

INFORMATION

SVENSKA CELLULOSA AKTIEBOLAGET SCA (publ)
Corporate Communications
Box 7827, SE-103 97 STOCKHOLM, Sweden
Tel +46 8-788 51 00. Fax +46 8-678 81 30
www.sca.se



Interim Report 1 January - 30 June 1999

SCA in brief

	99:2	99:1	9906	9806
Net sales, SEK M	16,389	16,242	32,631	30,121
Earnings after financial items, SEK M	1,287	1,128	2,415	2,858
Excluding nonrecurring items	1,287	1,128	2,415	2,458
Earnings per share after tax, SEK	4.25	3.76	8.01	9.62
Cash flow from current operations per share, SEK	8.57	4.25	12.82	5.91

- As a result of volume growth, company acquisitions and rationalization measures, Group earnings after financial items in the second quarter, excluding nonrecurring items, were the best since the final quarter of 1995 despite severe price competition and weak demand in Western Europe.
- Operating cash surplus improved by 6%, and the cash flow from current operations amounted to SEK 2,550 M, which is in line with the Group's cash flow target for the actual period 1999.
- Continuing stable level of earnings for Hygiene Products.
- Higher earnings and improved margins for Packaging, compared with the first quarter.
- Earnings in Graphic Paper began to recover during the second quarter.

SALES AND EARNINGS

The Group's net sales amounted to SEK 32,631 M (30,121), an increase of 8% compared with the first six months of 1998. The increase was largest in the packaging operations, due primarily to company acquisitions. Currency movements impacted positively on Group net sales by 2%. Net sales rose 1% compared with the first quarter.

Group operating profit amounted to SEK 2,999 M (3,436). Adjusted for nonrecurring items, amounting to SEK 400 M in 1998, operating profit for the period declined by 1%. Packaging reported higher earnings while the other business areas reported slightly lower earnings. Operating profit in the second quarter was 6% higher than in the first quarter, which was on a level with earnings in the fourth quarter of 1998. The improvement in earnings was attributable primarily to Packaging.

Financial items amounted to an expense of SEK 584 M (578). Lower interest rates compensated fully for higher net debt resulting from company acquisitions.

Group earnings after financial items amounted to SEK 2,415 M (2,858). Adjusted for nonrecurring items, this was equal to a decrease of 2% compared with the corresponding period previous year. Earnings after financial items were 14% higher than in the first quarter, which in turn were on a level with those in the fourth quarter of 1998.

Net earnings after tax amounted to SEK 1,587 M (1,899). Earnings per share, after full tax and full dilution, amounted to SEK 8.01 (9.62).

Calculated on a rolling 12-month basis, the return on shareholders' equity was 11% (13). The return on capital employed, calculated on the same basis and excluding nonrecurring items amounted to SEK 400 M, was 12% (13).

CASH FLOW

SEK M	9906	9806 ¹
Net sales	32,631	30,121
Operating cash surplus	5,213	4,920
<i>% of net sales</i>	16	16
Current capital expenditures, net	-911	-851
<i>% of net sales</i>	3	3
Changes in working capital	-744	-1,437
Other operating cash flow changes	-105	-110
Operating cash flow	3,453	2,522
Income taxes paid, etc ²	-509	-785
Free cash flow	2,944	1,737
<i>per share, SEK</i>	14.80	8.79
Interest paid after taxes	-394	-569
Cash flow from current operations	2,550	1,168
<i>per share, SEK</i>	12.82	5.91
Strategic capital investments, net	-5,240	-666
Cash flow before dividend	-2,690	502

¹ Figures for 1998 adjusted to conform with SCA's new cash flow statement (see page 11).

² Tax attributable to operating profit.

Operating cash surplus amounted to SEK 5,213 M (4,920), equal to 16% (16) of net sales.

Operating cash flow amounted to SEK 3,453 M (2,522). Working capital increased by SEK 744 M (1,437) during the period. Current capital expenditures amounted to SEK 911 M (851).

Cash flow from current operations, that is before strategic capital expenditures and dividends, amounted to SEK 2,550 M (1,168), equal to SEK 12.82 (5.91) per share.

Strategic investments, which include expansion investments, company acquisitions and strategic structural expenditures, amounted to SEK 5,270 M (2,067). Company acquisitions amounting to SEK 3,577 M (1,432) include primarily the purchase of packaging companies in Great Britain and Denmark as well as the redemption of minority interests in SCA Graphic Laakirchen AG.

