

INFORMATION

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Year-End Report 1998

SCA in Brief

	1998	1997
Net sales, SEK M	61,273	58,595
Earnings after financial items, SEK M	5,169	4,457
Debt/equity ratio, times	0.72	0.73
Earnings per share after tax, SEK	17.07	13.98
Cash flow from operations per share, SEK	21.56	24.54
Dividend, SEK	6.50*	5.75

* Board proposal

- Continued stable earnings growth during the fourth quarter, despite significant production shortfall in liner operations due to rebuilding shutdowns.
- Earnings per share rose 22% compared with 1997.
- Cash flow goals for the year were fulfilled.
- Board of Directors proposes a dividend of SEK 6.50 (5.75) for 1998. If approved, dividend growth over the past five years will amount to 14% annually.
- The Group's strategic capital investments amounted to SEK 5,041 M in 1998, where SEK 3,154 M was attributable to Hygiene Products and SEK 1,393 M to Packaging.
- Development in 1999 is difficult to assess, but the relative stability of economic growth in Europe and the U.S. provides some cause for optimism.

Appended to this year-end report is the "President's Letter" (extract from the main content of the President's Letter in the SCA 1998 Annual Report).

NET SALES AND EARNINGS

The Group's net sales amounted to SEK 61,273 M (58,595), an increase of 5% compared with 1997. Adjusted for divestments, the increase was 8%. The improvement is attributable to favorable effects of higher prices, 1%, a net volume increase of 4% and positive currency effects of 3%. Compared with the third quarter of 1998, net sales rose 4% in the fourth quarter due to higher sales in all business areas.

Group operating profit improved 15% to SEK 6,428 M (5,568). The reported operating profit includes capital gains of SEK 400 M (425).

Financial items amounted to an expense of SEK 1,259 M (1,111). The change is attributed mainly to higher net debt.

Group earnings after financial items rose 16% to SEK 5,169 M (4,457). Excluding nonrecurring items, the increase was 18%. Foreign exchange movements affected earnings positively with approximately SEK 270 M, attributable to Graphic Paper's revenues on exports from Sweden.

Net earnings after tax amounted to SEK 3,379 M (2,759). Earnings per share after full tax and full dilution improved 22% to SEK 17.07 (13.98).

Return on shareholders' equity was 13% (12) and return on capital employed was 14% (12).

CASH FLOW

SEK M	9812	9712
Net sales	61,273	58,595
Operating surplus	10,320	9,344
<i>% of net sales</i>	17	16
Current capital expenditures	-2,058	-2,207
<i>% of net sales</i>	3	4
Changes in working capital	-932	-533
Other operating cash flow changes	-360	-91
Operating cash flow	6,970	6,513
Income taxes paid, etc ¹	-1,694	-1,064
Free cash flow	5,276	5,449
<i>per share, SEK</i>	26.61	27.57
Interest paid after taxes	-1,001	-599
Cash flow from current operations	4,275	4,850
<i>per share, SEK</i>	21.57	24.54
Strategic capital investments, net	-3,930	-4,368
<i>per share, SEK</i>	-19.82	-22.10
Cash flow before dividend	345	482
<i>per share, SEK</i>	1.74	2.44

¹ Tax attributable to operating profit

Operating surplus improved to SEK 10,320 M (9,344), corresponding to 17% (16) of net sales.

Operating cash flow amounted to SEK 6,970 M (6,513). An increase in working capital reduced cash flow by SEK 932 M (553). The increase was due mainly to strong volume growth. Current capital expenditures amounted to SEK 2,058 M (2,207).

Cash flow from current operations, defined as cash flow before strategic capital investments and dividends, amounted to SEK 4,275 M (4,850), or SEK 21.57 (24.54) per share. Cash flow for the year exceeded the Group's long-term goal of SEK 3,200 M by a broad margin. The short-term objective for the year, which totaled SEK 4,900, excluding increases in working capital, was also surpassed.

