purchase price, about SEK 1,500 M, will be received in 1998 and paid partly in cash and partly through the buyer transferring its operations in the adult incontinence product area. The transaction will result in a capital gain of approximately SEK 400 M, which is being reported in the first quarter of 1998 since the agreement was conditional upon the approval of competition authorities within the EU, which was re-

ceived after the close of the fiscal year.

During the latter part of 1997, SCA divested the paper mill in Redenfelden, the SCA Packaging Innwell GmbH converting plant and the collection company Chiemgau Recycling GmbH for about DEM 30 M. The transactions did not result in any capital gains in the Group.

During 1997, SCA divested its shares in AB Industrivärden, resulting in a capital gain of SEK 425 M.

Restructuring

Work with the integration of the Group's tissue and fluff operations has continued. The previous ongoing restructuring program within Mölnlycke has been aligned with the new situation prevailing after the merger of SCA Mölnlycke and SCA Hygiene Paper. The coordination effort involves several measures to secure competitiveness. An important measure is to concentrate production to fewer and larger so-called strategic mills. A decision was made on closing of the mill in Chester, Great Britain, in 1998 and phase-out of the converting operations in Nätraby beginning in the fourth quarter of 1999. In addition, a restructuring program is being implemented in Packaging's German units.

Other

In a financial transaction, SCA issued a five-year bond loan on the international capital market, featuring exchangeable bonds, in a nominal amount of DEM 200 M, which can be converted to shares repurchased in AB Industrivärden for this purpose.

In preparation for the transition to the euro, the Group's statement of earnings and balance sheets for 1996 and 1997 are being reported in SEK and translated to ECU, which as of 1999 will correspond to the euro. The year-end rate of 8.70 (8.53) was used in translation of the balance sheets, while the average rate for the year, 8.62 (8.40), was applied in the statements of earnings.

Dividend

A dividend of SEK 5.75 (5.25) per share to the shareholders is proposed, corresponding to a total of SEK 1,135 M. See also Proposed disposition of earnings, page 51.

Dividend growth during the most recent five-year period is approximately 13% annually, including the proposed dividend for 1997.

Statement of earnings

CONSOLIDATED

	1997		1996		
	SEK M	ECU M	SEK M	ECU M	
Net sales	58,595	6,794	55,405	6,596	
Change in inventories	334	39	35	4	
Work performed and capitalized	65	8	40	5	
Other operating revenues	430	50	688	82	
	59,424	6,891	56,168	6,687	
Operating expenses					
Raw materials and consumables	Note 1	-24,606	-2,853	-24,750	-2,946
Other external costs		-11,729	-1,360	-10,259	-1,221
Personnel costs		-12,371	-1,435	-11,932	-1,421
Depreciation of tangible and intangible assets	Note 2	-3,843	-446	-3,575	-426
Other operating expenses		-1,374	-159	-1,103	-132
Total operating expenses		-53,923	-6,253	-51,619	-6,146
Share in earnings of associated companies	Note 3	67	8	32	4
OPERATING PROFIT		5,568	646	4,581	545
Financial items					
Income from shares and participations	Note 4	70	8	70	8
Interest income and similar profit/loss items		210	24	249	30
Interest expense and similar profit/loss items		-1,391	-161	-1,327	-158
Total financial items		-1,111	-129	-1,008	-120
EARNINGS AFTER FINANCIAL ITEMS		4,457	517	3,573	425
Taxes on profit for the year	Note 5	-1,337	-155	-1,144	-136
Minority interest	Note 6	-361	-42	-312	-37
NET EARNINGS FOR THE YEAR		2,759	320	2,117	252

BY BUSINESS AREA

SEK M	Net sales		Earnings	
	1997	1996	1997	1996
Hygiene Products	26,086	24,131	2,596	2,323
- Fluff and clinical products	13,859	12,664	1,090	660
- Tissue	12,227	11,467	1,506	1,663
Packaging	14,282	13,697	1,196	939
- Corrugated board, incl. raw materials	11,164	10,419	987	830
- Liner products - external deliveries	3,118	3,278	209	109
Graphic Paper	16,562	15,872	884	510
- Wood-containing publication papers	6,390	6,190	458	990
- Fine papers, paper merchenting, market pulp	10,172	9,682	426	-480
Forest and Timber	4,158	3,948	812	607
Other operations	1,598	1,576	384	436
Divested units	-	1,061	-	54
Intra-Group deliveries	-4,091	-4,880	-	-
Goodwill amortization	-	-	-304	-288
TOTAL	58,595	55,405	5,568	4,581
Financial items			-1,111	-1,008
Earnings after financial items			4,457	3,573

DISCUSSION AND ANALYSIS, STATEMENT OF EARNINGS

- **Earnings after financial items amounted to SEK 4,457 M, an increase of 25% compared with the preceding year. Excluding nonrecurring income, which amounted to SEK 425 M (416), earnings after financial items improved 28%.**
- **Earnings per share amounted to SEK 13.98 (10.71), an improvement of 31%.**
- **All business areas posted higher operating profit: Hygiene Products +12%, Packaging +27%, Graphic Paper +73% and Forest and Timber +34%.**
- **Volume growth for the entire Group amounted to 8%.**

Net sales

The Group's net sales amounted to SEK 58,595 M (55,405), an increase compared with 1996 of 6%. This is attributable to the effects of a strong volume increase of 8%, more favorable currency rates of 3%, and lower average prices, which affected invoicing adversely by 5%. The value of deliveries to customers outside Sweden amounted to 90% (91) of net sales.

Operating profit

Group operating profit amounted to SEK 5,568 M (4,581). All business areas posted higher operating profit during 1997: Hygiene Products +12%, Packaging +27%, Graphic Paper +73% and Forest and Timber +34%.

The improvement in operating profit within Hygiene Products is attributable mainly to strong development in incontinence products and divestment of the diaper operations in France at the end of 1996. Within Packaging, the effects of volume increases, mainly through company acquisitions and productivity improvements, favorably offset the lower prices in corrugated board packaging and external liner deliveries. The earnings decline for wood-containing publication papers was due to sharp price reductions, about 15%, of which 50% was offset by reductions in raw material prices and production increases. The sharp earnings improvement for fine papers and pulp is due partly to price increases and partly to the previously announced efficiency enhancement program. Both the forestry and sawmill operations posted higher earnings compared with 1996. In forestry, reduced prices were offset by increased volumes and lower costs. The reason for the improvement in the sawmill operations is sharply increased prices for sawn timber. However, prices were under pressure in the second half of 1997.

The sub-item Other includes capital gains of SEK 425 M on the divestment of shares in AB Industrivärden. Figures in 1996 included capital gains from divested operations of SEK 416 M.

Earnings after financial items

Earnings after financial items was SEK 4,457 M (3,573), up 25% compared with the preceding year. Excluding non-recurring income items amounting to SEK 425 M (416), earnings improved by 28%. The effects of foreign exchange movements were negligible.

The result of financial items was an expense of SEK 1,111 M (expense: 1,008). The increase is due to higher average net debt and marginally higher interest rates.

Net earnings and income taxes

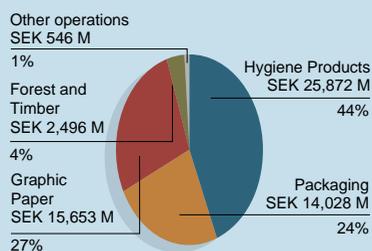
Net earnings amounted to SEK 2,759 M (2,117). Minority interest amounted to SEK 361 M (312). Total income taxes amounted to SEK 1,337 M (1,144), of which taxes payable were SEK 688 M (476), and the change in deferred tax liability was SEK 619 M (659) and taxes attributable to share in earnings of associated companies were SEK 30 M (9). The tax rate was 30% (32).

Key ratios

Return on capital employed before taxes was after taxes 12% (11). Return on shareholders' equity after taxes was 12% (10). Earnings per share after full tax and full dilution amounted to SEK 13.98 (10.71). The interest coverage ratio was 5.0 (4.5).

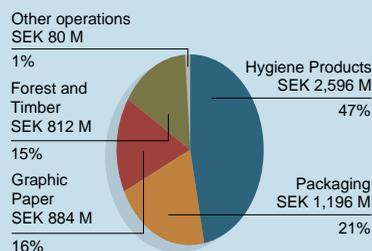
Definition of key ratios, see page 55.

Net sales
by business area 1997
(excluding intra-Group deliveries)



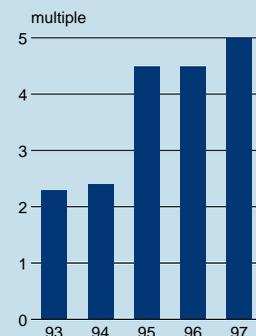
Combined, the three strategic business areas, Hygiene Products, Packaging and Graphic Paper, accounted for 95% of Group sales.

Operating profit
by business area 1997



The Hygiene Products business area accounts for nearly half of the Group's operating profit.

Interest coverage rate



Interest coverage rate rose in 1997 despite company acquisitions.

Balance sheet

CONSOLIDATED

		31 Dec. 1997		31 Dec. 1996	
		SEK M	ECU M	SEK M	ECU M
ASSETS					
FIXED ASSETS					
Intangible assets					
Goodwill	Note 7	5,083	584	4,678	548
Patents, trademarks and similar rights		1,095	126	1,210	142
		6,178	710	5,888	690
Tangible assets					
Buildings and land	Note 8	17,693	2,034	17,625	2,066
Machinery and equipment		24,916	2,864	23,994	2,813
Construction in progress		569	65	306	36
		43,178	4,963	41,925	4,915
Financial assets					
Shares and participations	Note 9				
Other long-term receivables	Note 10	870	100	604	71
Capital investment shares		125	14	182	21
Interest-bearing receivables	Note 11	1,112	128	866	102
		258	29	206	24
		2,365	271	1,858	218
Total fixed assets		51,721	5,944	49,671	5,823
CURRENT ASSETS					
Inventories	Note 12	5,780	664	5,570	653
Accounts receivable		9,006	1,035	7,928	929
Other current receivables	Note 13	1,940	223	1,963	230
Short-term investments		676	78	1,469	172
Cash and bank balances		1,582	182	1,393	163
Total current assets		18,984	2,182	18,323	2,147
TOTAL ASSETS		70,705	8,126	67,994	7,970
EQUITY, PROVISIONS AND LIABILITIES					
SHAREHOLDERS' EQUITY					
Non distributable equity					
Share capital	Note 15	1,974	227	1,974	231
Restricted reserves		11,426	1,313	11,050	1,296
		13,400	1,540	13,024	1,527
Distributable equity					
Retained earnings		8,494	973	7,765	910
Net earnings for the year		2,759	320	2,117	248
		11,253	1,293	9,882	1,158
Total shareholders' equity		24,653	2,833	22,906	2,685
MINORITY INTEREST		1,496	172	3,331	390
PROVISIONS					
Provisions for pensions	Note 16	3,237	372	3,153	370
Provisions for taxes	Note 17	5,450	626	4,710	552
Other provisions	Note 18	1,765	203	1,578	185
Total provisions		10,452	1,201	9,441	1,107
LIABILITIES					
Interest-bearing debt	Note 19	22,647	2,603	21,396	2,508
Accounts payable		5,884	676	5,282	619
Other interest-free liabilities	Note 20	5,573	641	5,638	661
Total liabilities		34,104	3,920	32,316	3,788
TOTAL EQUITY, PROVISIONS AND LIABILITIES		70,705	8,126	67,994	7,970
CONTINGENT LIABILITIES	Note 21	484		772	
ASSETS PLEDGED	Note 22	1,291		1,902	

DISCUSSION AND ANALYSIS, BALANCE SHEET

Assets and capital employed

In 1997, the Group's assets increased by about SEK 2,700 M. The increase is due largely to the acquisition of Cochis and that operations tied-up more operating capital.

Investments in property and plant amounted to SEK 3,190 M (3,615). These included SEK 983 M (1,126) in investments of strategic nature, that is, major expansions and transition to new technologies. The balance, SEK 2,207 M (2,489) is attributable to current capital expenditures.

The value in SEK of the Group's foreign net assets amounted at year-end to SEK 22,439 M. Capital employed increased by SEK 1,468 M to SEK 45,167 M. The distribution by currency is shown below.

Capital employed by currency

SEK M	31 Dec. 1997	%	31 Dec. 1996	%
SEK	13,578	30	13,353	31
GBP	7,661	17	6,817	16
DEM	7,312	16	8,044	18
NLG	4,306	10	4,637	11
ATS	4,112	9	4,312	10
ITL	2,259	5	1,540	3
FRF	1,900	4	1,614	4
BEF	1,191	3	990	2
USD	856	2	826	2
Others	1,992	4	1,566	3
Total	45,167	100	43,699	100

Financing

SCA's gross debt amounted to SEK 22,647 M (21,396) at 31 December 1997. The average term of SCA's gross debt was 3.7 years. During 1997, a five-year bond loan in the nominal amount of DEM 200 M (SEK 880 M) was issued which is linked to the Group's holding of shares in AB Industrivärden by a so-called "exchangeable" design.

Net debt amounted to SEK 19,018 M at 31 December 1997, up SEK 1,556 M. Minority interests amounted at 31 December 1997 to SEK 1,496 M (3,331). The decline is attributable to the further acquisition of shares in PWA.