Strategic capital expenditures for machinery and plant amounted to SEK 1,540 M (635), mainly within Hygiene Products but also in Packaging.

Preparations to ensure a problem-free changeover to the new millennium are proceeding according to plan. Further information can be found on www.sca.se under the heading "Y2K".

FINANCING

Net debt at the end of the period amounted to SEK 24,461 M, which is SEK 3,091 M higher than at 1 January 1999. The increase is the net effect of cash flow from operations amounting to SEK 2,550 M, net outlays of SEK 5,240 M for strategic investments and divestments, a dividend of SEK 1,283 M to the shareholders, and the positive impact, SEK 882 M, of currency movements.

As a result of the appreciation of the Swedish krona, shareholders' equity declined by approximately SEK 1,200 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 not be affected by currency movements.

The debt/equity ratio was 0.85 (0.74), while at 31 December 1998 it was 0.72. The interest coverage multiple was 5.1 (5.9).

HYGIENE PRODUCTS BUSINESS AREA

SEK M	99:2	99:1	9906	9806
Net sales	6,679	6,609	13,288	12,723
Consumer products	3,774	3,775	7,549	7,412
AFH and incontinence products	2,905	2,834	5,739	5,311
Operating surplus	907	905	1,812	1,839
Consumer products	406	424	830	931
AFH and incontinence products	501	481	982	908
Operating profit	583	596	1,179	1,221
Consumer products	205	237	442	529
AFH and incontinence products	378	359	737	692
Volume growth, %				
Consumer products	-2.4*	1.6*	4.7**	13.0**
AFH and incontinence products	2.9*	2.0*	8.2**	8.0**

*) Compared with the immediately preceding quarter

***) Compared with corresponding period previous year

Net sales amounted to SEK 13,288 M (12,723), an increase of 4% compared with the corresponding period previous year. Operating profit amounted to SEK 1,179 M (1,221), a decrease of 3%. The trend of the market in the Nordic region and middle Europe is relatively stable, while the rate of increase in Southern Europe is favorable. Earnings declined marginally, relative to the first quarter, due to higher raw material costs, not fully offset by an improved product mix and higher volumes.

The decline of 16% in operating profit for Consumer products, SEK 442 M (529), was due to continuing pressure on prices. A deliberately strict pricing policy, based in part on the increase of raw material costs, initially resulted in a certain decrease in volume. This was true in Germany, Austria and Central and Eastern Europe, in particular. As a result of the restructuring programs under way in the tissue and diaper operations, where the favorable effects will have an impact in 2000 and 2001, there will be certain net increases in costs in the current year since changeover costs exceed the savings that have already been achieved. Higher raw material costs also had a negative effect on second-quarter earnings and their full impact will be felt in the third quarter. Meanwhile, the order situation has improved and it is expected that higher selling prices can be implemented gradually during the autumn. Earnings decreased by 13% compared with the first quarter.

Operating profit for AFH and Incontinence products amounted to SEK 737 M (692), an increase of 7%. The primary reason for the increase, which occurred despite higher raw material costs and ongoing restructuring programs, was a very favorable growth in volume. Earnings increased by 5% compared with the first quarter.

The new tissue machine in Mannheim started up on schedule during the summer. This investment will give a marked improvement of the competitiveness of high quality brand name and private label products.

PACKAGING BUSINESS AREA

SEK M	99:2	99:1	9906	9806
Net sales	4,664	4,745	9,409	7,478
Operating surplus	793	699	1,492	1,167
Operating profit	474	387	861	768
Deliveries m sq. m.				
Corrugated board	827	823	1,650	1,452

Production and deliveries, liner products, see table "Volumes" on page 15.

Net sales for the period amounted to SEK 9,409 M (7,478), an increase of 26%. The growth in volume of corrugated board amounted to 14%.

Operating profit amounted to SEK 861 M (768), an improvement of 12%. Company acquisitions had a favorable impact on earnings, while lower prices for paper reduced them. As a consequence of lower prices for paper, earnings from liner operations declined and could be offset only to a minor degree by lower costs for energy and wood. However, lower prices for paper resulted in an increase in earnings from corrugated board operations.

Operating profit from packaging operations increased by 22% compared with the first quarter.