Strategic capital investments, that is, expansion investments and acquisitions, amounted to SEK 5,041 M (4,414). Acquisitions totaled SEK 2,793 M (3,431), including the purchase of additional shares in PWA (96% at year-end), redemption of minority interests in Laarkirchen, the acquisitions of the Spanish tissue company Marpo and a minority holding (25%) in Lantero, a Spanish packaging company, the acquisition of a tissue company in the Philippines and the Russian tissue company Svetogorsk Tissue, an increase in SCA's ownership share in Productos Familia of Colombia to 50%, the acquisition of 33% of the shares in the Czech packaging company Obalex and all shares outstanding in Widmer-Walty Group, a Swiss packaging company. Previously announced plans to acquire shares in the Brazilian tissue company Melhoramentos have not been completed due to the country's financial crisis.

Strategic capital expenditures in plant and machinery totaled SEK 2,248 M, with Hygiene Products accounting for SEK 1,617 M and Packaging for SEK 512 M. Projects in Hygiene Products include a new tissue production line in Mannheim, expanded conversion capacity for tissue, new capacity for incontinence products and the introduction of a new production technique for baby diapers. Ongoing projects in the Packaging business area include rebuilding and new construction in Obbola and Witzenhausen and new conversion technology for corrugated board at several production plants.

Divestments, which amounted to SEK 1,111 M (46), consisted mainly of the sale of Mölnlycke's Clinical Products Division.

NET DEBT AND DEBT/EQUITY RATIO

Net debt at year-end amounted to SEK 21,370 M, which is SEK 2,352 M higher than at 1 January 1998. Of the increase, SEK 1,227 M is attributed to effects of the weaker Swedish krona.

As a result of the weaker Swedish krona, shareholders' equity rose by approximately SEK 1,400 M. SCA's policy to hedge the Group's net assets outside Sweden is based on the principle that the debt/equity ratio should not be affected by foreign exchange rate movements.

The reported debt/equity ratio was 0.72 (0.73), with an interest coverage ratio of 5.1 times (5.0).

SIGNIFICANT EVENTS DURING THE FOURTH QUARTER 1998 AND THE BEGINNING OF 1999

The Hygiene Products business area increased its ownership interest to 50% in Productos Familia, which, in turn, has acquired all shares in Tecnopapel, a tissue company in Ecuador.

The Packaging business area acquired all shares outstanding in the Widmer-Walty Group of Switzerland. Toward year-end, Packaging also acquired the corrugated board operations of the British company Rexam for GBP 195 M. The acquisition will increase SCA's market share in Great Britain from 13% to 21%. The transaction was approved at Rexam's Special General Meeting and approval by EU's competition commission is expected in February 1999.

DIVIDEND

The Board of Directors has proposed a dividend of SEK 6.50 (5.75) per share, an increase of 13%. If approved, the dividend will amount to 4.9% of shareholders' equity's book value. Dividend growth during the past five years, accordingly, amounts to 14% annually.

HYGIENE PRODUCTS BUSINESS AREA

SEK M	98:4	98:3	98:2	98:1	9812	9712
Net sales	6,951	6,490	6,395	6,328	26,164	24,018
Operating profit	583	600	605	616	2,404	2,567
Volume growth %						
Tissue products	9*	2*	0*		15**	
Fluff products	1*	4*	5*		8**	

*) Compared with the immediately preceding quarter

***) Compared with 9712

Net sales in 1998 totaled SEK 26,164 M (24,018), an increase of 9% compared with the preceding year. The increase represents net effects of 11% volume growth, lower prices and changes in the product mix. Changes in currency rates yielded a positive effect on sales of slightly more than 3%.

Operating profit amounted to SEK 2,404 M (2,567). The decline was caused by lower product prices, increased expenses for new product launches and higher research and development expenditures. Operating profit benefited from the strong volume growth, however. Lower earnings were reported for tissue and incontinence products, while baby diapers and feminine hygiene products showed improved earnings. Currency movements had no effects on operating profit.