Shareholders' equity

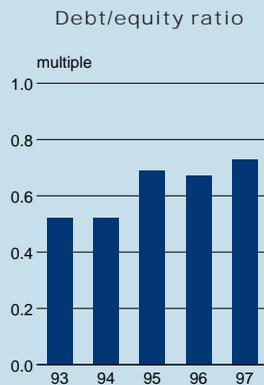
Shareholders' equity increased during 1997 by SEK 1,747 M, totaling SEK 24,653 M at 31 December 1997. The increase was attributable to the following factors:

SEK M	
Net earnings for the year	2,759
Dividend	-1,092
Other changes	80
Total	1,747

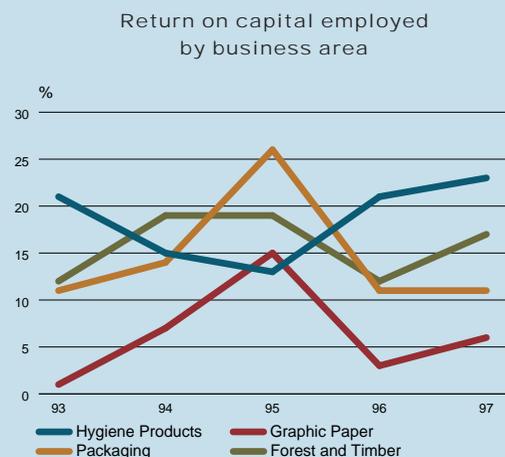
Other changes are due primarily to translation effect of foreign subsidiaries, which were not fully currency hedged during the entire year.

Key ratios

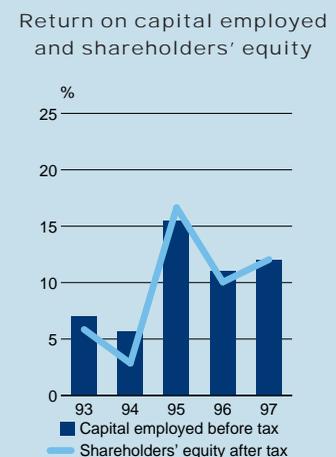
Net worth per share amounted to SEK 181 (165). Debt/equity multiple was 0.73 (0.67). The debt/equity multiple included surplus values was 0.51 (0.49).



Debt/equity ratio rose to 0.73 due to acquisition of minority in PWA.



All business areas posted an increased return on capital employed, except Packaging.



Return on capital employed before tax and on shareholders' equity after tax rose to 12%.

Cash flow statement

CONSOLIDATED

SEK M	1997	1996
OPERATIONS		
Net sales	58,595	55,405
Operating expenses	-49,251	-47,281
Operating surplus	9,344	8,124
Changes in		
– Current receivables	-535	206
– Inventories	-125	749
– Operating liabilities	127	-287
Changes in working capital	-533	668
Current capital expenditures	-2,207	-2,489
Change in pension provisions	85	139
Restructuring expenses	-123	-249
Other operating cash flow changes	-53	-364
OPERATING CASH FLOW¹	6,513	5,829
Financial items	-1,111	-1,008
Income taxes paid	-731	-659
Other	179	48
CASH FLOW FROM CURRENT OPERATIONS	4,850	4,210
STRATEGIC CAPITAL EXPENDITURES AND DIVESTMENTS		
Plants	-983	-1,126
Company acquisitions	-3,247	-1,558
Total strategic capital expenditures	-4,230	-2,684
Divestments	46	480
Cash flow from strategic capital expenditures and divestments	-4,184	-2,204
CASH FLOW BEFORE DIVIDEND	666	2,006
Dividend to shareholders	-1,092	-994
NET CASH FLOW	-426	1,012

NET DEBT

SEK M	1997	1996	1995	1994	1993
Net debt, 1 January	-17,462	-17,566	-10,573	-10,814	-10,799
Net cash flow	-426	1,012	-4,400	-155	3,209
New issue of shares through bond conversions	-	-	342	-	28
Net debt in acquired and divested operations	-184	-925	-3,763	80	-
Currency effects, etc.	-946	17	828	316	-3,252
Net debt, 31 December	-19,018	-17,462	-17,566	-10,573	-10,814

¹ Comparison figures adjusted to reflect reclassifications.

DISCUSSION AND ANALYSIS, CASH FLOW STATEMENT

- **Free cash flow amounted to SEK 5,628 M (4,885), an improvement of 15%. Cash flow from current operations was SEK 4,850 M (4,210).**

Operating cash flow

Operating cash flow amounted to SEK 6,513 M (5,829). The increase in operating surplus and lower current capital expenditures more than offset a higher working capital.

Cash flow from current operations

Cash flow from current operations amounted to SEK 4,850 M (4,210), corresponding to SEK 24.54 per share (21.30).

Cash flow from strategic capital expenditures and divestments

Investments in plants of a strategic nature amounted in 1997 to SEK 983 M (1,126). This amount includes investment in the new diaper technology within the Hygiene Products business area as well as the focus on increased productiv-

ity through rationalization and new machines within the Packaging business area.

Company acquisitions totaled SEK 3,247 M (1,558). In autumn 1997, SCA acquired about 19% of the minority interest in PWA for SEK 1,803 M. Within Packaging, the Italian packaging group Cochis was acquired. Within Hygiene Products, 20% of the Colombian tissue company Productos Familia S.A. was acquired.

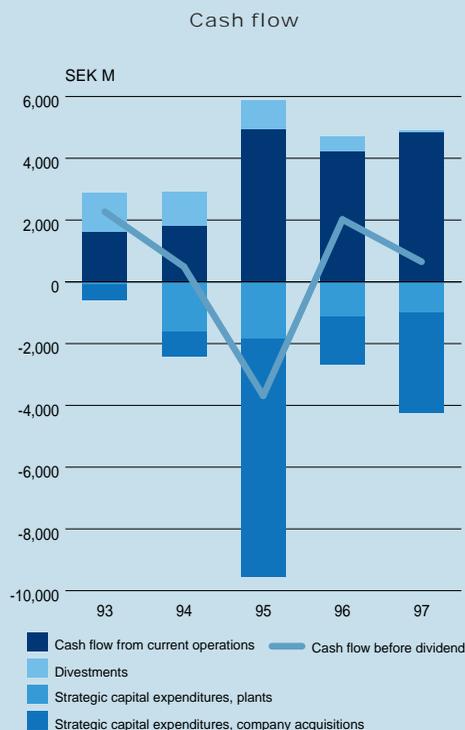
Net debt

Net debt rose 1997, amounting to SEK 19,018 M at year-end. The increase is the net of the positive cash flow from current operations of SEK 4,850 M, increase in debt through strategic capital expenditures and dividend to shareholders, totaling SEK 5,276 M, and the negative effects of exchange rate movements, SEK 946 M, and debt assumed in the acquisition of companies, SEK 184 M.

Analysis of value development

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

¹ Tax attributable to operating profit.



Cash flow before dividend during 1997 fell due to strategic investments in company acquisitions.



Capital expenditures in plants declined during 1997.

Parent Company

STATEMENT OF EARNINGS

SEK M	1997	1996
Revenues	76	30
Operating expenses		
Other external costs	-90	-89
Personnel costs	-120	-84
Depreciation of tangible assets	Note 2 -34	-33
Other operating expenses, net	38	-84
Total operating expenses	-206	-290
OPERATING PROFIT	-130	-260
Financial items	Note 4	
Income from shares and participations, Group companies	1,522	1,491
Income from shares and participations, other companies	1	59
Interest income and similar profit/loss items	231	168
Interest expense and similar profit/loss items	-490	-552
Total financial items	1,264	1,166
EARNINGS AFTER FINANCIAL ITEMS	1,134	906
Group contribution	95	-81
Appropriations	163	163
Taxes on profit for the year	1	-
NET EARNINGS FOR THE YEAR	1,393	988

CASH FLOW STATEMENT

SEK M	1997	1996
Operating surplus	-96	-227
Other cash flow from operations	2,256	1,230
Company acquisitions and divestments	-1,230	-930
Group contribution	-81	268
Dividend to shareholders	-1,036	-938
Net cash flow	-187	-597

BALANCE SHEET

SEK M	31 Dec. 1997	31 Dec. 1996
ASSETS		
FIXED ASSETS		
Tangible assets	Note 8	
Buildings and land	3,870	3,858
Machinery and equipment	2	3
	3,872	3,861
Financial assets	Note 9	
Shares and participations	Note 10 21,805	19,958
Capital investment shares	Note 11 -	617
Interest-bearing receivables	10	9
	21,815	20,584
Total fixed assets	25,687	24,445
CURRENT ASSETS		
Receivables from subsidiaries	2,021	2,149
Other current receivables	Note 13 31	66
Short-term investments	1	81
Cash and bank balances	12	12
Total current assets	2,065	2,308
TOTAL ASSETS	27,752	26,753

SEK M	31 Dec. 1997	31 Dec. 1996
EQUITY, PROVISIONS AND LIABILITIES		
SHAREHOLDERS' EQUITY	Note 15 19,156	18,799
UNTAXED RESERVES	Note 14 595	758
PROVISIONS	Note 16 165	126
LIABILITIES		
Interest-bearing debt	Note 19 1,441	1,274
Liabilities to subsidiaries	6,270	5,621
Accounts payable	14	15
Other interest-free liabilities	Note 20 111	160
Total liabilities	7,836	7,070
TOTAL EQUITY, PROVISIONS AND LIABILITIES	27,752	26,753
CONTINGENT LIABILITIES	Note 21 14,818	15,886
ASSETS PLEDGED	Note 22 482	481

Accounting principles

The SCA Group financial statements are prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations.

The new Swedish Annual Accounts Act is applied by SCA as of 1997. Accordingly, SCA reports a cost-based statement of earnings.

CONSOLIDATED ACCOUNTS

Group composition

The consolidated financial statements include the accounts of the Parent Company and all subsidiaries, in accordance with the definitions in the Swedish Annual Accounts Act. In addition, SCA's share in joint-venture companies is included (see below). The financial statements have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations regarding consolidated accounting.

Purchase method

The consolidated accounts have been prepared in accordance with the purchase method. The shareholders' equity in acquired subsidiaries is determined on the basis of a market or utility valuation of assets and liabilities at the time of acquisition (a so-called purchase analysis). In those instances in which the market or utility valuation of assets and liabilities results in significantly different values than the acquired company's book values, these values constitute the Group's acquisition cost. The difference between the acquisition cost of shares in the subsidiaries and the estimated value of the shareholders' equity at the time of the purchase analysis is reported as goodwill in the consolidation.

If necessary, an allocation to a reserve for future costs of reorganization and staff reductions may be made at the time of the purchase analysis.

Divested subsidiaries are included in the consolidated financial statements up to and including the date of divestment.

Translation of foreign subsidiary accounts

The balance sheets and statement of earnings of foreign subsidiaries are translated in accordance with the current method. The assets and liabilities in foreign subsidiaries are translated at the year-end exchange rates. All items in the statement of earnings are translated at the average exchange rate for the year. Translation differences are not reported in the statements of earnings but are charged directly to consolidated shareholders' equity.

Minority interest

Minority interest in the consolidated statements of earnings is reported as a share in after-tax earnings.

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

Taxes

Deferred tax is estimated and reported in accordance with the principles in IAS 12. However, deferred tax liabilities or claims attributable to differences between the reported value of the asset and the tax value of long-term nondepreciable assets is not reported, to the extent that it is not probable that the assets will be realized in the foreseeable future. In the balance sheet, the estimated liability is reported to the tax authorities as current.

Deferred tax liabilities are reported as provisions.

The tax expenses reported for the year include the tax that is payable on the taxable income for the year, changes in deferred taxes and the tax on the share of earnings of associated companies.

Associated companies

An associated company is a long-term shareholding representing at least 20% of the voting rights of the shares outstanding. Accounting for associated companies is according to the equity method.

In the consolidated statement of earnings, SCA's share in earnings of associated companies is reported on two levels.

- The Group's share in earnings after financial items is included in the consolidated operating profit.
- The share in income tax expenses at associated companies, in accordance with the full-tax method, is included in the consolidated income tax expenses.

The Group's share of earnings of an associated company is computed on the basis of SCA's equity portion in that particular associated company.

In the consolidated balance sheets, shares in associated companies are reported separately under shares and participations. The book value of the shareholding changes to reflect SCA's share of the after-tax earnings of the respective companies, reduced by dividends received. Non-distributed earnings of associated companies are included under non-distributable equity.

Joint-venture companies

Joint-venture companies are defined as companies in which the shareholding amounts to 50% and in which SCA is liable for its share of the financial risk. Joint-venture companies are reported in accordance with the proportional consolidation method.

In applying the proportional consolidation method, 50% of all statement of earnings and balance sheet items are included in the SCA Group's statement of earnings and balance sheet.

PRINCIPLES OF VALUATION

Receivables and liabilities in foreign currencies

In the consolidated financial statements, receivables and liabilities in foreign currencies are valued using year-end exchange rates. Gains and losses on cur-

rent receivables and operating liabilities are netted and included in operating profit. To the extent that forward contracts are used to hedge operating receivables, the contract rate is used for valuation of the corresponding receivables. Gains and losses on financial receivables and liabilities are reported as other financial items.