Demand for corrugated board in Europe was lower than in 1998, notably during the first quarter. Combined with lower liner prices at the end of 1998 and in the beginning of 1999, the weak order situation has resulted in a certain reduction of prices. An improvement in demand could be noted in May and June, however. Demand for corrugated board declined in most large markets in Europe, such as France, Germany and the Benelux countries. However, the decline was greatest in Great Britain, where demand was approximately 5% lower than in the preceding year. Growth in Southern Europe was favorable, notably in Spain but also in Italy, while the Nordic countries, Sweden and Denmark, showed a marginal decrease in volume. The market is currently characterized by suppliers' efforts to raise prices, due to rising prices for recycled paper, despite the fact that demand for corrugated board is relatively weak. Increases in the prices of corrugated board are expected to be implemented during the autumn, however.

Demand for liner products was weak during the winter and then gradually improved. A high exchange rate for the dollar and increased demand in Asia has resulted in a decrease in American exports of kraftliner to Europe. A number of older machines in the U.S. were also taken out of operation, which improved the supply and demand balance for kraftliner. Price increases for kraftliner were posted in the second quarter and additional increases have been announced. A price increase of EUR 40 per ton for the second half of the year has been announced in Southern Europe.

Sharply higher prices for recycled fiber has caused margins to decline in the testliner operations. Testliner prices are now expected to increase in the third quarter to compensate for raw material costs. A price increase of DEM 120 per ton has been announced, but its full impact on earnings will not be felt until the fourth quarter.

GRAPHIC PAPER BUSINESS AREA

SEK M	99:2	99:1	9906	9806
Net sales	4,642	4,569	9,211	9,164
Operating surplus	799	743	1,542	1,552
Wood-containing publication papers	524	508	1,032	936
Fine papers, paper merchanting, market pulp	275	235	510	616
Operating profit	457	405	862	890
Wood-containing publication papers	352	320	672	596
Fine papers, paper merchanting, market pulp	105	85	190	294

Production and deliveries, see table "Volumes" on page 15.

Net sales amounted to SEK 9,211 M (9,164), an increase of 1%. The increase is a net of lower prices, which were offset by higher volumes and favorable effects of currency movements. Net sales increased by 2%, compared with sales for the first quarter, also due to lower prices which were compensated by higher volumes and favorable effects of currency movements.

Operating profit for the period amounted to SEK 862 M (890), where wood-containing publication paper accounted for SEK 672 M (596). The improvement in earnings for wood-containing paper is due mainly to lower prices for wood, resulting in higher margins. The market is currently relatively stable.

Operating profit in the fine paper and market pulp operations amounted to SEK 190 M (294). The decline is due to lower prices for fine papers and market pulp. The negative trend of prices for both fine papers and pulp has been reversed, resulting in a recovery in earnings during the second quarter.

Operating profit in the second quarter was SEK 457 M, an improvement of 13% compared with the first quarter. Prices in the wood-containing publication paper rose and deliveries increased. Earnings in the fine paper and pulp operations amounted to SEK 105 M in the second quarter, an improvement of 24%, mainly attributable to the pulp segment.

Operating profit of the portion of the fine paper business that will be transferred to the new company, MoDo Paper AB, amounted to SEK 229 M (314). Operating profit in the first and second quarters were SEK 108 M and SEK 121 M, respectively.

FOREST AND TIMBER

SEK M	99:2	99:1	9906	9806
Net sales	922	941	1,863	2,086
Operating surplus	179	188	367	441
Operating profit	152	161	313	376

Operating profit for the period was 17% lower than in the comparable period of the preceding year. Earnings included capital gains of SEK 17 M (21) from the sale of forest land. Both sawmill and forestry operations reported lower earnings than in the corresponding period previous year, due to lower selling prices for sawn timber and pulpwood.

PERSONNEL

The number of employees at the end of the second quarter was 34,388 (32,433). The number at 31 December 1998 was 32,211. The increase is due to acquisitions of companies.

MARKET OUTLOOK

Demand for raw materials such as pulp and recycled fiber is strong, due primarily to the continuing good trend of business in North America and to an increasingly rapid recovery in Asia. This has resulted in higher raw material costs, a trend that is expected to continue and possibly strengthen during the autumn.

