

INFORMATION

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SCA Interim Report **January 1 - March 31, 1999**

SCA in brief

	99:1	98:4	98:1
Net sales, SEK M	16,242	15,918	15,264
Earnings after financial items, SEK M	1,128	1,117	1,654
Excluding nonrecurring items	1,128	1,117	1,254
Earnings per share after tax, SEK	3.76	3.68	5.57
Cash flow from current operations per share, SEK	4.25	7.62	3.08

- First step taken prior to divestment of fine paper operations.
- Earnings at the same level as in preceding quarter.
- Hygiene Products and Packaging business areas posted higher operating profit compared with fourth quarter.
- Continued favorable volume trend in Hygiene Products.
- Cash flow from current operations amounted to SEK 845 M.
- Successive recovery in European business climate expected to result in improved price situation.

SALES AND EARNINGS

The Group's net sales amounted to SEK 16,242 M (15,264), an increase compared with the first quarter of 1998 of 6%. 8% of the increase is attributable to acquisitions in the packaging operations, a volume increase of 2% and lower prices and other effects amounting to 4%. Compared with the fourth quarter of 1998, net sales rose 2%. Acquisitions within Packaging accounted for 6% of the increase. Higher volumes provided 3%, while prices, product mix and other factors resulted in a 4% decline. In addition, currency effects impacted negatively on the first quarter by 3%. This was due to the appreciation of the SEK.

Group operating profit amounted to SEK 1,454 M (1,934). Adjusted for nonrecurring items of SEK 400 M in the first quarter of 1998, operating profit declined 5%, mainly due to lower product prices. Accordingly, earnings were at the level reported in the fourth quarter of 1998.

Financial items amounted to an expense of SEK 326 M (280). The change is attributable mainly to higher net debt as a result of company acquisitions.

Group earnings after financial items amounted to SEK 1,128 M (1,654). Adjusted for nonrecurring items, this corresponds to a decline of 10% compared with the first quarter of 1998. Earnings after financial items were at the level reported in the fourth quarter of 1998.

Earnings after tax amounted to SEK 746 M (1,100). Earnings per share, after full tax and full dilution, were SEK 3.76 (5.57).

Calculated on a rolling 12-month basis, the return on shareholders' equity was 11% (14) and on capital employed 12% (14).

CASH FLOW

SEK M	99:1	98:1
Net sales	16,242	15,264
Operating surplus	2,533	2,911
<i>% of net sales</i>	<i>16</i>	<i>19</i>
Current capital expenditures	-442	-396
<i>% of net sales</i>	<i>3</i>	<i>3</i>
Changes in working capital	-559	-1,023
Other operating cash flow changes	-101	-116
Operating cash flow	1,431	1,376
Income taxes paid, etc ¹	-288	-528
Free cash flow	1,143	848
<i>per share, SEK</i>	<i>5.75</i>	<i>4.29</i>
Interest paid after taxes	-298	-239
Cash flow from current operations	845	609
<i>per share, SEK</i>	<i>4.25</i>	<i>3.08</i>
Strategic capital investments, net	-3,860	-302
Cash flow before dividend	-3,015	307

¹ Tax attributable to operating profit

Operating surplus amounted to SEK 2,533 M (2,911), corresponding to 16% (19) of net sales. Excluding nonrecurring items, operating surplus for the comparable period was SEK 2,511 M, which also corresponds to 16% of net sales.

Operating cash flow amounted to SEK 1,431 M (1,376). Working capital increased by SEK 559 M (1,023). Capital expenditures for current investments amounted to SEK 442 M (396).

Cash flow from current operations, that is, before strategic capital expenditures and dividends, amounted to SEK 845 M (609), corresponding to SEK 4.25 (3.08) per share.

Strategic capital investments, which include expansion investments and acquisitions, amounted to SEK 3,890 M (1,272). Company acquisitions, SEK 3,347 M (1,043), include purchases of packaging companies in Great Britain and Denmark and redemption of the minority interest in SCA Graphic Laakirchen AG.