SCA hedges its investments in foreign net assets, including goodwill. Hedging is implemented through loans in foreign currencies and forward exchange contracts. These are valued at the exchange rate prevailing at year-end. Exchange rate differences on hedging operations, after tax, as well as differences that arise when foreign net assets are translated at the exchange rate prevailing at year-end, are carried directly to shareholders' equity in the balance sheet.

Inventories and accounts receivable
Inventories consist of finished and semi-finished goods, raw materials, fuels, warehouse supplies and felling rights. These are valued at the lower of cost or market value in accordance with the first-in, first-out principle. The acquisition costs of inventories of finished and semi-finished goods, raw materials and fuels are based on the average production or acquisition costs for the year. Interest is not included in the inventory values.

Felling rights are calculated at contract prices which, on average, do not exceed market value.

Doubtful accounts receivable are reported in the amount which, after a careful assessment, is deemed likely to be paid.

Property and plant

Property and plant are reported at acquisition cost after deducting accumulated depreciation according to plan.

Unlike acquisition values for other capital expenditures, acquisition costs for property and plant related to major projects shall also include funds appropriated for start-up and commissioning work and for interest expenses during the construction and assembly period.

Depreciation according to plan is based on the historical cost and estimated useful lives of the assets.

The following depreciation rates are used on property and plant:

	%
Forest industry machines	5–10
Converting machinery	7–14
Mobile and other light equipment	20
Buildings	2–6
Land improvements	5

Intangible assets

Goodwill is amortized according to plan. The economic life is normally 20 years. SCA selected this time frame since the company acquisitions represent a long-term strategic value. Other intangible assets (primarily patents and trademarks) are amortized 10–20% per year.

Notes to the financial statements

PARENT COMPANY

The Parent Company's statement of earnings, balance sheet and cash flow statement are shown in condensed form on page 40. The following notes pertain to the financial statements of the Parent Company and the SCA Group.

STATEMENT OF EARNINGS

Note 1 Operating expenses

Operating expenses include capital gains from divestments amounting to SEK 425 M.

Operating expenses include R&D expenses amounting to SEK 751 M (749) for the Group.

Note 2 Depreciation of tangible and intangible assets

SEK M	Group		Parent Company	
	1997	1996	1997	1996
Buildings	519	476	2	2
Land	65	52	31	30
Machinery and equipment	2,788	2,658	1	1
Subtotal	3,372	3,186	34	33
Goodwill	372	288	-	-
Patents, trademarks and similar rights	99	101	-	-
Total	3,843	3,575	34	33

Depreciation according to plan is based on the historical cost and estimated useful lives of the assets concerned, as specified in the accounting principles on page 41.

Note 3 Share in earnings of associated companies

SCA's interest in associated companies' earnings and shareholders' equity is reported applying the equity method. See accounting principles on page 41.

Shares in pre-tax earnings are included in consolidated operating profit and amount to SEK 67 M (32).

Dividends amounting to SEK 4 M (3) were received from associated companies.

Note 4 Financial items

SEK M	Group		Parent Company	
	1997	1996	1997	1996
<i>Income from shares and participations in Group companies</i>				
Dividends from subsidiaries	-	-	1,522	1,491
<i>Income from shares and participations in other companies</i>				
Dividends from other companies	70	70	1	59
<i>Interest income and similar profit/loss items</i>				
Interest income, external	210	249	0	1
Interest income, subsidiaries	-	-	81	132
Other financial income, subsidiaries	-	-	150	35
<i>Interest expense and similar profit/loss items</i>				
Interest expense, external	-1,362	-1,297	-100	-110
Interest expense, subsidiaries	-	-	-217	-395
Other financial expense, external	-29	-30	-173	-46
Other financial expense, subsidiaries	-	-	0	-1
Total	-1,111	-1,008	1,264	1,166

Note 5 Taxes on profit for the year

SEK M	1997	1996
Current taxes – consolidated companies	-688	-476
Deferred taxes – consolidated companies	-619	-659
Taxes attributable to shares in earnings of associated companies	-30	-9
Total income taxes	-1,337	-1,144

Note 6 Minority interest

Interest, %	1997	1996
SCA Laakirchen AG, Austria	24	27
Uni-Charm/Mölnlycke B.V.	60	60
Thai Klinipro Co. Ltd	51	51
Papierwerke Waldhof Aschaffenburg AG (PWA)	6	25
Sodipel SARL	12	12

Minority interest in net earnings from PWA is reported at 25% since the minority owned 25% during most of 1997.

Minority interest in net earnings is reported in the statement of earnings in an amount of SEK 361 M (312), specified as follows:

SEK M	1997	1996
Minority interest in:		
- earnings after financial items	565	491
- income taxes	-204	-179
Minority interest	361	312

BALANCE SHEET

Note 7 Intangible assets

Group, SEK M	Goodwill		Patents, trademarks and similar rights	
	1997	1996	1997	1996
Acquisition value, 1 Jan.	6,378	6,013	1,879	2,196
Investments	552	360	41	566
Sales and disposals	-9	-	-197	-832
Reclassifications	4	-3	12	9
Translation differences	216	8	55	-60
Accumulated acquisition value, 31 Dec.	7,141	6,378	1,790	1,879
Amortization, 1 Jan.	-1,700	-1,402	-669	-811
Sales and disposals	46	-	78	216
Reclassifications	-5	-25	-4	-7
Amortization during the year	-372	-288	-99	-101
Translation differences	-27	15	-1	34
Accumulated amortization, 31 Dec.	-2,058	-1,700	-695	-669
Residual value according to plan, 31 Dec.	5,083	4,678	1,095	1,210

Note 8 Tangible assets

Group, SEK M	Buildings		Land		Machinery and equipment		Construction in progress	
	1997	1996	1997	1996	1997	1996	1997	1996
Acquisition value, 1 Jan.	12,442	11,421	5,446	5,526	39,410	34,427	306	2,969
Investments	173	1,162	469	136	3,558	3,746	392	73
Sales and disposals	-400	-260	-220	-187	-991	-1,095	-78	-43
Reclassifications	22	359	32	14	24	2,573	-51	-2,707
Translation differences	329	-240	134	-43	403	-241	-	14
Accumulated acquisition value, 31 Dec.	12,566	12,442	5,861	5,446	42,404	39,410	569	306
Depreciation, 1 Jan.	-2,889	-2,304	-474	-453	-15,416	-13,615	-	-
Sales and disposals	94	25	4	26	883	881	-	-
Reclassifications	61	-161	-	3	-65	-59	-	-
Depreciation during the year	-519	-476	-65	-52	-2,788	-2,658	-	-
Translation differences	-46	27	-	2	-102	35	-	-
Accumulated depreciation, 31 Dec.	-3,299	-2,889	-535	-474	-17,488	-15,416	-	-
Write-ups, 1 Jan.	-	-	3,100	3,100	-	-	-	-
Accumulated write-ups, 31 Dec.	-	-	3,100	3,100	-	-	-	-
Residual value according to plan, 31 Dec.	9,267	9,553	8,426	8,072	24,916	23,994	569	306

Note 8 Tangible assets, cont.

Parent Company, SEK M	Buildings		Land		Machinery and equipment	
	1997	1996	1997	1996	1997	1996
Acquisition value, 1 Jan.	57	55	999	971	7	6
Investments	1	3	46	60	0	1
Sales and disposals	-	-1	-2	-32	-	-
Accumulated acquisition value, 31 Dec.	58	57	1,043	999	7	7
Depreciation, 1 Jan.	-27	-26	-271	-264	-4	-3
Sales and disposals	-	1	-	23	-	-
Depreciation during the year	-2	-2	-31	-30	-1	-1
Accumulated depreciation, 31 Dec.	-29	-27	-302	-271	-5	-4
Write-ups, 1 Jan.	-	-	3,100	3,100	-	-
Accumulated write-ups, 31 Dec.	-	-	3,100	3,100	-	-
Residual value according to plan, 31 Dec.	29	30	3,841	3,828	2	3

Note 9 Financial assets

SEK M	Shares and participations				Capital investment shares			
	Group		Parent Company		Group		Parent Company	
	1997	1996	1997	1996	1997	1996	1997	1996
Acquisition value, 1 Jan.	604	1,410	19,960	18,993	838	890	589	626
Investments	336	195	2,947	967	1,084	-	102	-
Sales	-26	-2	-	-	-838	-52	-691	-37
Net increase in associated companies during the year	34	21	-	-	-	-	-	-
Reclassifications	-68	-1,013	-	-	-	-	-	-
Translation differences	-10	-7	-	-	-	-7	-	-
Accumulated acquisition value, 31 Dec.	870	604	22,907	19,960	1,084	838	0	589
Write-ups, 1 Jan.	-	-	140	140	29	29	29	29
Sales	-	-	-	-	-	-	-29	-
Accumulated write-ups, net, 31 Dec.	-	-	140	140	29	29	0	29
Write-downs, 1 Jan.	-	-	-142	-142	-1	-1	-1	-1
Sales	-	-	-	-	-	-	1	-
Write-downs during the year	-	-	-1,100	-	-	-	-	-
Accumulated write-downs, 31 Dec.	-	-	-1,242	-142	-1	-1	0	-1
Residual value according to plan, 31 Dec.	870	604	21,805	19,958	1,112	866	0	617

Note 10 Shares and participations

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

SEK M	Group		Parent Company	
	1997	1996	1997	1996
Subsidiaries	-	-	21,789	19,942
Associated companies	741	449	-	-
Other companies	129	155	16	16
Total	870	604	21,805	19,958

For specification, see page 50.

Major changes during 1997 in the Parent Company's and Group's holdings were as follows:

Subsidiaries

The Parent Company's book value of shares in subsidiaries increased by SEK 1,847 M. During the year SEK 2,247 M was paid in capital contributions, of which shares in SCA Recycling Holding AB at a value of SEK 742 M, to SCA Group Holding B.V. In addition, SEK 341 M was paid into SCA Holding AB and SEK 1,100 M into SCA Hedging AB.

Associated companies

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

Not 11 Kapitalplaceringsaktier

Mkr	Antal	Bokfört värde
AB Industrivärden	3.598.413	1.112
Summa		1.112

Moderbolaget har under 1997 avyttrat samtliga aktier i AB Industrivärden till SCA Group Holding B.V. Samtliga aktier i SAS Sverige AB har avyttrats under året.

Av innehavet i AB Industrivärden är 1.830.000 aktier tillgängliga för eventuell inlösen enligt de så kallade "Exchangeable Bonds" som emitterades under våren 1997. Vid årsskiftet uppgick konverteringskursen till 458 kronor. Marknadsvärdet på innehavet av aktier i AB Industrivärden överstiger concernmässigt bokfört värde med 489 Mkr.

Not 12 Varulager

Mkr	Koncernen	
	1997	1996
Råvaror och förnödenheter	1.603	1.160
Varor under tillverkning	476	574
Färdiga varor	2.912	2.809
Reservdelar och förrädsartiklar	519	736
Avverkningsrätter	270	291
Summa	5.780	5.570

Not 15 Eget kapital

Koncernen, Mkr	Aktiekapital	Överkursfond	Reservfond	Kapitalandelsfond	Omräkningsdifferens	Övriga bundna reserver	Fria reserver	Summa
Ingående balans	1.974	1.870	687	1.308	-1.545	8.730	9.882	22.906
Omräkningsdifferens	-	-	-	-	607	-	-181	426
Kursdifferenser på säkringsinstrument	-	-	-	-	-346	-	-	-346
Förskjutningar mellan fritt och bundet eget kapital	-	-	50	-	-	28	-78	0
Kapitalandelar i intressebolag	-	-	-	37	-	-	-37	0
Utdelning	-	-	-	-	-	-	-1.092	-1.092
Årets resultat	-	-	-	-	-	-	2.759	2.759
Utgående balans	1.974	1.870	737	1.345	-1.284	8.758	11.253	24.653

Överkursfond, Reservfond, Kapitalandelsfond, Omräkningsdifferens samt Övriga bundna reserver uppgår tillsammans till 11.426 (11.050) Mkr och redovisas som Bundna reserver. I Fria reserver ingår en omräkningsdifferens på -223 (-42) Mkr.

Moderbolaget, Mkr	Aktiekapital	Överkursfond	Reservfond	Uppskrivningsfond	Fria reserver	Summa
Ingående balans	1.974	1.870	395	806	13.754	18.799
Utdelning	-	-	-	-	-1.036	-1.036
Årets resultat	-	-	-	-	1.393	1.393
Utgående balans	1.974	1.870	395	806	14.111	19.156

SCAs aktiekapital består av 197.399.935 aktier med nominellt värde 10 kronor per aktie. Nedan beskrivs emissioner m.m. för perioden 1990-1997. För ytterligare information om SCA-aktien, se sid 8-9.

Not 13 Övriga kortfristiga fordringar

Mkr	Koncernen		Moderbolaget	
	1997	1996	1997	1996
Växelfordringar	403	536	-	-
Förutbetalda kostnader och upplupna intäkter	634	497	23	17
Övriga fordringar	903	930	8	49
Summa	1.940	1.963	31	66

Not 14 Moderbolagets obeskattade reserver

Av moderbolagets obeskattade reserver avser 475 (633) Mkr avsättning till skatteutjämningsreserv och 120 (125) Mkr ackumulerade avskrivningar utöver plan.