Cost increases for raw materials have resulted in price increases for some products, despite continuing weak demand. A continuing weak demand may cause some delay in the opportunities to compensate for higher raw material costs through price increases.

There are, however, signs indicating a strengthening of the European economy, which should result in a favorable trend of volume and prices during the second half of the year.

SHARE DISTRIBUTION

30 June 1999	Series A	Series B	Total
Registered number of shares	62,145,880	135,254,055	197,399,935
Unconverted debenture loans	-	1,289,973	1,289,973
Outstanding warrants	-	1,643,544	1,643,544
Total after full conversion	62,145,880	138,187,572	200,333,452

Calculated in accordance with the recommendations of the Financial Analysts Association, the effects of the outstanding convertible debenture and warrant programs amount to a maximum dilution of 0.8%, which is taken into account when calculating earnings per share for the period.

Stockholm 29 July 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.

Interim Report 1 January – 30 September will be published on 28 October 1999.

Statement of Earnings

1 January – 30 June

	1999		1998	
	SEK M	EUR M	SEK M	ECU M
Net sales	32,631	3,653	30,121	3,477
Operating expenses	-27,471	-3,076	-24,783	-2,861
Operating surplus	5,160	577	5,338	616
Depreciation according to plan	-2,177	-244	-1,964	-227
Share in earnings of associated companies	16	2	62	7
Operating profit	2,999	335	3,436	396
Financial items	-584	-65	-578	-67
Earnings after financial items	2,415	270	2,858	329
Income taxes	-797	-89	-898	-104
Minority interest	-31	-3	-61	-7
Net earnings after tax	1,587	178	1,899	218
Operating margin	9%		11%	
Return on shareholders' equity	11%		13%	
Return on capital employed	12%		14%	

Business Areas

Net sales

1 January - 30 June

SEK M	1999	1998
Hygiene Products	13,288	12,723
Consumer products	7,549	7,412
AFH and incontinence products	5,739	5,311
Packaging	9,409	7,478
Graphic Paper	9,211	9,164
Wood-containing publication papers	3,701	3,599
Fine papers, paper merchanting, market pulp	5,510	5,565
Forest and Timber	1,863	2,086
Other operations	862	815
Divested units	-	140
Intra-Group deliveries	-2,002	-2,285
Total net sales	32,631	30,121

Earnings

1 January - 30 June

SEK M	1999	1998
Hygiene Products	1,179	1,221
Consumer products	442	529
AFH and incontinence products	737	692
Packaging	861	768
Graphic Paper	862	890
Wood-containing publication papers	672	596
Fine papers, paper merchanting, market pulp	190	294
Forest and Timber	313	376
Other operations	-56	331
Divested units	-	5
Goodwill amortization	-160	-155
Total operating profit	2,999	3,436
Financial items	-584	-578
Earnings after financial items	2,415	2,858
of which nonrecurring items	-	400
Earnings after financial items excluding nonrecurring items	2,415	2,458

Balance Sheet

	1999-06-30		1998-12-31	
	SEK M	EUR M	SEK M	ECU M
Assets				
Long-term assets	56,546	6,475	55,147	5,823
Receivables and inventories	19,463	2,228	18,790	1,984
Financial receivables and investments	3,002	344	2,617	276
Cash and bank balances	1,594	183	1,819	192
Total assets	80,605	9,230	78,373	8,275
Equity, provisions and liabilities				
Shareholders' equity	27,568	3,157	28,404	2,999
Minority interests	1,292	148	1,386	146
Provisions	10,773	1,234	10,906	1,152
Interest-bearing debt	29,057	3,327	25,806	2,725
Operating liabilities and other noninterest-bearing debt	11,915	1,364	11,871	1,253
Total equity, provisions and liabilities	80,605	9,230	78,373	8,275
Debt/equity	0.85 times		0.72 times	
Equity/assets	36%		38%	

Cash Flow Statement

1 January – 30 June

SEK M	1999	1998 ³
Operating cash surplus ¹	5,213	4,920
Changes in working capital	-744	-1,437
Current capital expenditures	-911	-851
Other operating cash flow changes	-105	-110
Operating cash flow	3,453	2,522
Financial items	-584	-578
Income taxes paid	-316	-606
Other	-3	-170
Cash flow from current operations	2,550	1,168
Strategic capital expenditures	-1,540	-635
Strategic structural expenditures ²	-153	-
Acquisitions	-3,577	-1,432
Divestments	30	1,401
Cash flow before dividend	-2,690	502
Dividend	-1,283	-1,145
Net cash flow *	-3,973	-643
Net debt, 1 January	-21,370	-19,018
Net cash flow	-3,973	-643
Currency effects	882	-112
Net debt, 30 June	-24,461	-19,773
Debt payment capacity	37%	39%