Strategic capital expenditures in machinery and plant amounted to SEK 543 M (229), mainly within Hygiene Products.

FINANCING

Net debt at the end of the period amounted to SEK 23,699 M, which is SEK 2,329 M higher than at 1 January 1999. The increase is attributable to a net of the cash flow from operations of SEK 845 M, payments for strategic investments and divestments, combined amounting to SEK 3,860 M, and the positive effects of currency movements, SEK 686 M.

As a result of the appreciation of the SEK, shareholders' equity declined by about SEK 900 M due to SCA's policy of hedging the Group's assets outside Sweden. This policy is based on the principle that the debt/equity ratio should be unaffected by currency movements.

The debt/equity ratio was 0.80 (0.69), while at 31 December 1998 it was 0.72. The interest coverage multiple was 4.5 (6.9).

SIGNIFICANT EVENT

SCA's reasons for forming a new fine paper company in cooperation with MoDo

SCA's strategic direction involves a continued focus on hygiene products and packaging as well as wood-containing papers linked to SCA's extensive forest holdings, which also represents a strategically vital raw material base for the hygiene and packaging operations.

Since SCA acquired PWA in 1995, a comprehensive improvement program was implemented in the fine paper operations regarding the product program (concentration to coated sheet and quality enhancement) and increased integration with the merchandising operations. As a result, it has been possible to increase the value of SCA's fine paper operations substantially. SCA has announced for some time that the fine paper activities was not among SCA's strategic operations. During the process, SCA studied various action alternatives based on the best possible solution for SCA's shareholders. The alternatives studied were merger with another company, exchange of assets, direct divestment and a listing on the stock exchange. It is considered that the alternative selected, taking into account the potential that exists in the new company and current market situation, represents the overall best solution from a value viewpoint. From an industrial viewpoint, the merger with MoDo means that the

new company will be a leading player in fine paper in Europe, with concentration on the rapidly growing commercial print segment (coated paper) and office papers. The new company will be one of Europe's largest paper merchants, with substantial market shares in its main markets and a presence in more than 20 countries.

Financial effects for SCA

The transferred fine paper operations has reported the following earnings trend:

SEK M	99:1	1998	1997
Net sales	2,465	9,789	9,042
Operating profit	108	528	436

Capital employed, excluding pension liabilities, amounted to SEK 6,579 M at 31 December 1998. The estimate is that SCA's net loan liabilities will decline by SEK 2.5 - 3.0 billion as a result of the new company's own external borrowing. Accordingly, the debt/equity ratio in SCA will decline by a multiple of about 0.1.

The transaction with MoDo is described in a separate press release and supplementary information on SCA's website www.sca.se.

HYGIENE PRODUCTS BUSINESS AREA

SEK M	99:1	98:4	98:1
Net sales	6,609	6,951	6,328
Consumer products	3,775	4,081	3,698
AFH and incontinence products	2,834	2,870	2,630
Operating profit	596	583	616
Consumer products	237	244	253
AFH and incontinence products	359	339	363
Volume growth, %			
Consumer products	1.6* 6.2**	1.8*	6.0*
AFH and incontinence products	2.0* 9.6**	2.9*	4.8*

*) Compared with the immediately preceding quarter

**) Compared with corresponding period previous year

Net sales amounted to SEK 6,609 M (6,328), up 4% for comparable units compared with a year earlier. The increase was the net effect of a 5% volume growth, price decline of 2% and adverse currency effects of 1%. In addition, company acquisitions, mainly in consumer products, contributed a volume increase of 3%. Compared with the fourth quarter of 1998, net sales declined 5%. Volumes were higher, prices unchanged, while the currency and product mix affected net sales adversely.

Operating profit amounted to SEK 596 M (616). The decline in operating profit was due mainly to lower prices and higher costs for development and marketing.

Compared with the fourth quarter of 1998, earnings improved somewhat despite increased development costs and advertising investments. As a result of currency hedging, the effects of the appreciation of the SEK did not impact earnings.