Not 15 Eget kapital, forts

Emissioner m m 1990-1997

Aktiekapitalet och antalet aktier har fr o m 1990 genom fond- och nyemissioner, konverteringar respektive split (aktieuppdelningar) ökat enligt nedanstående:

Mkr (utom för antal aktier)	Antal aktier	Ökning av aktiekapital	Inbetalt belopp
1990 Konvertering av förlagsbevis och nyteckningar genom optionsbevis 1	1.008.284	10,1	5,9
1991 Konvertering av förlagsbevis och nyteckningar genom optionsbevis 1	371.118	3,7	10,5
1992 Konvertering av förlagsbevis och nyteckningar genom optionsbevis 1	777.453	7,8	19,6
1993 Konvertering av förlagsbevis och nyteckningar genom optionsbevis 1	4.030.286	40,3	119,1
Nyemission 1:10	17.633.412	176,3	1.410,7
1994 Konvertering av förlagsbevis	16.285	0,2	-
1995 Konvertering av förlagsbevis	3.416.113	34,2	-
1996 -	-	-	-
1997 -	-	-	-

Konvertering av förlagsbevis avsåg 1987 års lån, 9,5 % à 350 Mkr, som slutligt förföll under 1995. Nyteckning av optionsbevis 1 avsåg 1983 års förlagslån, 7% à 266 Mkr med avskiljbara optionsbevis. Teckningsrätten förföll slutligen 1993.

Not 16 Avsättningar till pensioner

Mkr	Koncernen		Moderbolaget	
	1997	1996	1997	1996
PRI-pensioner	1.036	1.041	29	28
Övriga pensioner	2.201	2.112	136	98
Summa	3.237	3.153	165	126

Den kalkylerade räntan på beloppet avsatt till pensioner har redovisats som rörelsekostnad. Räntesatsen avseende PRI-pensioner uppgick till 3,7 (6,0) procent.

Avsättningarna har skett i enlighet med lokala regler för varje land.

Not 17 Avsättningar för skatter

Mkr	1997	1996
Ingående balans	4.710	4.072
Latent skattekostnad	619	659
Övriga förändringar	121	-21
Summa	5.450	4.710

Not 18 Övriga avsättningar

Här ingår omstruktureringsreserver med 1.582 (1.311) Mkr. Dessa har under året ökat i samband med de ytterligare förvärven av PWA-aktier. I förvärvsanalysen har reservering gjorts för det fortsatta integrationsarbetet mellan SCA och PWA. Vidare har reserver ianspråktagits för de fortgående integrations- och omstruktureringsprogrammen i enlighet med tidigare års beslut.

Not 19 Räntebärande skulder

Mkr	Koncernen		Moderbolaget	
	1997	1996	1997	1996
Amorteringar inom ett år	376	415	3	3
Lån med kortare löptid än ett år	3.791	4.134	-	-
Summa kortfristiga räntebärande skulder	4.167	4.549	3	3
Obligationslån	846	29	15	29
Konvertibla lån	38	38	36	36
Andra långfristiga lån	17.596	16.780	1.387	1.206
Summa långfristiga räntebärande skulder	18.480	16.847	1.438	1.271
Summa	22.647	21.396	1.441	1.274

Kortfristiga skulder om tillsammans 300 (300) Mkr har nettoredo-visats mot medelsplaceringar som utgör säkerhet för motsvarande skulder.

Bland obligationslånen ingår det femåriga obligationslån, en så kallad "Exchangeable Bond", om nominellt 200 MDEM som emitterades våren 1997 med 828 Mkr.

Säkerheter har ställts för 1.145 (1.121) Mkr av de långa och korta lånen.

Förfallstruktur för räntebärande låneskulder

År	Mkr
1998	4.167
1999	2.075
2000	672
2001	3.229
2002	6.555
2003 och senare	5.949
Summa	22.647

Note 19 Interest-bearing debt, cont.

Gross debt by currency

Taking into account currency swaps and other derivatives, SCA's gross debt is distributed among the following currencies:

Currency	Gross debt, SEK M	
	1997	1996
DEM	2,661	7,502
GBP	4,546	7,441
NLG	2,515	4,417
ATS	1,597	3,171
FRF	831	2,080
BEF	445	1,176
ITL	2,480	1,162
USD	556	851
SEK	6,846	-7,180
Other	170	776
Total	22,647	21,396

Convertible loans

SEK M	1997	1996
1990 GBP 10,516,384 at 10%	36	36

Subordinated bond loan convertible into SCA Series B shares between 1 October 1990 and 31 July 2000. The loan may be called at any time during term, in which case repayment will be made in the nominal amount, plus accrued interest. The conversion price at 31 December 1997 was SEK 159.10.

Total loans issued by Parent Company 36 36

Bond loan issued by SCA Group Holding B.V. 1989 ECU 101 M at 4.25%	2	2
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Subordinated bond loan convertible into SCA Series B shares between 25 April 1989 and 10 January 2004. The conversion price at 31 December 1997 was SEK 130.00.

Total loans issued by Group 38 38

Conversion of the 1990 GBP loan means that a maximum of 224,167 Series B shares will be issued. The amount of the loan decreased in 1997 through a repayment that did not involve conversion of debentures into shares.

Note 20 Other interest-free liabilities

SEK M	Group		Parent Company	
	1997	1996	1997	1996
Accrued expenses and prepaid income	3,072	3,261	92	145
Tax liabilities	447	464	4	-
Other operating liabilities	1,681	1,499	3	3
Total interest-free current liabilities	5,200	5,224	99	148
Interest-free long-term liabilities	373	414	12	12
Total	5,573	5,638	111	160

Accrued expenses and prepaid income

SEK M	Group		Parent Company	
	1997	1996	1997	1996
Accrued social costs	446	531	5	4
Accrued vacation pay liability	447	446	5	4
Accrued financial expenses	236	199	16	16
Other items	1,943	2,085	66	121
Total	3,072	3,261	92	145

Note 21 Contingent liabilities

SEK M	Group		Parent Company	
	1997	1996	1997	1996
Discounted bills	143	516	-	-
Guarantees for				
- employees	48	32	3	2
- associated companies	64	38	-	-
- customers and other	95	91	0	2
- subsidiaries	-	-	14,806	15,874
Other contingent liabilities	134	95	9	8
Total	484	772	14,818	15,886

As stated in the Board of Directors' report (page 32), a so-called Control Agreement was established during 1997 between SCA, through its German holding company SCA Group Holding (Deutschland) GmbH, and PWA, effective 1 January 1998. The agreement is valid until further notice with a mutual cancellation notice period of six months. The Control Agreement entails a liability for the German holding company to carry any losses which arise in PWA during the period of the agreement. SCA has provided a surety for this commitment and to pay an annual dividend of DEM 17.15 per share to the remaining minority shareholders in PWA.

The former owners of 20% of the shares in SCA Laakirchen Holding AG which, as a result of an organization change, was replaced by a holding in a newly formed company, are entitled during the year 2000 to sell their share to SCA for a price of approximately SEK 480 M.

As reported in the 1996 Annual Report, SCA entered into lease-out/lease-in transactions during 1996 with American banks as counterparties pertaining to the two LWC plants in Ortvik, Sweden. The terms of the contracts are 32 and 36 years. However, SCA has the opportunity to cancel the transactions after about 18 years without incurring any financial consequences. At the time the transactions were effected, the current value of the leasing amount which SCA has undertaken to pay amounts to about SEK 4 billion. This amount, in accordance with the agreements, is partly deposited in accounts in banks with at least AA rating, and partly in U.S. securities with a 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 counterparties have accepted that the deposited funds are applied for the leasing undertakings. The advance payments and deposits were netted during 1996 in the balance sheet. Should SCA as the result of extraordinary events (of a force majeure nature) elect not to fulfill, or cannot fulfill the leasing contracts, SCA is liable to compensate the counterparties for

economic losses which may be incurred as a result. Compensation varies during the lifetime and can amount to a maximum of about 20% of the leasing amounts paid in advance. The agreements were composed and examined by legal experts in Sweden and the U.S. and are considered to follow the standard practice for lease-out/lease-in transactions.

The three ships which are included in SCA's distribution system are owned and financed by three bank-controlled companies. The vessels are operated by Gorthon Lines AB under three bare-boat charters and are placed at the disposal of SCA Transforest by Gorthon Lines AB under three time charters. In the event that Gorthon Lines AB does not fulfill its obligations to the owners, SCA Transforest is committed to assume the bare-boat charters on behalf of Gorthon Lines AB or acquire the vessels.

In raising certain credits, at the request of the lender, companies in the Group provided letters of comfort and other, similar support letters. To the extent that similar documents are not reported as contingent liabilities, the assessment was made that said documents cannot serve as a basis for payment obligations. In addition, a negative clause was included in some loan agreements, with the consequence that the borrower cannot, without the approval of the lender, pledge collateral for other commitments during the credit period.

In the sale of companies and operations SCA provided the customary seller guarantees.

Note 22 Assets pledged

SEK M	Group		Parent Company	
	1997	1996	1997	1996
Chattel mortgages	1,156	1,698	481	481
Real estate mortgages	9	78	-	-
Other mortgages	126	126	1	-
Total	1,291	1,902	482	481

The above assets have been pledged as security for debt amounting to SEK 1,145 M (1,121) at year-end.

Note 23 Tax assessment values

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

SEK M	Group		Parent Company	
	1997	1996	1997	1996
Buildings	4,407	3,707	13	14
Land and other property	10,457	9,841	9,466	9,105
Total	14,864	13,548	9,479	9,119

Note 24 Value of forest land

SEK M	1997	1996	1995	1994	1993
Book value	4,570	4,187	4,156	4,125	4,101
Taxed forestry value	10,209	9,588	7,140	7,193	7,227
Estimated market value					
– after tax*	15,100	13,500	12,000	10,600	9,000
– after tax, per hectare, SEK	8,600	7,600	6,800	5,900	5,000

* The calculated value is based on the average earnings for forestry operations (excluding capital gains) 1994-1997 and an estimate for 1998, capitalized at an interest rate of 4%.

Note 25 Number of employees and wages, salaries and remuneration

	1997	1996
Average number of employees		
<i>SCA Group total</i>	33,399	34,106
of whom, men %	78	78
<i>Sweden</i>	7,493	7,674
of whom, men %	77	77
of which, Parent Company	49	46
of whom, men %	53	54
Number of municipalities	26	26
<i>Outside Sweden</i>	25,906	26,432
of whom, men %	78	78
Number of countries	22	23

Distribution by country is presented in "Group by country" on page 53.

SEK M	1997	1996
Wages, salaries and remunerations		
<i>Parent Company</i>		
Boards of Directors ¹ , Presidents and VPs	16	14
of which, variable salary	2	2
Other employees	27	28
Total, Parent Company	43	42
<i>Subsidiaries</i>		
Boards of Directors, Presidents and VPs	163	140
of which, variable salary	17	20
Other employees	8,905	8,879
Total, subsidiaries	9,068	9,019
Group total	9,111	9,061
of which, Boards of Directors, Presidents and VPs	179	154
of which, variable salary	19	22

SEK M	1997	1996
Statutory and contractual payroll expenses		
<i>Parent Company</i>		
of which, pension costs	59	46
	29 ²	23
<i>Subsidiaries</i>	2,718	2,618
of which, pension costs	653	
Group total	2,777	2,664
of which, pension costs	682³	

¹ Includes SEK 1.6 M (1.0) Board fees approved by the Annual General Meeting.

² SEK 25 M of Parent Company pension costs pertain to the Board, President and VPs. Former Presidents, VPs and their survivors are included. The company's outstanding pension commitments to them amount to SEK 100 M.

³ SEK 49 M of pension costs pertain to the Boards, Presidents and VPs. Former Presidents, VPs and their survivors are included. The company's outstanding pension commitments to them amount to SEK 237 M.

Note 25 Number of employees and wages, salaries and remuneration, cont.

Salaries and other remunerations distributed by country and between Board members, others and employees

SEK M	1997		1996	
	Board, Presidents, VPs (of which, bonus)	Other employees	Board, Presidents, VPs (of which, bonus)	Other employees
Parent Company				
Sweden	16 (2)	27	14 (2)	28
Subsidiaries				
Sweden	29 (2)	1,931	32 (3)	1,943
Germany	25 (5)	2,101	36 (13)	2,319
Great Britain	11 (1)	1,259	5 (1)	897
France	13 (2)	649	10 (0)	724
The Netherlands	14 (1)	856	8 (1)	789
Belgium	36 (0)	376	13 (1)	385
Italy	9 (1)	241	6 (0)	219
Austria	9 (1)	773	14 (0)	885
U.S.	10 (3)	183	7 (1)	195
Norway	1 (-)	146	1	144
Finland	2 (1)	75	2	54
Denmark	0 (0)	59	-	67
Other countries ¹	4 (0)	256	6 (-)	258
Total, subsidiaries	163 (17)	8,905	140 (20)	8,879
Total, Group	179 (19)	8,932	154 (22)	8,907

¹ Spain, Ireland, Greece, Portugal, Switzerland, Poland, Hungary, Czech Republic, Slovakia, Canada, Japan, Thailand.