Compared with the third quarter, earnings declined marginally in the fourth quarter due to somewhat weaker earnings in the institutional tissue segment and some conversion costs incurred in conjunction with ongoing investments and structural changes. Other product segments reported unchanged or higher earnings.

PACKAGING BUSINESS AREA

SEK M	98:4	98:3	98:2	98:1	9812	9712
Net sales	3,832	3,725	3,650	3,828	15,035	14,282
Operating profit	316	396	395	373	1,480	1,196
Deliveries m sq. m.						
Corrugated board	704	703	724	728	2,859	2,784

Production and deliveries, liner products, see table "Volumes" on page 14.

Net sales during the year totaled SEK 15,035 M (14,282). Accordingly, sales rose slightly more than 5%, with half of the increase attributable equally to higher prices and volume improvements and half to currency effects.

Operating profit amounted to SEK 1,480 M (1,196). The increase was due to higher prices, lower raw material costs and productivity improvements. Currency movements had marginally negative effects on earnings.

The decline in fourth-quarter earnings compared to the third quarter was due to production shutdowns in Obbola and Witzenhausen for rebuilding projects. In addition, kraftliner prices continued to decline in parallel with some price pressure on corrugated board products.

GRAPHIC PAPER BUSINESS AREA

SEK M	98:4	98:3	98:2	98:1	9812	9712
Net sales	4,959	4,779	4,491	4,673	18,902	16,562
Operating profit	469	492	425	465	1,851	884
Wood-containing publication papers	380	358	317	279	1,334	458
Fine papers, paper merchanting, market pulp	89	134	108	186	517	426

Production and deliveries, see table "Volumes" on page 14.

Net sales in 1998 totaled SEK 18,902 M (16,562), an increase of 14%. The improvement was equally attributable to higher deliveries, higher prices and currency effects.

Operating profit for the year amounted to SEK 1,851 M (884). The earnings improvement in wood-containing publication papers was based mainly on higher prices, but increased volume deliveries, lower raw material costs, favorable currency movements and productivity improvements also contributed to the increase. The improvement in earnings from fine papers and pulp was attributable to higher prices and productivity improvements. Deliveries of fine papers were unchanged compared with the preceding year.

Compared with the third quarter of 1998, higher deliveries were the main factor behind improved fourth-quarter earnings for wood-containing publication papers.

Fourth-quarter prices for fine papers declined compared with the third quarter, and deliveries were slightly lower. The decline in earnings was limited by lower pulp prices. Pulp operations, however, showed a sharp decline in fourth-quarter earnings, compared with the third quarter.

FOREST AND TIMBER

SEK M	98:4	98:3	98:2	98:1	9812	9712
Net sales	998	901	1,033	1,053	3,985	4,158
Operating profit	206	140	188	188	722	812

Earnings in 1998 were down 11%, compared with 1997. Earnings for the year include capital gains of SEK 32 M (8) from the sale of forest land. Sawmill operations reported a sharp decline in earnings compared with 1997, due mainly to lower prices and higher raw material costs. Fourth-quarter earnings from sawmill operations were unchanged, compared with the third quarter, while forestry operations reported a sharp increase in earnings.

PERSONNEL

The number of employees at year-end 1998 was 32,211 (33,404).

MARKET OUTLOOK

Development in 1999 is difficult to assess, but the relative stability of economic growth in Europe and the U.S. provides some cause for optimism.

Volume growth for SCA products in 1998 was strong while price pressure in virtually all areas occurred. Competitive pricing was also noted for both raw materials and finished products. Raw materials, however, were also affected by surplus supply caused by the financial crises in Asia and Latin America, while price pressure on finished products was caused by low inflation and competition in Europe.

Prices for hygiene products at year-end 1998 were 3% lower than average prices for the year. Pulp prices also declined, which compensated for most effects of lower prices for finished products during the fourth quarter. Internal programs to improve productivity will be intensified in 1999 and are expected to gradually improve margins by 2 percentage points over the next two years. Demand is expected to remain strong, and determined efforts will be made to restore higher prices.