PACKAGING BUSINESS AREA

SEK M	99:1	98:4	98:1
Net sales	4,745	3,832	3,828
Operating profit	387	316	373
Deliveries m sq. m.			
Corrugated board	823	704	728

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

Net sales in the period amounted to SEK 4,745 M (3,828). Adjusted for acquisitions, the packaging operations posted a decline in net sales corresponding to 6%. The decline is due to lower kraftliner prices and lower corrugated board volumes. Compared with the fourth quarter of 1998, net sales, adjusted for company acquisitions, declined 3%, due mainly to lower paper prices.

Operating profit amounted to SEK 387 M (373). Company acquisitions affected earnings favorably while reduced paper prices and lower corrugated board volumes reduced earnings. Compared with the fourth quarter of 1998, operating profit rose 22%, due mainly to company acquisitions.

GRAPHIC PAPER BUSINESS AREA

SEK M	99:1	98:4	98:1
Net sales	4,569	4,959	4,673
Operating profit	405	469	465
Wood-containing publication papers	320	380	279
Fine papers, paper merchanting, market pulp	85	89	186

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

Net sales amounted to SEK 4,569 M (4,673), down 2%. The decline was due mainly to lower prices. Compared with the fourth quarter of 1998, net sales declined 8%, due to lower volumes as well as lower prices.

Operating profit in the period amounted to SEK 405 M (465), of which wood-containing publication papers accounted for SEK 320 M (279). The earnings improvement for wood-containing publication papers is due to lower raw material costs and higher productivity. However, prices for LWC has been somewhat lower. Operating profit within fine paper and pulp operations amounted to SEK 85 M (186). The earnings decline is due to lower fine paper and pulp prices.

Compared with the fourth quarter of 1998, earnings of SEK 405 M (469) weakened. Prices for wood-containing publication papers declined concurrent with lower deliveries. Earnings within the fine paper and the pulp operations were SEK 85 M (89). Fine paper operations posted improved earnings while pulp operations declined due to lower volumes.

FOREST AND TIMBER

SEK M	99:1	98:4	98:1
Net sales	941	998	1,053
Operating profit	161	206	188

Operating profit in the first quarter of 1999 were 14% lower than in the first quarter of 1998. Capital gains from the sale of forest land amounting to SEK 14 M (20) are included in earnings. Both sawmill and forestry operations reported lower earnings compared with a year earlier due to lower selling prices for sawn timber and pulpwood. Compared with the preceding quarter, operating profit was lower as a result of cuts in pulpwood prices.

PERSONNEL

As of 31 March 1999, the number of employees was 34,554 (31,879). The number of employees as of 31 December 1998 was 32,211. The increase is due to company acquisitions.

MARKET OUTLOOK

Economic growth in Europe was weak during the first quarter, particularly in Germany and France. However, greater consumer optimism was noted regarding confidence in a successive economic recovery. Concurrently, there are clear signs of a recovery in the raw material business climate due to continued strong development in North America and increased activity in Asia. Among other effects, this has resulted in increased prices for liner and pulp, a development which should be able to create a successively better price situation for the Group's hygiene and packaging products.

SHARE DISTRIBUTION

31 March 1999	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 the recommendations of the Financial Analysts Association, the effects of the outstanding convertible debenture and warrant programs is a maximum dilution of 0.7%, which is taken into account in calculating earnings per share for the period.

Stockholm, 28 April 1999

SVENSKA CELLULOSA AKTIEBOLAGET SCA (publ)

Sverker Martin-Löf
President and CEO

This report is unaudited.