Note 26 Executive management conditions of employment

The Chairman of the Board of Directors, who previously held the position of Chief Executive Officer (CEO), received a consideration during 1997 of SEK 1,572,656 (4,368,079) in accordance with his employment contract until his retirement on May 1997, and housing benefits. In addition, during 1997 he received a Board fee from PWA of SEK 35,448 (35,688) and, as a member of the Board of PWA, a bonus of SEK 189,000. After retirement in May 1997, the Board Chairman received his retirement pension in accordance with pension agreement and, as Chairman of the Board of SCA, a Board fee of SEK 600,000.

During 1997, the CEO received SEK 5,234,475 (4,788,125), car benefits (fuel excluded) and housing benefits as well as a Board fee from PWA of SEK 35,448 (35,688). As a member of the Board of PWA, he also received a bonus of SEK 189,000. In the case of the CEO, as well as other senior executives in the Group, there is one bonus agreement which is linked to the Group's return on capital employed and one related to the development of the SCA share. The first, including any bonus awarded from PWA, can result in a maximum bonus amounting to 30% of base salary, which for the CEO in 1997 resulted in a bonus corresponding to 23.5 (12)% of base salary. The latter bonus agreement is related to the development of the SCA share during 1997, 1998 and 1999 and can, after 1999, result in a maximum bonus corresponding to 10% of base salary for each of the three years. The latter bonus shall preferentially be paid in the form of options to acquire SCA shares.

The pension agreement for the CEO is formulated so that old age pension (including general pension benefits) is paid from the age of 65 at 70% of salary at retirement. This is contingent upon employment being sustained during at least 20 years from the date he reached 40 years of age. At termination at the request of the Company, the pension age may be reduced to not lower than 55. Upon termination of employment at own request between the ages of 55 and 60, a paid-up policy is received for pension payments from age 60. In the case of the CEO, the company also paid out SEK 104,735 (104,562) in 1997 pertaining to supplementary pension commitments.

Moreover, the agreement with the CEO stipulates that, in the event of termination of employment after age 55, he is entitled to be transferred to a position as expert advisor. Pension benefits are not paid while serving in the position of expert advisor.

The agreement with the CEO stipulates a period of notice of termination of five years if such notice is given prior to age 60. This notice period, which is mutual and accordingly also applies upon termination at the request of the CEO, is reduced to two years after age 60. The agreement does not contain any stipulations with regard to severance pay.

In the case of other senior executives in the Group there is a pension plan which, in the normal case, grants the executive the right at age 65 to receive a pension (including general pension benefits) at up to 70% of the salary. Normally, full pension requires the executive having been employed in the Group for 20 years. Upon termination of employment prior to reaching retirement age, a paid-up policy is received for pension payments from age 65, under the condition that the executive, after reaching the age of 40, has been employed in the Group for at least three years.

Specification to Note 10

Parent Company shareholdings in subsidiaries

Company name	Org. no.	Registered office	No. of shares	Capital %	Book value, SEK M
<i>Swedish subsidiaries:</i>					
SCA Research AB	556146-6300	Sundsvall	500	100	0.1
AB SCA Finans	556108-5688	Stockholm	420,750	100	50.1
SCA Holding AB	556313-1621	Stockholm	10,374,430	100	341.4
SCA Hedging AB	556237-4867	Stockholm	50,000	100	72.0
SCA Kraftfastigheter AB	556449-7237	Stockholm	1,000	100	0.1
Fastighets- och Bostadsaktiebolaget FOBOF	556047-8520	Stockholm	1,000	100	0.1
SCA Försäkrings AB	516401-8540	Stockholm	140,000	100	14.0
SCA Recovered Papers Holding AB	556537-5739	Stockholm	1,000	100	0.1
SCA Konsult AB	556351-6029	Stockholm	1,000	100	0.1
<i>Foreign subsidiaries:</i>					
SCA Group Holding B.V.	181970	Amsterdam	202,347	100	21,311.3
Parent Company shareholdings in subsidiaries					21,789.3

Group holdings of shares and participations in associated companies

Company name	Org. no.	Registered office	No. of shares/participations	Capital %	Book value, SEK M
Staper Ltd	1130403	Aylesford	100,000	50	5.7
Centrale Eerbeek		Eerbeek		50	19.8
Kaplamin Ambalaj Sanayi ve Ticaret AS		Izmir		29	38.0
SCA Packaging Ambalaj ve Ticaret AS		Altinova		34	33.8
Ova SCA Packaging Ambalaj ve Ticaret AS		Tarsus		29	32.3
Selkasan Kagit ve Paketleme Malzemeleri Imalati Sanayi ve Ticaret AS		Manisa		16	21.1
Nordliner IL Returpapper		Stockholm	14,000	15	2.7
ASCA Holding AG		Oftringen	49,900	50	116.1
SCA Weyerhaeuser Packaging Holding Co Asia Ltd		Hong Kong		50	66.9
Rank SCA Packaging India Ltd		India	7,731,882	50	35.6
Les Bois de la Baltique SA		Rochefort	75,000	38	18.0
AB Släden	556094-8001	Östersund	25,000	25	6.1
GAE Smith		Leicester	44,300	50	35.9
Atkasan		Izmir	44,625	35	4.7
Paredes	B955 509 609	Genas	43,747	35	61.3
Productos Familia SA		Medellin	15,700,416	20	190.4
Other associated companies					52.7
Group holdings of shares and participations in associated companies					741.1

The difference between the book value in the Group and the Group's share in the associated companies' shareholders' equity amounts to SEK 89.4 M.

Group holdings of shares and participations in other major companies

Company name	Org. no.	Registered office	Capital %	Company name	Org. no.	Registered office	Capital %
SCA GROUP HOLDING B.V.	181970	Amsterdam	100	SCA Packaging Holding BV	196416	Amsterdam	100
SCA Reinsurance Ltd	168575	Dublin	100	SCA Packaging International BV		Amsterdam	100
SCA Coordination Center NV	547534	Brussels	100	- SCA Packaging Obbola AB	556147-1003	Umeå	100
SCA Graphic Holding AB	556479-2058	Stockholm	100	- SCA Packaging Munksund AB	556237-4859	Piteå	100
SCA Graphic Paper AB	556379-3586	Sundsvall	100	- SCA Packaging Belgium NV		Gent	100
- SCA Graphic Sundsvall AB	556093-6733	Sundsvall	100	- SCA Packaging Italia Spa		Arcore	100
- SCA Transforest AB	556431-6965	Sundsvall	100	- SCA Packaging Sweden AB	556036-8507	Värnamo	100
- SCA Laakirchen AG		Laakirchen	95	- Zewawell GmbH		Mannheim	100
- Aylesford Newsprint Holdings Ltd		Aylesford	50	- SCA Packaging France SA		Eragny	100
SCA Hygiene Holding AB	556479-2181	Stockholm	100	- SCA Corporate UK Ltd	2263948	Aylesford	100
SCA Mölnlycke AB	556007-2356	Härryda	100	SCA Finance BV		Eerbeek	100
- SCA Mölnlycke Clinical Products AB	556239-3701	Härryda	100	- SCA Packaging Nederland BV	9062936	Barneveld	100
- SCA Mölnlycke Consumer Products AB	556412-1035	Härryda	100	- SCA Packaging Benelux BV		Eerbeek	100
- SCA Mölnlycke Incontinence Care AB	556239-3719	Härryda	100	- SCA Packaging DeHoop BV		Eerbeek	100
- SCA Mölnlycke Inc	421987	Canada	100	PWA Holding AB	556204-5434	Stockholm	100
- SCA Mölnlycke A/S	30877	Alleröd	100	SCA Group Holding Deutschland GmbH	HRB4014	Mettmann	100
- SCA Mölnlycke GmbH	HRB934	Hilden	100	- SCA Capital Corporation Inc	52-1383747	New York	100
- SCA Mölnlycke Kft	13-09-063186	Budapest	100	- SCA Packaging Deutschland Holding GmbH	HRB61506	Berlin	100
- SCA Mölnlycke Ltd	47636	Dunmanway	100	- Papierwerke Waldhof Aschaffenburg AG	HRB42709	Munich	94
- SCA Mölnlycke Holding B.V.	185911	Ar Zeist	100	SCA Hygiene Paper Holding GmbH	HRB 10455	Raubling	100
- SCA Mölnlycke A/S	915620019	Tönnsberg	100	SCA FINE PAPER GmbH	HRB 3098	Raubling	100
- SCA Mölnlycke Lda	PT 503237612	Linda-a-Velha	100	ECCO Paper Trade GmbH	HRB 10326	Raubling	100
- SCA Mölnlycke o.o.o.		Moscow	100	SCA Packaging Industriepapier GmbH	HRB 3097	Raubling	100
- SCA Mölnlycke s.r.o.	31723837	Gemerská-Hörka	100	SCA Recycling Holding AB	556513-8590	Stockholm	100
- SCA Mölnlycke SA	A-28451383	Madrid	100	SCA Recycling Holding BV		Amsterdam	100
- SCA Mölnlycke Holdings Inc	58-2011277	Philadelphia	100	- SCA Recycling Belgium NV		St Stevens Woluwe	100
- SCA Mölnlycke SA		Linselles	100	- SCA Recycling France SA		Courbevoie	100
- Productos Sanitarios Sancela SA	890937981-1	Medellin	49	- SCA RML Europe NV		Zaventem	100
- Uni-Charm KK	660779	Tokyo	50	- SCA Recycling UK Ltd		Aylesford	100
- Comercializadora Sancela SA de CV	CSA-880531-EX3	Ecatepec De Morelos	49	- Italmaceri Srl		Torino	50
- Sancela de CV	SAN-790424-8K1	Ecatepec De Morelos	49				
- Uni-Charm Mölnlycke BV	330631	Hoogezand	40				
- Taiwan Sancela Enterpris	16093200	Taiwan	50				
- Thai Klinipro Co Ltd		Thailand	49				
SCA Forest Holding AB	556479-1100	Stockholm	100				
SCA Forest and Timber AB	556379-3594	Sundsvall	100				
- Svanö AB	556056-7694	Kramfors	100				

The complete statutory specifications are included in the Annual Report submitted to the National Swedish Patent and Registration Office. This specification is available from SCA, Corporate Communications, Box 7827, SE-103 97 Stockholm.

Proposed disposition of earnings

As shown in the consolidated Balance Sheets, distributable shareholders' equity amount to SEK 11,253 M.

Distributable shareholders' equity at the parent company:

retained earnings	12,717,633,731
net earnings for the year	1,392,876,434
Total	14,110,510,165

The Board of Directors and the President recommend:

to the shareholders, a dividend of SEK 5.75 per share	1,135,049,626
retained earnings to be carried forward	12,975,460,539
Total	14,110,510,165

Stockholm, 19 February 1998


Bo Rydin
Chairman


Tjell-Åke Hågglund


Christer Gardell


Lars Ramqvist

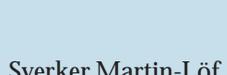

Gerhard Gustavsson


Clas Reuterskiöld


Sören Gyll


Alf Söderlund


Tom Hedelius


Sverker Martin-Löf
President

Auditor's report

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF SCA Reg.No: 556012-6293

We have audited the parent company and the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of SCA for 1997. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President or whether they have in some 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.

In our opinion, the parent company and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and consequently we recommend

that the income statements and the balance sheets of the Parent Company and the Group be adopted, and

that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report.

In our opinion, the Board members and the President have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 19 February 1998


Öhrlings Coopers & Lybrand AB
Bertil Edlund

Quarterly data

GROUP

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

BUSINESS AREAS

Net sales

SEK M	1997				1996			
	IV	III	II	I	IV	III	II	I
Hygiene Products	6,622	6,415	6,547	6,502	6,240	5,861	5,841	6,189
<i>Fluff and clinical products</i>	3,541	3,424	3,507	3,387	3,161	3,164	3,131	3,208
<i>Tissue</i>	3,081	2,991	3,040	3,115	3,079	2,697	2,710	2,981
Packaging	3,519	3,465	3,975	3,323	3,277	3,288	3,359	3,773
<i>Corrugated board, incl. raw materials</i>	2,781	2,610	3,176	2,597	2,439	2,454	2,640	2,886
<i>Liner products – external deliveries</i>	738	855	799	726	838	834	719	887
Graphic Paper	4,341	4,108	4,174	3,939	3,967	3,965	3,726	4,214
<i>Wood-containing publication papers</i>	1,856	1,540	1,655	1,339	1,426	1,730	1,517	1,517
<i>Fine papers, paper merchenting, market pulp</i>	2,485	2,568	2,519	2,600	2,541	2,235	2,209	2,697
Forest and Timber	1,118	903	1,081	1,056	1,057	866	1,003	1,022
Other operations	397	361	445	395	372	417	383	404
Divested units	-	-	-	-	0	346	347	368
Intra-Group deliveries	-994	-990	-1,108	-999	-1,219	-1,247	-1,177	-1,238
Total	15,003	14,262	15,114	14,216	13,694	13,496	13,482	14,732