The Packaging business area shows continued good demand. Corrugated board prices are relatively stable, but prices for both kraftliner and testliner declined toward year-end and, in the beginning of 1999, were about 5% below average prices in 1998. An increase of 15% in the price of kraftliner has been announced by North American producers. Conditions for a price increase in Europe during the second quarter are considered good.

Within the Graphic Paper business area, prices for newsprint and SC paper are expected to remain stable. The price of LWC paper in the beginning of 1999 was about 3% below the average price in 1998. Demand for coated fine papers in sheets is strong, but prices in the beginning of 1999 were about 5% below average prices in 1998. Pulp prices appear to have hit bottom.

SHARE DISTRIBUTION

981231	Series A	Series B	Total
Registered number of shares	62,145,880	135,254,055	197,399,935
Unconverted debenture loans	-	1,313,151	1,313,151
Outstanding warrants	-	1,643,544	1,643,544
Total after full conversion	62,145,880	138,210,750	200,356,630

Calculated in accordance with recommendations by the Swedish Association of Financial Analysts, the effects of outstanding debentures and warrants represent a maximum dilution of 0.7%, which is taken into account in calculating earnings per share for the period.

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders will be held on 24 March 1999 in Stockholm. The proposed record date for entitlement to dividends is 29 March. Payment is expected to be made through VPC (Swedish Securities Register Center) on 7 April. Interim reports in 1999 will be released on 28 April, 29 July and 28 October. The Annual Report for 1998 is expected to be published in the beginning of March 1999.

Stockholm, 29 January 1999

SVENSKA CELLULOSA AKTIEBOLAGET SCA (publ)

Sverker Martin-Löf
President and CEO

This report has not been subject to final audit by the company's auditors.

Copies of the Interim Report are available at SCA U.K. Holdings Limited, SCA Packaging House, 543, New Hythe Lane, Aylesford, Kent ME20 7PE, attention, Tony Staples, telephone +44 1622 883 025

Statement of Earnings

1 January – 31 December

	1998		1997	
	SEK M	ECU M	SEK M	ECU M
Net sales	61,273	6,858	58,595	6,794
Operating expenses	-50,953	-5,703	-49,251	-5,710
Operating surplus	10,320	1,155	9,344	1,084
Depreciation according to plan	-4,013	-449	-3,843	-446
Share in earnings of associated companies	121	13	67	8
Operating profit	6,428	719	5,568	646
Financial items	-1,259	-141	-1,111	-129
Earnings after financial items	5,169	578	4,457	517
Income taxes	-1,680	-188	-1,337	-155
Minority interest	-110	-12	-361	-42
Net earnings after tax	3,379	378	2,759	320
Operating margin	11 %		10 %	
Return on shareholders' equity	13 %		12 %	
Return on capital employed	14 %		12 %	

Business Areas

Net sales

1 January – 31 December

SEK M	1998	1997
Hygiene Products	26,164	24,018
Packaging	15,035	14,282
Graphic Paper	18,902	16,562
Wood-containing publication papers	7,478	6,390
Fine papers, paper merchanting, market pulp	11,424	10,172
Forest and Timber	3,985	4,158
Other operations	1,647	1,862
Divested units	144	1,804
Intra-Group deliveries	-4,604	-4,091
Total net sales	61,273	58,595

Earnings

1 January - 31 December

SEK M	1998	1997
Hygiene Products	2,404	2,567
Packaging	1,480	1,196
Graphic Paper	1,851	884
Wood-containing publication papers	1,334	458
Fine papers, paper merchanting, market pulp	517	426
Forest and Timber	722	812
Other operations	285	384
Divested units	3	29
Goodwill amortization	-317	-304
Total operating profit	6,428	5,568
Financial items	-1,259	-1,111
Earnings after financial items	5,169	4,457