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 March

	1999		1998	
	SEK M	EUR M	SEK M	MECU
Net sales	16,242	1,813	15,264	1,751
Operating expenses	-13,709	-1,530	-12,353	-1,417
Operating surplus	2,533	283	2,911	334
Depreciation according to plan	-1,084	-122	-998	-114
Share in earnings of associated companies	5	1	21	2
Operating profit	1,454	162	1,934	222
Financial items	-326	-36	-280	-32
Earnings after financial items	1,128	126	1,654	190
Income taxes	-372	-42	-522	-60
Minority interest	-10	-1	-32	-4
Net earnings after tax	746	83	1,100	126
Operating margin	9%		13%	
Return on shareholders' equity	11%		14%	
Return on capital employed	12%		14%	

Business Areas

Net sales

1 January - 31 March

SEK M	1999	1998
Hygiene Products	6,609	6,328
Consumer products	3,775	3,698
AFH and incontinence products	2,834	2,630
Packaging	4,745	3,828
Graphic Paper	4,569	4,673
Wood-containing publication papers	1,807	1,838
Fine papers, paper merchanting, market pulp	2,762	2,835
Forest and Timber	941	1,053
Other operations	375	411
Divested units	-	141
Intra-Group deliveries	-997	-1,170
Total net sales	16,242	15,264

Earnings

1 January - 31 March

SEK M	1999	1998
Hygiene Products	596	616
Consumer Products	237	253
AFH and incontinence products	359	363
Packaging	387	373
Graphic Paper	405	465
Wood-containing publication papers	320	279
Fine papers, paper merchanting, market pulp	85	186
Forest and Timber	161	188
Other operations	-16	365
Divested units	-	5
Goodwill amortization	-79	-78
Total operating profit	1,454	1,934
Financial items	-326	-280
Earnings after financial items	1,128	1,654

Balance Sheet

	1999-03-31		1998-12-31	
	SEK M	EUR M	SEK M	ECU M
Assets				
Long-term assets	56,555	6,363	55,147	5,823
Receivables and inventories	19,689	2,216	18,790	1,984
Financial receivables and investments	2,684	302	2,617	276
Cash and bank balances	1,409	159	1,819	192
Total assets	80,337	9,040	78,373	8,275
Equity, provisions and liabilities				
Shareholders' equity	28,250	3,179	28,404	2,999
Minority interests	1,349	152	1,386	146
Provisions	10,777	1,213	10,906	1,152
Interest-bearing debt	27,792	3,127	25,806	2,725
Operating liabilities and other noninterest-bearing debt	12,169	1,369	11,871	1,253
Total equity, provisions and liabilities	80,337	9,040	78,373	8,275
Debt/equity	0.80 times		0.72 times	
Equity/assets	37%		38%	

Cash Flow Statement

1 January – 31 March

SEK M	1999	1998
Operating surplus	2,533	2,911
Changes in working capital	-559	-1,023
Current capital expenditures	-442	-396
Other operating cash flow changes	-101	-116
Operating cash flow	1,431	1,376
Financial items	-326	-280
Income taxes paid	-180	-438
Other	-80	-49
Cash flow from current operations	845	609
Strategic capital expenditures	-543	-229
Acquisitions	-3,347	-1,043
Divestments	30	970
Net cash flow¹	-3,015	307
Net debt, 1 January	-21,370	-19,018
Net cash flow	-3,015	307
Currency effects	686	56
Net debt, 31 March	-23,699	-18,655
Debt payment capacity	36%	38%

¹ Additional information in accordance with Swedish Financial Accounting Standards Council's recommendation regarding reporting of cash flow

Net cash flow	-3,015	307
Change in loan liabilities	2,646	-346
Change in cash and bank balances	-369	-39
Cash and bank balance at beginning of period	1,819	1,582
Currency effects on cash and bank balances	-41	-4
Cash and bank balances at end of period	1,409	1,539