Earnings

SEK M	1997				1996			
	IV	III	II	I	IV	III	II	I
Hygiene Products	598	654	658	686	673	623	508	519
<i>Fluff and clinical products</i>	269	276	273	272	210	216	120	114
<i>Tissue</i>	329	378	385	414	463	407	388	405
Packaging	336	291	376	193	165	159	197	418
<i>Corrugated board, incl. raw materials</i>	261	248	324	154	150	157	190	333
<i>Liner products – external deliveries</i>	75	43	52	39	15	2	7	85
Graphic Paper	436	210	173	65	127	71	90	222
<i>Wood-containing publication papers</i>	193	102	128	35	150	261	304	275
<i>Fine papers, paper merchenting, market pulp</i>	243	108	45	30	-23	-190	-214	-53
Forest and Timber	221	208	230	153	189	116	164	138
Other operations	-13	7	283	107	214	204	-4	22
Divested units	-	-	-	-	-	19	17	18
Goodwill amortization	-76	-76	-77	-75	-71	-71	-74	-72
Operating profit	1,502	1,294	1,643	1,129	1,297	1,121	898	1,265
Financial items	-307	-285	-284	-235	-265	-253	-239	-251
Earnings after financial items	1,195	1,009	1,359	894	1,032	868	659	1,014

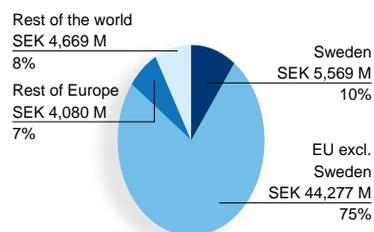
Margins

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

Group by country

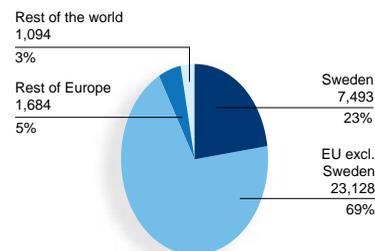
	Net sales				Average no. of employees				Salaries	
	SEK M 1997	% 1997	SEK M 1996	% 1996	of whom		of whom		SEK M 1997	SEK M 1996
					1997	men %	1996	men %		
Sweden	5,569	10	5,208	9	7,493	77	7,674	77	2,003	2,017
EU, excl. Sweden										
Germany	10,846	18	11,811	21	6,486	85	7,110	85	2,126	2,355
Great Britain	9,935	17	8,294	15	4,628	83	4,173	81	1,270	902
France	6,321	10	6,941	12	3,009	74	3,208	72	662	734
The Netherlands	4,237	7	4,171	8	3,129	87	2,946	87	870	797
Italy	4,097	7	2,562	5	1,039	83	949	83	250	225
Belgium	2,365	4	2,573	5	1,270	73	1,501	75	412	398
Austria	1,734	3	1,938	3	2,501	86	2,636	86	782	899
Denmark	1,530	3	1,414	3	136	54	143	58	59	67
Spain	908	2	921	2	186	68	318	78	45	77
Finland	738	1	670	1	290	38	277	36	77	56
Ireland	709	1	680	1	146	21	161	20	19	21
Greece	522	1	451	1	267	51	255	55	39	34
Portugal	270	1	262	1	41	71	39	72	7	8
Luxembourg	65	0	38	0	-	-	-	-	-	-
Total EU, excl. Sweden	44,277	75	42,726	78	23,128	81	23,716	81	6,618	6,573
Rest of Europe										
Norway	1,527	3	1,253	2	494	60	493	65	147	145
Poland	746	1	463	1	379	54	287	61	24	17
Switzerland	661	1	709	1	50	54	49	63	22	23
Hungary	410	1	330	1	271	49	361	45	21	23
Czech Republic	156	0	132	0	81	53	63	49	6	4
Turkey	125	0	11	0	-	-	-	-	-	-
Slovakia	96	0	112	0	409	59	336	60	12	9
Other	359	1	561	1	-	-	-	-	-	-
Total rest of Europe	4,080	7	3,571	6	1,684	56	1,589	58	232	221
Rest of the world										
U.S.	1,635	3	1,515	3	497	61	631	68	193	202
Canada	447	1	351	1	170	76	110	60	50	31
Japan	148	0	210	0	-	-	11	36	-	5
Other	2,439	4	1,824	3	427	8	375	13	15	12
Total rest of the world	4,669	8	3,900	7	1,094	43	1,127	49	258	250
SCA GROUP	58,595	100	55,405	100	33,399	78	34,106	78	9,111	9,061

Net sales by region 1997



Markets outside Sweden account for about 90% of total net sales.

Employees by region 1997



The average total number of employees was 33,399. The proportion in countries other than Sweden was 77%.

Ten-year comparison

SEK M	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Statement of earnings										
Net sales	58,595	55,405	65,317	33,676	33,420	32,137	32,760	31,122	24,853	20,850
Operating profit ¹⁾	5,568	4,581	7,350	1,810	2,172	8,608	2,605	3,338	3,137	2,817
Hygiene Products	2,596	2,323	1,366	815	1,121	857	688	574	686	671
Packaging	1,196	939	2,370	910	680	462	607	626	573	466
Graphic Paper	884	510	2,345	495	35	-313	186	507	806	758
Forest and Timber	812	607	877	869	515	375	468	481	495	459
Other operations	384	436	299	193	-11	197	224	191	145	123
Divested units	-	54	98	36	95	701	750	796	420	340
Goodwill amortization	-304	-288	-301	-288	-287	-248	-200	-105	-	-
Nonrecurring items ²⁾	-	-	296	-1,220	25	6,577	-118	268	12	-
Financial income	280	319	296	252	217	319	320	469	426	355
Financial expense	-1,391	-1,327	-1,915	-1,002	-1,179	-1,899	-1,740	-1,404	-839	-569
Earnings after financial items	4,457	3,573	5,731	1,060	1,210	7,028	1,185	2,403	2,724	2,603
Income taxes	-1,337	-1,144	-1,915	-423	-79	-796	-150	-838	-934	-1,187
Minority interest	-361	-312	-352	-82	-60	-32	-134	-59	-56	-58
Net earnings for the year ³⁾	2,759	2,117	3,464	555	1,071	6,200	901	1,506	1,734	1,358
Balance sheet										
Fixed assets	50,351	48,599	46,822	31,336	30,983	30,613	30,820	32,903	17,951	15,731
Receivables and inventories	16,726	15,461	16,435	10,606	10,409	10,775	11,022	12,252	9,398	7,779
Financial receivables	1,370	1,072	1,644	166	175	2,520	247	-	-	-
Cash and short-term investments	2,258	2,862	3,229	2,820	2,684	2,191	1,478	3,274	3,739	4,057
Total assets	70,705	67,994	68,130	44,928	44,251	46,099	43,567	48,429	31,088	27,567
Shareholders' equity	24,653	22,906	22,024	19,590	19,963	18,284	11,144	11,350	10,533	7,801
Minority interest	1,496	3,331	3,493	853	916	807	688	586	567	328
Interest-bearing debt	22,647	21,396	22,439	13,559	13,673	15,510	19,281	21,818	9,249	8,049
Other interest-free liabilities and provisions	10,206	9,130	8,184	2,821	2,649	3,734	5,636	6,615	5,355	6,806
Operating liabilities	11,703	11,231	11,990	8,105	7,050	7,764	6,818	8,060	5,384	4,583
Total shareholders' equity and liabilities	70,705	67,994	68,130	44,928	44,251	46,099	43,567	48,429	31,088	27,567
Capital employed ⁴⁾	44,840	43,311	47,408	31,780	31,459	29,581	30,918	24,217	14,585	10,733
Net debt	19,018	17,462	17,566	10,573	10,814	10,799	17,556	18,407	5,475	3,751
Operating cash flow ⁵⁾	6,513	5,829	6,586	2,422	2,689	2,930	2,329			
Cash flow from current operations	4,850	4,210	4,943	1,174	1,313	1,388	633			
Cash flow before dividend	666	2,006	-3,673	504	2,285	5,278	1,738			
Key ratios ⁶⁾										
Equity/assets, %	37	39	37	46	47	41	28	25	36	29
Equity/assets including surplus values, %	46	46	44	52	53	45	46	43	57	53
Interest coverage, multiple	5.0	4.5	4.5	2.4	2.3	5.5	1.8	3.6	7.6	13.2
Debt/equity ratio, multiple	0.73	0.67	0.69	0.52	0.52	0.57	1.44	1.54	0.49	0.46
Return on capital employed, %	12	11	16	6	7	29	8	14	22	26
Return on shareholders' equity, %	12	10	17	3	6	47	8	14	19	17
Operating margin, %	10	8	11	5	6	27	8	11	13	14
Net margin, %	5	4	5	2	3	19	3	5	7	7
Capital turnover rate, multiple	1.31	1.28	1.38	1.06	1.06	1.09	1.06	1.29	1.70	1.94
Earnings per share, SEK	13.98	10.71	17.55	2.94	5.82	33.23	4.97	8.12	9.27	7.38
Dividend, SEK per share	5.75⁷⁾	5.25	4.75	3.75	3.40	3.10	3.10	3.10	2.81	2.34
Current capital expenditures	2,207	2,489	2,927	1,377	1,479	1,461	1,495	2,518	2,021	1,422
Strategic capital expenditures	983	1,126	1,849	1,599	74	316	462	2,108	694	149
Acquisitions	3,247	1,558	7,698	821	520	383	1,928	6,899	934	2,346

¹⁾ Operating profit has been distributed (pro forma) in the 1988–1989 period.

²⁾ Not reported separately in 1996–1997.

³⁾ Earnings in Sweden have been charged with 28% deferred tax in 1994–1997, 30% deferred tax in 1989–1993 and 50% deferred tax in 1988.

⁴⁾ Calculation of average return on capital employed and shareholders' equity is based on five measurements during 1993–1997, four measurements in 1991 and 1992 and two measurements in earlier years.

⁵⁾ Comparison figures are changed due to reclassifications.

⁶⁾ Key ratios are defined on page 55.

⁷⁾ Board proposal.

Definitions and key ratios

Calculation of key ratios are based mainly on the recommendations issued by the Swedish Society of Financial Analysts. Averages are calculated based on five measuring points.

CAPITAL DEFINITIONS

Capital employed

The Group's and business areas' capital employed is calculated as an average of assets according to the balance sheet, excluding interest-bearing assets reduced by current operating and tax liabilities, pension provisions and other interest-free liabilities.

Goodwill is included in the Group's capital employed as a Groupwide asset. Accordingly, capital employed for the business areas is reported excluding goodwill.

Shareholders' equity

The shareholders' equity reported in the consolidated balance sheet consists of taxed shareholders' equity increased by the equity portion of the Group's untaxed reserves.

Deferred tax liability in untaxed reserves has been calculated at a 28-percent rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden.

Surplus value in forest lands and listed shares

The surplus value in forest lands and listed shares represents the difference between the market value and the book value of the Group's holdings. Surplus value is charged with deferred taxes.

Net worth

Net worth is the sum of consolidated shareholders' equity and the surplus value in forest lands and listed shares.

Net debt

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

FINANCIAL MEASUREMENTS

Equity/assets ratio

The equity/assets ratio corresponds to shareholders' equity plus minority interest expressed as a percentage of total assets. Equity/assets ratio is also calculated with shareholders' equity, including surplus value in forest lands and listed shares.

Debt/equity ratio

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

Interest coverage

Interest coverage is calculated in conformity with the net method according to which operating profit is divided by financial items.

Operating cash flow

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

Cash flow from current operations

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

Strategic and current capital expenditures

Strategic capital expenditures are defined as major expansion investments in machinery and plant and competitive-enhancing investments in transitions to new technologies.

Current capital expenditures are investments to maintain competitiveness, such as maintenance, rationalization and replacement measures or investments of an environmental nature.

MARGINS, ETC.

Operating margin

Operating profit as a percentage of net sales.

Net margin

Net earnings for the year as a percentage of net sales.

Capital turnover

Net sales divided by average capital employed.

RATES OF RETURN

Return on capital employed

Return on capital employed is calculated for the Group and business areas as operating profit as a percentage of average capital employed.

Return on shareholders' equity

Return on shareholders' equity is calculated for the Group as net earnings for the year as a percentage of average shareholders' equity.

OTHER MEASUREMENTS

Net worth per share

SCA calculates net worth per share based both on the total number of shares outstanding and the number of shares after full dilution.

Earnings per share in SEK

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

SEK M	1997	1996
Net earnings for the year	2,759	2,117
After-tax interest expenses on option and convertible loans	3	3
Total	2,762	2,120

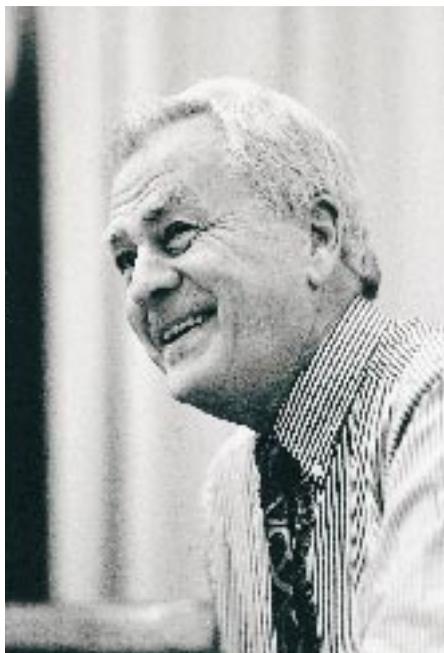
Number of shares after full dilution, millions, average

Earnings per share after tax and full dilution, SEK	13.98	10.71
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Board of Directors and Auditor

BOARD OF DIRECTORS

Elected by Annual General Meeting



Bo Rydin, born 1932, chairman, on the board of SCA since 1972 (deputy director since 1970). Board member of other listed Swedish companies: AB Industrivärden, chairman, Graningeverken, chairman, Svenska Handelsbanken, vice chairman, Skanska AB, vice chairman, SAS council, chairman and Scancem AB. Board member of non-Swedish companies: IBM EMEA Board. SCA shares: 61,196.