Balance Sheet

	1998-12-31		1997-12-31	
	SEK M	ECU M	SEK M	ECU M
Assets				
Long-term assets	55,147	5,823	50,351	5,787
Receivables and inventories	18,790	1,984	16,726	1,923
Financial receivables and investments	2,617	276	2,046	235
Cash and bank balances	1,819	192	1,582	181
Total assets	78,373	8,275	70,705	8,126
Equity, provisions and liabilities				
Shareholders' equity	28,404	2,999	24,653	2,833
Minority interest	1,386	146	1,496	172
Provisions	10,906	1,152	10,452	1,201
Interest-bearing liabilities	25,806	2,725	22,647	2,603
Operating liabilities and other noninterest-bearing debt	11,871	1,253	11,457	1,317
Total equity, provisions and liabilities	78,373	8,275	70,705	8,126
Debt/equity	0.72 times		0.73 times	
Equity/assets	38 %		37 %	

Cash Flow Statement

1 January – 31 December

SEK M	1998	1997
Operating surplus	10,320	9,344
Changes in working capital	-932	-533
Current capital expenditures	-2,058	-2,207
Other operating cash flow changes	-360	-91
Operating cash flow	6,970	6,513
Financial items	-1,259	-1,111
Income taxes paid	-1,279	-731
Other	-157	179
Cash flow from current operations	4,275	4,850
Strategic capital expenditures	-2,248	-983
Acquisitions	-2,793	-3,431
Divestments	1,111	46
Cash flow before dividend	345	482
Dividend	-1,145	-1,092
Net cash flow	-800	-610
Net debt, 1 January	-19,018	-17,462
Net cash flow	-800	-610
Net debt in acquired operations	-325	-
Currency effects	-1,227	-946
Net debt, 31 December	-21,370	-19,018
Debt payment capacity	37 %	39 %

Debt payment capacity

Debt payment capacity is expressed as cash earnings in relation to net debt.

Cash earnings

Cash earnings are calculated as earnings before tax with reversal of depreciation on tangible and intangible assets, share in earnings of associated companies, nonrecurring items and deductions for income taxes paid.

Quarterly Data

Group

SEK M	1998				1997			
	IV	III	II	I	IV	III	II	I
Net sales	15,918	15,234	14,857	15,264	15,003	14,262	15,114	14,216
Operating surplus	2,476	2,506	2,427	2,911	2,381	2,244	2,645	2,074
Depreciation according to plan	-1,043	-1,006	-966	-998	-924	-958	-1,009	-952
Share in earnings of associated companies	27	32	41	21	45	8	7	7
Operating profit	1,460	1,532	1,502	1,934	1,502	1,294	1,643	1,129
Financial items	-343	-338	-298	-280	-307	-285	-284	-235
Earnings after financial items	1,117	1,194	1,204	1,654	1,195	1,009	1,359	894
Of which, nonrecurring items	-	-	-	400	-	-	300	125
Income taxes	-356	-426	-376	-522	-391	-351	-300	-295
Minority interest	-30	-19	-29	-32	-120	-88	-71	-82
Net earnings after tax	731	749	799	1,100	684	570	988	517
Earnings per share	3.68	3.77	4.05	5.57	3.47	2.89	5.00	2.62

Quarterly Data

Business Areas - Net sales

SEK M	1998				1997			
	IV	III	II	I	IV	III	II	I
Hygiene Products	6,951	6,490	6,395	6,328	6,090	5,922	6,015	5,991
Packaging	3,832	3,725	3,650	3,828	3,519	3,465	3,975	3,323
Graphic Paper	4,959	4,779	4,491	4,673	4,341	4,108	4,174	3,939
Wood-containing publication papers	1,979	1,900	1,761	1,838	1,856	1,540	1,655	1,339
Fine papers, paper merchanting, market pulp	2,980	2,879	2,730	2,835	2,485	2,568	2,519	2,600
Forest and Timber	998	901	1,033	1,053	1,118	903	1,081	1,056
Other operations	365	467	404	411	463	427	511	461
Divested units	3	1	-1	141	466	427	466	445
Intra-Group deliveries	-1,190	-1,129	-1,115	-1,170	-994	-990	-1,108	-999
Total net sales	15,918	15,234	14,857	15,264	15,003	14,262	15,114	14,216