Quarterly Data

Group

	1999		1998		
SEK M	I	IV	III	II	I
Net sales	16,242	15,918	15,234	14,857	15,264
Operating surplus	2,533	2,476	2,506	2,427	2,911
Depreciation according to plan	-1,084	-1,043	-1,006	-966	-998
Share in earnings of associated companies	5	27	32	41	21
Operating profit	1,454	1,460	1,532	1,502	1,934
Financial items	-326	-343	-338	-298	-280
Earnings after financial items	1,128	1,117	1,194	1,204	1,654
of which, nonrecurring items	-	-	-	-	400
Income taxes	-372	-356	-426	-376	-522
Minority interest	-10	-30	-19	-29	-32
Net earnings after tax	746	731	749	799	1,100
Earnings per share	3.76	3.68	3.77	4.05	5.57

Quarterly Data

Business Areas - Net sales

	1999	1998			
SEK M	I	IV	III	II	I
Hygiene Products	6,609	6,951	6,490	6,395	6,328
Consumer products	3,775	4,081	3,820	3,714	3,698
AFH and incontinence products	2,834	2,870	2,670	2,681	2,630
Packaging	4,745	3,832	3,725	3,650	3,828
Graphic Paper	4,569	4,959	4,779	4,491	4,673
Wood-containing publication papers	1,807	1,979	1,900	1,761	1,838
Fine papers, paper merchanting, market pulp	2,762	2,980	2,879	2,730	2,835
Forest and Timber	941	998	901	1,033	1,053
Other operations	375	365	467	404	411
Divested units	-	3	1	-1	141
Intra-Group deliveries	-997	-1,190	-1,129	-1,115	-1,170
Total net sales	16,242	15,918	15,234	14,857	15,264

Business Areas - Earnings

	1999	1998			
SEK M	I	IV	III	II	I
Hygiene Products	596	583	600	605	616
Consumer products	237	244	234	276	253
AFH and incontinence products	359	339	366	329	363
Packaging	387	316	396	395	373
Graphic Paper	405	469	492	425	465
Wood-containing publication papers	320	380	358	317	279
Fine papers, paper merchanting, market pulp	85	89	134	108	186
Forest and Timber	161	206	140	188	188
Other operations	-16	-30	-16	-34	365
Divested units	-	-1	-1	-	5
Goodwill amortization	-79	-83	-79	-77	-78
Total operating profit	1,454	1,460	1,532	1,502	1,934
Financial items	-326	-343	-338	-298	-280
Earnings after financial items	1,128	1,117	1,194	1,204	1,654
of which, nonrecurring items	-	-	-	-	400
Earnings after financial items excl. nonrecurring items	1,128	1,117	1,194	1,204	1,254

Quarterly Data

Business Areas - Operating surplus margins

	1999		1998		
%	I	IV	III	II	I
Hygiene Products	14	13	14	14	15
Packaging	15	14	16	16	15
Graphic Paper	16	16	17	18	16
Wood-containing publication papers	28	27	28	28	24
Fine papers, paper merchanting, market pulp	8	8	10	12	10
Forest and Timber	20	24	19	21	21
Group operating surplus margin	16	16	16	16	19

Business Areas - Operating margins

	1999		1998		
%	I	IV	III	II	I
Hygiene Products	9	8	9	9	10
Consumer products	6	6	6	7	7
AFH and incontinence products	13	12	14	12	14
Packaging	8	8	11	11	10
Graphic Paper	9	9	10	9	10
Wood-containing publication papers	18	19	19	18	15
Fine papers, paper merchanting, market pulp	3	3	5	4	7
Forest and Timber	17	21	16	18	18

GROUP

Operating margin	9.0	9.2	10.1	10.1	12.7
Financial net margin	-2.0	-2.2	-2.2	-2.0	-1.8
Profit margin	7.0	7.0	7.9	8.1	10.9

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	99:1	98:4	98:3	98:2	98:1	98:12	Change %*
Liner products							
Production	550	497	562	555	554	2,168	-1
External deliveries	176	173	183	173	186	715	-5
Wood-containing publication papers							
Production	302	295	301	303	301	1,200	-
External deliveries	290	311	300	300	288	1,199	1
Fine papers							
Production	186	179	190	183	184	736	1
External deliveries	183	182	193	164	181	720	1

* Compared with corresponding period previous year