Sverker Martin-Löf, born 1943, CEO and president of SCA, on the board of SCA since 1986. Board member of other listed Swedish companies: AGA Aktiebolag and Telefonaktiebolaget LM Ericsson. Chairman of Swedish Forest Industries Association. SCA shares: 7,057. Purchase options corresponding to 30,000 shares.



Clas Reuterskiöld, born 1939, CEO and president of AB Industrivärden, on the board of SCA since 1994.

Board member of other listed Swedish companies: PLM AB, chairman, AGA Aktiebolag, Telefonaktiebolaget LM Ericsson, Sandvik AB and Svenska Handelsbanken. SCA shares: 7,284.



Tom Hedelius, born 1939, chairman of Handelsbanken, on the board of SCA since 1985.

Board member of other listed Swedish companies: Bergman & Beving AB, chairman, AGA Aktiebolag, vice chairman, Telefonaktiebolaget LM Ericsson, vice chairman, AB Industrivärden, vice chairman, SAS council and AB Volvo. SCA shares: 1,663.



Christer Gardell, born 1960, president of AB Custos, on the board of SCA since 1997.

Board member of other listed Swedish companies: ASG AB, chairman, Fastighetsaktiebolaget Hufvudstaden, Perstorp AB, Sandblom & Stohne AB, Skanska AB and Svedala Industri AB. SCA shares: 1,356.



Lars Ramqvist, born 1938, CEO and president of Telefonaktiebolaget LM Ericsson, on the board of SCA since 1994. Board member of Astra AB and Telefonaktiebolaget LM Ericsson.



Sören Gyll, born 1940, chairman of Pharmacia & Upjohn Inc, on the board of SCA since 1997.

Board member of other listed Swedish companies: AB Volvo, AB SKF, Skanska AB and Bilia AB. The Federation of Swedish Industries, The Swedish Employers' Confederation and Oresa Ventures S.A. SCA shares: 119.

Appointed by employees



Gerhard Gustavsson, born 1939, process engineer at SCA Hygiene Paper AB, Edet Mill, on the board of SCA since 1989. Representing salaried employees.



Tjell-Åke Hägglund, born 1944, president SCA Recreation & Pension Foundations, on the board of SCA since 1985. Representing salaried employees. SCA shares: 75.



Alf Söderlund, born 1943, instrument maker at SCA Graphic Sundsvall AB, Ortvikens paper mill, on the board of SCA since 1985. Representing blue collar workers. SCA shares: 62.

Deputies

Jörgen Andersson, born 1964, electrician at SCA Hygiene Paper AB, Edet Mill, representing blue collar workers, on the board of SCA since 1997. SCA shares: 119.

Robert Lundberg, born 1956, repair-man at SCA Packaging Munksund AB, on the board of SCA since 1993. Representing blue collar workers.

Bruno Lundgren, born 1941, supervisor at SCA Packaging Munksund AB, on the board of SCA since 1989. Representing salaried employees. SCA shares: 62

Board Secretary

Michael Bertorp, born 1949, executive vice president and general counsel, responsible for Secretariat and Legal Affairs. SCA shares: 1,917. Options corresponding to 8,000 shares.

AUDITOR

Öhrlings Coopers & Lybrand AB.

Senior responsible auditor: Authorized Public Accountant Bertil Edlund

BOARD OF DIRECTORS AND ITS WORK METHODS

SCA's Board of Directors comprises seven members elected at the Annual General Meeting and three members, with three deputy members, appointed by employees. The Board members elected at the Annual General Meeting include persons closely associated with SCA's principal owners, AB Industrivärden and AB Custos and persons independent of these owners. The President is also included in the Board of Directors. Other staff members in the Company participate in the Board meetings to make presentations or in an administrative capacity.

During the 1997 fiscal year, the Board held 7 (7) meetings. The work of the Board of Directors follows an annual report plan, designed to ensure that the Board's need to be informed is met, and is affected in other respects by the specific work assignments established by the Board regarding a division of work between the Board and the President.

Since the spring of 1994, the Board appoints internally a special committee whose task is to annually prepare a proposal regarding the composition of SCA's Board of Directors. For the period up to the 1998 Annual General Meeting, this nomination committee comprises Bo Rydin, Chairman, Tom Hedelius, Clas Reuterskiöld and Christer Gardell.

There is also a salary committee which deals with matters related to employment and pension terms of senior executives and other employees. For the period up to and including the close of the 1998 Annual General Meeting, this committee comprises Bo Rydin, Chairman, Clas Reuterskiöld and Sören Gyll. The Board of Directors has addressed the issue of appointing a special auditing committee, but decide that control matters brought to the attention of the Board should be dealt with by the entire Board. In order in this respect to ensure that the Board's information requirements are fulfilled, the company's senior auditor reports personally to the Board each year regarding his observations from the examination of the accounts and his assessment of the company's internal controls.

Senior management



Sverker Martin-Löf, born 1943, CEO and president of SCA. Dr of Technology. Employed since 1977. Earlier employment: Senior vice president of Technology, MoDo. Shares: 7,057. Options: 30,000.



Alfred H. Heinzel, born 1947, president of SCA Hygiene Products. B. Sc and MBA. Employed since 1988. Earlier employment: President of Laakirchen AG. Shares: 0. Options: 0.



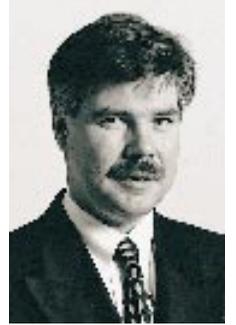
Kurth Augustson, born 1944, deputy president of SCA Hygiene Products. MBA. Employed since 1996. Earlier employment: President of Procordia Food & Beverages. Shares: 1,000. Options: 0.



Colin J. Williams, born 1942, president of SCA Packaging. Master of Physical Chemistry. Employed since 1988. Earlier employment: Johnson & Johnson. Shares: 0. Options: 0.



Kenneth Eriksson, born 1944, president of SCA Graphic Paper. Mechanical Engineer. Employed since 1979. Earlier employment: President of Sunds Defibrator AB. Shares: 0. Options: 5,000.



Jan Åström, born 1956, president of SCA Fine Paper. Master of Engineering. Employed since: 1993. Earlier employment: MoDo. Shares: 0. Options: 5,000.



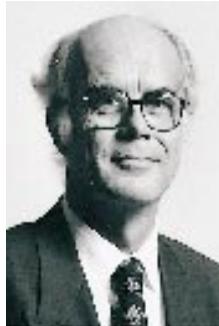
Jerker Karlsson, born 1944, president of SCA Forest and Timber. Licentiate of Forestry. Employed since 1970. Shares: 1,027. Options: 3,000.



Ulf Frölander, born 1939, president of SCA Raw Materials and Logistics. PhD. Employed since 1988. Earlier employment: Executive vice president, Boliden AB. Shares: 1,006. Options: 10,000.



Alf de Ruvo, born 1938, executive vice president, Corporate Research and Technology. Master of Science and Master of Engineering. Employed since 1983. Earlier employment: vice president of Research and Development, Sunds Defibrator AB. Shares: 800. Options: 8,000.



Åke Rietz, born 1945, executive vice president, CFO. MBA. Employed since 1988. Earlier employment: CFO, Duni AB. Shares: 1,168. Options: 15,000.



Michael Bertorp, born 1949, executive vice president, general counsel, Secretariat and Legal Affairs. Bachelor of Law. Employed since 1984. Earlier employment: Various positions in the Swedish Court system and the Ministry of Justice. Shares: 1,917. Options: 8,000.



Sten Lindholm, born 1941, senior vice president Corporate Communications. Bachelor of Arts. Employed since 1990. Earlier employment: senior vice president Corporate Communications, AGA Aktiebolag. Shares: 0. Options: 0.



Francis Van Sevendonck, born 1946, senior vice president Human Resources. Bachelor of Law. Employed since 1990. Earlier employment: Director of Human Resources, Westinghouse Electric Corporation. Shares: 0. Options: 0.



Lennart Persson, born 1947, senior vice president, Accounting and financial control. Business economist. Employed since 1987. Earlier employment: Ljung-hems Rör & Mek AB. Shares: 0. Options: 6,000.

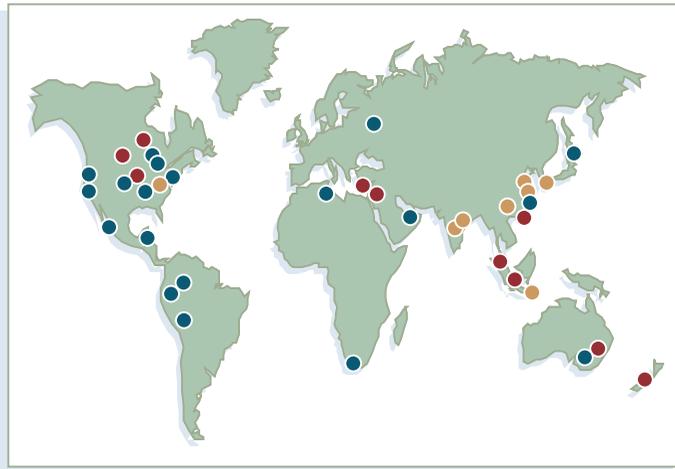


Ralf Helsing, born 1942, senior vice president, Business and IT control. Business Economist. Employed since 1986. Earlier employment: Ekonometric AB. Shares: 0. Options: 10,000.

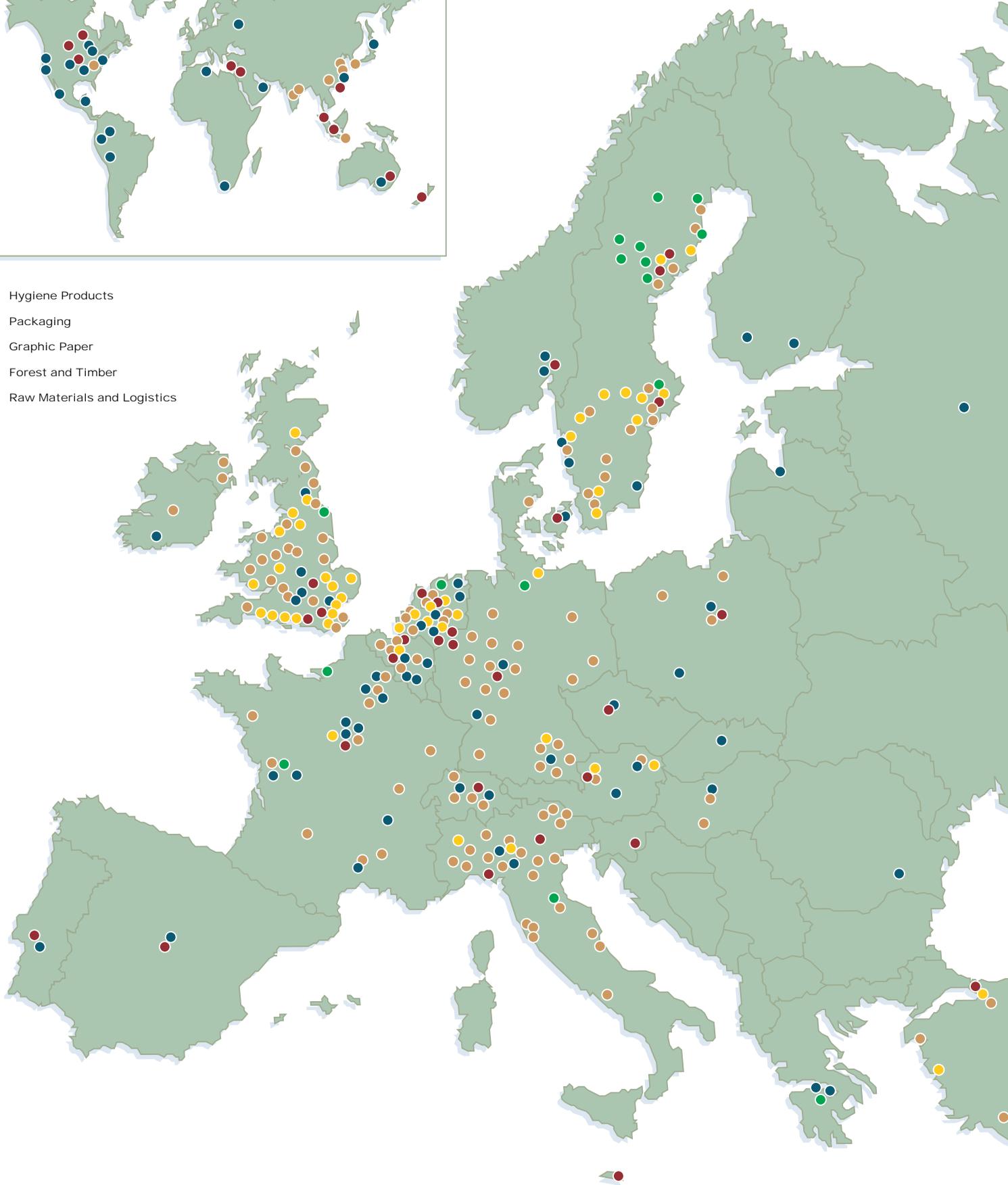


Carl-Axel Olson, born 1948, President of SCA Finans. MBA. Employed since 1975. Shares: 1,119. Options: 2,000.