Business Areas - Earnings

SEK M	1998				1997			
	IV	III	II	I	IV	III	II	I
Hygiene Products	583	600	605	616	595	645	647	680
Packaging	316	396	395	373	336	291	376	193
Graphic Paper	469	492	425	465	436	210	173	65
Wood-containing publication papers	380	358	317	279	193	102	128	35
Fine papers, paper merchanting, market pulp	89	134	108	186	243	108	45	30
Forest and Timber	206	140	188	188	221	208	230	153
Other operations	-30	-16	-34	365	-13	7	283	107
Divested units	-1	-1	-	5	3	9	11	6
Goodwill amortization	-83	-79	-77	-78	-76	-76	-77	-75
Total operating profit	1,460	1,532	1,502	1,934	1,502	1,294	1,643	1,129
Financial items	-343	-338	-298	-280	-307	-285	-284	-235
Earnings after financial items	1,117	1,194	1,204	1,654	1,195	1,009	1,359	894
of which, nonrecurring items	-	-	-	400	-	-	300	125
Earnings after financial items Excl. nonrecurring items	1,117	1,194	1,204	1,254	1,195	1,009	1,059	769

Quarterly Data

Business Areas - Margins

Percent	1998				1997			
	IV	III	II	I	IV	III	II	I
Hygiene Products	8	9	9	10	10	11	11	11
Packaging	8	11	11	10	10	8	9	6
Graphic Paper	9	10	9	10	10	5	4	2
Wood-containing publication papers	19	19	18	15	10	7	8	3
Fine papers, paper merchandising, market pulp	3	5	4	7	10	4	2	1
Forest and Timber	21	16	18	18	20	23	21	14
Group								
Operating margin	9.2	10.1	10.1	12.7	10.0	9.1	10.9	7.9
Financial net margin	-2.2	-2.2	-2.0	-1.8	-2.0	-2.0	-1.9	-1.7
Profit margin	7.0	7.9	8.1	10.9	8.0	7.1	9.0	6.2

Five-year summary

Full year	1998	1997	1996	1995	1994
Earnings after financial items, SEK M	5,169	4,457	3,573	5,731	1,060
Earnings per share after tax, SEK	17.07	13.98	10.71	17.55	2.94
Debt/equity ratio, times	0.72	0.73	0.67	0.69	0.52
Return on capital employed, %	14	12	11	16	6
Return on shareholders' equity, %	13	12	10	17	3

Volumes

Thousand metric tons	98:4	98:3	98:2	98:1	9812	9712	Change %
Liner products							
Production	497	562	555	554	2,168	2,241	-3
External deliveries	173	183	173	186	715	704	2
Wood-containing publication papers							
Production	295	301	303	301	1,200	1,127	6
External deliveries	311	300	300	288	1,199	1,135	6
Fine papers							
Production	179	190	183	184	736	715	3
External deliveries	182	193	164	181	720	718	0

President's letter

(Extract from the main content of the President's Letter in the SCA 1998 Annual Report).

INCREASED PROFITABILITY AND EXPANSION

For SCA, 1998 was a year of both consolidation and expanded operations.

The merger during the year of the Group's hygiene products operations in a single business area and the measures taken to improve profitability in the corrugated board business were significant steps toward greater competitiveness. We also experienced a high rate of expansion in the Hygiene Products and Packaging business areas both through acquisitions and direct investments. Meanwhile, the rationalization of the Graphic Paper and industrial forestry operations continued. Product development has been assigned an increasingly prominent role in all sectors of operations, which has helped to strengthen the Group's market positions.

International growth was dampened by the financial crises. But the impact on SCA's operations has been limited up to now. Our product portfolio provides effective protection against the fluctuations that have occurred, primarily in the raw-materials market.

The Group's net sales in 1998 amounted to SEK 61,273 M and income after financial items was SEK 5,169 M. The trend of earnings was distinctly positive in Packaging and Graphic Paper – notably in the case of publication papers. Hygiene Products met its yield targets despite pressure on prices in European markets.

The growth in volume for the Group as a whole amounted to 8 percent. Growth in the Hygiene Products sector amounted to a full 11 percent. The Group's operating surplus increased by 10 percent, exceeding the target figure of a 16-percent margin. The cash flow from operations amounted to SEK 4,275 M, clearly exceeding the long-term goal of SEK 3,200 M. Expansion investments amounted to SEK 5,041 M.

SCA share

The SCA share performed much better than the Stockholm Stock Exchange's Forest Index in 1998.

The long-term trend is shown in the chart, where the annual effective return on an investment in the SCA share since 1980 (based on the average share prices for the year) is shown for each year. As the chart shows, the return between 1997 and 1998 was 15 percent. The average return for the entire period was 15 percent and the return for the most recent five-year period 17 percent. Thus, SCA has created value for its shareholders well within the range anticipated in our objectives.

Increased profitability and expansion

Our strategy for the Hygiene Products and Packaging business areas is to increase the profitability of existing operations and to expand through acquisitions. Accordingly, active participation in the ongoing consolidation of our industry in Europe, and expansion in such new markets as Central and Eastern Europe, Asia and Latin America have the highest priority.

A new, integrated operation was created in the hygiene sector through the merger of SCA Hygiene Paper and SCA Mölnlycke. The new organization gives us better opportunities to deal with the competition in Europe since we are better able to utilize the effects of synergies in production, distribution, product development and marketing. The network of strategic facilities that is being built up in the production field in Europe, in which each mill is concentrating its production on specific products – thereby making it possible to significantly improve efficiency – constitutes an important project. In Mannheim, we began installation during the year of a completely new production line for high-grade tissue to be sold in retail outlets under private labels. Production is scheduled to start during the summer of 1999.

The incontinence-care business continues to show strong growth in volume. Among other developments, SCA's positions in France and Finland were strengthened through acquisitions. Pant diapers for use in incontinence-care were launched in Europe. Products for light incontinence problems were introduced in the Italian and Spanish markets. We also began to sell incontinence products under our Tena brand in Mexico and a number of other Latin American countries.

The Svetogorsk tissue mill in Russia was acquired and SCA's holding in Productos Familia, the Colombian tissue company, was increased to 50 percent. The financial problems that have affected these regions are slowing the pace of SCA's operations in the short-term perspective but few observers question the strong potential growth in consumption over a somewhat longer term. Our operations in the regions are still limited. 3 percent of our total sales and 2 percent of our capital are in Russian, Asian and Latin American markets.

SCA's Packaging sector has been actively engaged in a program to boost profitability in its present business. Briefly stated, the program is based on efforts throughout the business area to maximize sales margins by focusing on market segments with more sophisticated customer requirements, rather than by attempting to maximize volumes. In Germany, which is SCA's largest market for packaging, the action program is being carried out at the same time that costs are being reduced sharply, in part through cutbacks in personnel.

Meanwhile, SCA Packaging strengthened its positions in both Western and Central Europe through acquisitions that increased the business area's sales by SEK 900 M (or 6 percent). Just before the end of the year an agreement was reached with Rexam Plc covering the acquisition of the latter's packaging operations in the corrugated board field. This will strengthen SCA's already leading position in the Great Britain, increasing its share of that market from 13 to 21 percent, at the same time that attractive new segments are being opened up. The acquisition is in line with the strategy of participating actively in consolidation of the industry and increasing the Group's present total share of the market in Europe to 20 percent.

The work in SCA's forest products sector, which includes the Graphic Paper and Forest and Timber units, was focused on continuing fine-tuning measures. With very limited capital expenditures, SCA is implementing improvement and rationalization programs that have resulted in a substantial increase in earnings in the fine-paper segment, in recapturing the Group's position as the leading producer of SC paper, in continuing fine-tuning of LWC paper

production, and in sharp improvements in operations of our sawmills in Munksund, Tunadal and Lugnvik.