SCA in the world



- Hygiene Products
- Packaging
- Graphic Paper
- Forest and Timber
- Raw Materials and Logistics



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Sverker Martin-Löf
President and CEO

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Alfred H. Heinzel, President

Production capacities

(excluding fluff products)

Capacities are shown in 1,000 metric tons unless specified otherwise.

	Mill	Country												Total pulp & paper	Sawn timber m ³	Recovered paper ⁵⁾			
			Tissue	Corrugated board	Kraftliner	Testliner	Fluting	Newsprint	SC paper	LWC paper	Uncoated fine paper	Coated fine paper	Market pulp ⁴⁾				CTMP pulp ⁴⁾		
Hygiene Products	Lilla Edet	SE	75														75		
	Nättraby	SE	30														30		
	Tilburg	NL	32														32		
	Friesland **	NL	25														25		
	Croisset ¹⁾	FR	30														30		
	Stembert	BE	59														59		
	Le Theil	FR	54														54		
	Roanne	FR	27														27		
	Mannheim ²⁾ **	DE	250														250		
	Mainz-Kostheim **	DE	100														100		
	Ortmann **	AT	105														105		
	Prudhoe	GB	80														80		
Marpo	ES	25														25			
Packaging		SE		109													109		
		GB		348													348		
		FR		136													136		
		BeNeLux		265													265		
		IT		445													445		
		TR		58													58		
		DE		364													364		
		CH		35													35		
		ES		97													97		
		AT		32													32		
	Munksund	SE			340												340		
	Obbola *	SE			295	75											370		
	Porcari	IT				220	100										320		
	Cochis	IT					65										65		
	Aylesford	GB				120	105										225		
	Eerbeek	NL				150	160										310		
Selkasan	TR				53											53			
Aschaffenburg	DE					280										280			
Witzenhausen	DE				225	55										280			
Ofringen *	CH				35	40										75			
Graphic Paper	Ortviken	SE						345		400							745		
	Wifsta	SE									140						140		
	Östrand	SE											310	80			390		
	Aylesford	GB						375									375		
	Laakirchen ***	AT							315								315		
	Stockstadt	DE									170	190	55				415		
Hallein	AT									15	230	50				295			
Forest and Timber	Tunadal	SE															300		
	Lugnvik	SE															160		
	Holmsund	SE															150		
	Munksund	SE															155		
Recycling		AT																300	
		FR																55	
		DE																845	
		IT																170	
		SE																350	
		NL																510	
		TR																70	
		GB																830	
	NL ³⁾																100		
Total			892	1,889	635	878	805	720	315	400	325	420	415	80	7,774	765	3,230		

* Certified in accordance with ISO 14001.

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

¹⁾ Including non-woven

²⁾ Including 50,000 tons packaging- and greasproofpaper

³⁾ Reukema Trading

⁴⁾ Defined as dry capacity

⁵⁾ Controlled and traded

Glossary

Hygiene Products

Fluff – Pulp based on wood fiber, used to absorb fluid. Used in incontinence and feminine hygiene products, diapers, etc.

Tissue – Crêped soft paper which is the basis for hygiene products such as napkins, toilet paper and towels, and towel-ing products for institutions, hotels, etc.

Packaging

Containerboard – Paper specially manufactured for the production of corrugated board.

Converting plant (also called sheet plant) – Produces finished packaging from corrugated board sheets supplied by an integrated box plant or a sheet feeder plant.

Corrugated board – Two outer layers of paper with an intermediate layer of fluting/folded paper (see liner and fluting).

Corrugated board plant (also called sheet feeder) – Only produces corrugated board in sheet form which is then converted into finished packaging at another plant.

Fluting – The rippled middle layer in corrugated board, produced from semi-chemical pulp or recycled fiber.

Integrated packaging plant (also called box plant) – Produces corrugated board and converts it into finished packaging (boxes and trays) with color-printed text and graphics.

Liner – The surface layer of corrugated board. Available in various grades, such as kraftliner (based on fresh wood fiber) and testliner (based on recycled fiber).

Sheet plant – See converting plant.

Graphic Paper

Chlorine-dioxide-bleached pulp – Pulp bleached with chlorine dioxide, traditional bleaching method.

Chlorine-free pulp – Pulp bleached without use of chlorine in any form.

Coated fine paper – Paper based on chemical pulp, with a surface which enhances the printing quality.

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

High-temperature, chemi-mechanical pulp – Semi-chemical pulp produced with chemical and mechanical processing, used in hygiene and other products.

Kraft pulp – Chemical pulp produced by cooking wood chips in a solution of sodium hydroxide and sodium sulfide.

LWC paper – Light Weight Coated paper is a coated supercalendered (SC) paper with a high mechanical pulp content. Used for periodicals and advertising materials with high color-printing requirements.

Mechanical pulp – Debarked logs which are ground or chipped and then refined to separate the wood fibers, which form pulp.

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

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

Uncoated fine paper – Paper normally used for copying and typing paper in A4 cut-sheet format. The paper is based on chemical pulp.

Forest and Timber

m³fub – Solid volume under bark. The real volume of wood in a tree less the bark, expressed in cubic meters.

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

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

Sawn timber – Wood sawn into various dimensions/sizes: planks, joists, etc.

Raw Materials and Logistics

News and Pams – Newspaper, magazine and brochure recovered paper.

Old Corrugated Container (OCC) – Used corrugated board collected for recycling.

Recycled fiber – Fiber based on recovered paper.

Recycled paper – Paper based on recycled fiber; recovered paper.

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

Research and Development

Lignin – Substance which binds the wood fibers in the tree.

Environmental management

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

GWh – Gigawatt hours: unit of energy measurement (electricity and heat).
1 GWh = 1 million kWh.

Liner – See under Packaging headline.

m³sk – Total volume over bark (from stump to tip).

MW – Megawatt: unit of measurement (electricity and heat).

Oil equivalent – Quantity of fuel corresponding to a cubic meter of oil.

Productive forest land – Land with a production capacity exceeding 1 cubic meter forest per hectare and year.

RMS – SCA's system for resource management.

TJ – Terajoule, unit of energy measurement (electricity and heat). 1 TJ is equivalent to approximately 25 m³ of oil.

TWh – Terawatt hour: unit of energy measurement (electricity and heat).
1 TWh = 1 billion kWh.

Information technology – IT

FOCUS ON PROVIDING INFORMATION AND ENSURING SECURITY

SCA has produced a highly informative home page for external communications on the Internet, as well as an intranet system for making up-to-date information quickly available to Group employees.

Group information
Information on the Group's operations is provided via SCA's home page (www.sca.se). SCA's financial reporting is offered via a comprehensive Investor Relations service for shareholders and others in the capital markets. Interim reports and other financial data can be downloaded electronically or ordered as printed material. Thesis programs and announcements of job openings, are also offered at SCA's website.

SCA's intranet system for the Group's employees offers a substantial amount of internal information, as well as links to the Group's business areas.

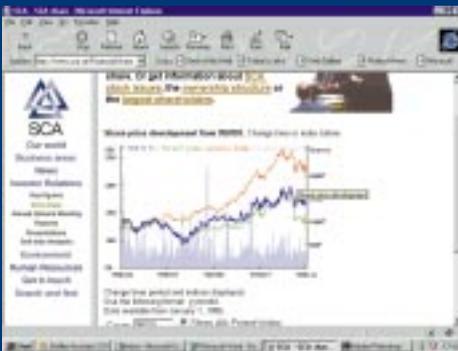
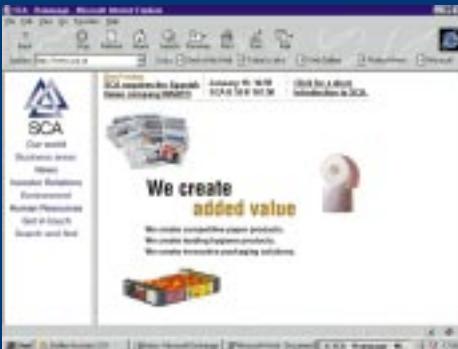
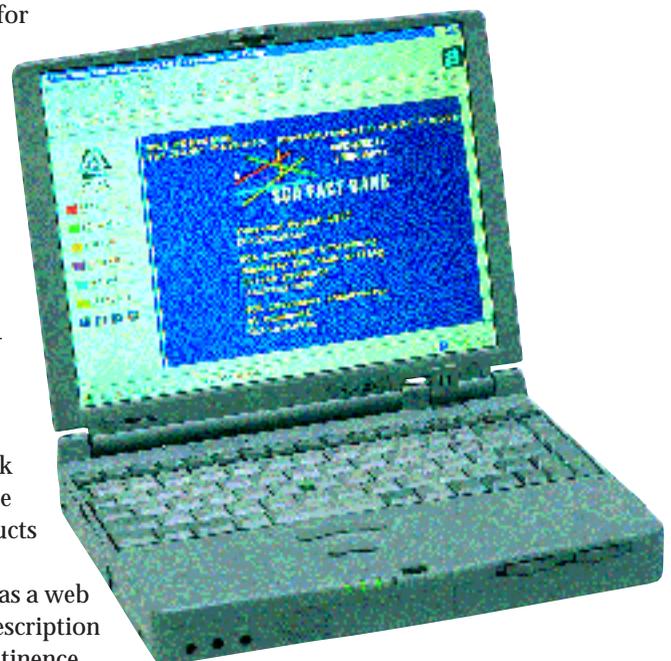
As a result of the increased use of its intranet, SCA is expanding data networks to acquire higher capacity and improved service, as well as global accessibility.

IT security and the year 2000 problem SCA assigns a high priority to IT security, which is being developed in pace with the increasingly extensive information flow. The security program is conducted in the form of recurring updates of existing systems and the training of employees, as well through individual elements in new IT projects.

SCA is also actively engaged in changing the Group's IT systems to handle the "year 2000" or "Y2K" issues. The major problems have been identified and corrective measures are in the planning stage or are being implemented. In a number of cases, the Group is taking advantage of the opportunity to replace older systems.

Internet serving the customer
The Graphic Paper business area is developing a service for authorized customers to use its home page on the Internet (www.graphic.sca.se) to access the order system to obtain such information as pending orders and deliveries.

In addition, SCA's Hygiene Products business area is offering an interactive web site (www.libresse.no) for women who wish to ask questions relating to the feminine hygiene products while preserving their anonymity. SCA also has a web site which presents a description of the company's incontinence operations (www.tena.com).



Annual General Meeting and Nominating committee

The Annual General Meeting of shareholders is being held on Tuesday, 31 March 1998 at 2:30 p.m. at Cirkus, Djurgården, Stockholm, Sweden.

Right to participate in the meeting
To participate in the meeting, shareholders *must* be on the SCA list of shareholders not later than Friday, 20 March 1998 *and* notify SCA of their intention to participate, not later than 4:00 p.m. on Thursday, 26 March 1998.

Registration on shareholders' list
The SCA list of shareholders is maintained by the Swedish Central Securities Depository (CSD). Stock may be registered either in the shareholder's name or in the name of a trustee.

To participate in the meeting, shareholders whose stock has been registered in the names of trustees must arrange for their shares to be re-registered in their own names at CSD not later than **Thursday, 26 March 1998**.

Trustees will help with the registration, usually for a modest fee.

Notice of intention to participate
Notice can be given

- by telephone:
+46-8 788 51 39, or
- by mail to:
Svenska Cellulosa Aktiebolaget SCA
Legal Affairs
Box 7827
SE-103 97 Stockholm, Sweden.

In providing such notice, a shareholder should state:

- the shareholder's name
- social security/organization number
- address and telephone number

Payment of dividend
Friday, 3 April 1998 is proposed as the record date for entitlement to dividends. Payment is expected to be made through CSD on Tuesday, 14 April 1998.

Nominating Committee for SCA's
Board of Directors

The Committee presents proposals on the composition of SCA's Board of Directors. Members: Bo Rydin (Chairman), Christer Gardell, Tom Hedelius and Clas Reuterskiöld. Address: Svenska Cellulosa Aktiebolaget SCA, Box 7827, SE-103 97 Stockholm, Sweden.

Schedule for financial information 1998



Year-end and interim reports are published, for example, in the SCA Investor Report magazine and at the SCA website www.sca.se. This publication and the Annual Report will be sent automatically to shareholders who have notified that they wish to receive this information.

28 April 1998	Interim Report for the period 1 January – 31 March 1998
28 July 1998	Interim Report for the period 1 January – 30 June 1998
28 October 1998	Interim Report for the period 1 January – 30 September 1998
29 January 1999	Year-end Report on 1998 operations
March 1999	1998 Annual Report

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

Svenska Cellulosa Aktiebolaget SCA,
Corporate Communications,
Box 7827, SE-103 97 Stockholm, Sweden
Telephone: +46-8-788 51 00. Telefax: +46-8-678 81 30
or at the SCA website www.sca.se

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