Importance of raw materials

The proximity to high-grade raw materials – our own forest holdings – is a critical factor in all of SCA's operations. The Hygiene Products, Packaging and Graphic Paper business areas are extremely dependent on cost-effective production of both pulp and paper products. The nearby forest raw material is an important element in our cost situation and our emphasis on quality. The chart shows that income generated in the Swedish forest products sector is of major importance in determining the level of Group earnings. The consistent level of earnings in forest product operations are striking, while earnings in the paper and pulp operations vary sharply from year to year. However, the semifinished products from the latter operations are processed in the hygiene and packaging business areas.

SCA's employees - key to success

SCA's strategic focus imposes heavy demands on skilled and involved employees in all Group operations. Growth in value in the company is ultimately being created by all the employees, who should be able to share that growth. In 1998 all employees in ten countries were offered an opportunity to subscribe for convertible debentures and attached warrants as a way of becoming part-owners of SCA. Forty-two percent of the employees – 12,000 persons – subscribed. I consider this to be a high percentage in a company like SCA which, as a result of acquisitions, is continuously acquiring a large number of employees who initially do not often know the company so well.

A new incentive system that is linked to SCA's cash-flow requirements and growth in value was offered to approximately 60 executives. The system is based on long-term growth in value of SCA shares relative to those of comparable companies, and on SCA's cash-flow objectives. We plan to develop this type of value-based bonus system to include all employees at all levels, which I believe will stimulate all of us in our daily work.

SCA - a part of Europe

Sweden and Swedish industry and commerce need a Swedish connection with the European Monetary Union. This is an important prerequisite for our continuing investments at home.

The greater part of SCA's operations and employees are in "EMU countries." For a company whose operations cover nearly all of Europe, but which is based in Sweden, Swedish membership in the EMU is highly desirable to facilitate trading in our shares and to create equal conditions for investors in different countries.

Environment

The environmental program is a priority, fully integrated part of SCA's operations. This is because our business concept places strong emphasis on the closed-cycle principle, which is natural since more than 90 percent of the company's products consist of renewable and recyclable materials. Environmental considerations are always involved at an early stage of decisions pertaining to development of new products or production processes.

SCA is working actively to obtain environmental certification of Group operations. Forestry operations were certified via the Forest Stewardship Council and ISO 14001. Before the end of the year 2000, all of the pulp and paper mills will be environmentally certified in accordance with the European and international ISO 14001 and EMAS standards.

Year 2000 problem

Ensuring that our data processing systems will function in the year 2000 has been a priority concern for some time. Our production facilities are highly modern and thus contain, in addition to EDP systems, a number of computer systems that control processes. Using systematic methods and checking programs, as well as independent audits, all systems are being aligned with the aim of ensuring that they will function during the shift to the new millennium.

Cash flow and dividend growth

Our operations are always keyed to the objective of giving our shareholders a competitive return on their investment. The strategy for creating growth in value is based on being able to use the cash flow from operations for dividends and for profitable strategic investments. These investments in turn create a growing cash flow that strengthens the base for consistent growth in dividends.

In conjunction with the Board's strategy review of the Group, the Board concluded that the current Group structure and earnings capacity supports a somewhat higher dividend level in 1998 in relation to reported shareholders' equity. The Board has proposed an increase in the dividend for 1998 of 13 percent.

Since the company was listed on the Stockholm Stock Exchange in 1950, SCA's dividend has been raised continuously or kept unchanged. Growth in the dividend during the most recent five-year period, including the dividend proposed for 1998, has amounted to 14 percent. The dividend today is equal to approximately 4.9 percent of the shareholders' equity's book value.

Stockholm, 29 January 1999

Sverker Martin-Löf

President and Chief Executive Officer

The diagram illustrates the annual effective return, through 1998, based on the date of acquisition of the SCA share. For example, if the SCA shares were purchased in 1996, the effective return through 1998 amounted to 25%. 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 17% for the past five years.

The forest operations are of major importance for SCA's cost position and quality focus. The stable earnings level of the forest operations over time is also a counterweight to the varying earnings of the industrial operations in Sweden, particularly within Packaging and Graphic Paper.