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

Net cash flow	-3,973	-643
Change in interest-bearing debt	3,772	515
Change in cash and bank balances	-201	-128
Cash and bank balances at beginning of period	1,819	1,582
Change in cash and bank balances	-201	-128
Currency effects on cash and bank balances	-24	-15
Cash and bank balances at end of period	1,594	1,439

¹ Operating surplus adjusted for significant noncash items in accordance with the principles being applied by SCA effective at midyear 1999.

² Restructuring measures taken to improve SCA's competitive position.

³ Figures for 1998 adjusted in accordance with SCA's new cash flow statement.

Quarterly Data

Group

SEK M	1999			1998		
	II	I	IV	III	II	I
Net sales	16,389	16,242	15,918	15,234	14,857	15,264
Operating surplus	2,627	2,533	2,476	2,506	2,427	2,911
Depreciation according to plan	-1,093	-1,084	-1,043	-1,006	-966	-998
Share in earnings of associated companies	11	5	27	32	41	21
Operating profit	1,545	1,454	1,460	1,532	1,502	1,934
Financial items	-258	-326	-343	-338	-298	-280
Earnings after financial items	1,287	1,128	1,117	1,194	1,204	1,654
of which nonrecurring items	-	-	-	-	-	400
Income taxes	-425	-372	-356	-426	-376	-522
Minority interest	-21	-10	-30	-19	-29	-32
Net earnings after tax	841	746	731	749	799	1,100
Earnings per share, SEK	4.25	3.76	3.68	3.77	4.05	5.57

Quarterly Data

Business Areas - Net sales

SEK M	1999			1998		
	II	I	IV	III	II	I
Hygiene Products	6,679	6,609	6,951	6,490	6,395	6,328
Consumer products	3,774	3,775	4,081	3,820	3,714	3,698
AFH and incontinence products	2,905	2,834	2,870	2,670	2,681	2,630
Packaging	4,664	4,745	3,832	3,725	3,650	3,828
Graphic Paper	4,642	4,569	4,959	4,779	4,491	4,673
Wood-containing publication papers	1,894	1,807	1,979	1,900	1,761	1,838
Fine papers, paper merchanting, market pulp	2,748	2,762	2,980	2,879	2,730	2,835
Forest and Timber	922	941	998	901	1,033	1,053
Other operations	487	375	365	467	404	411
Divested units	-	-	3	1	-1	141
Intra-Group deliveries	-1,005	-997	-1,190	-1,129	-1,115	-1,170
Total net sales	16,389	16,242	15,918	15,234	14,857	15,264

Business Areas - Operating Surplus

SEK M	1999			1998		
	II	I	IV	III	II	I
Hygiene Products	907	905	925	919	887	952
Consumer products	406	424	431	457	460	471
AFH and incontinence products	501	481	494	462	427	481
Packaging	793	699	523	580	592	575
Graphic Paper	799	743	785	835	823	729
Wood-containing publication papers	524	508	533	540	490	446
Fine papers, paper merchanting, market pulp	275	235	252	295	333	283
Forest and Timber	179	188	236	171	221	220
Other	-51	-2	7	1	-96	435
Total operating surplus	2,627	2,533	2,476	2,506	2,427	2,911

Quarterly Data

Business Areas - Operating profit

SEK M	1999			1998		
	II	I	IV	III	II	I
Hygiene Products	583	596	583	600	605	616
Consumer products	205	237	244	234	276	253
AFH and incontinence products	378	359	339	366	329	363
Packaging	474	387	316	396	395	373
Graphic Paper	457	405	469	492	425	465
Wood-containing publication papers	352	320	380	358	317	279
Fine papers, paper merchanting, market pulp	105	85	89	134	108	186
Forest and Timber	152	161	206	140	188	188
Other operations	-40	-16	-30	-16	-34	365
Divested units	-	-	-1	-1	-	5
Goodwill amortization	-81	-79	-83	-79	-77	-78
Total operating profit	1,545	1,454	1,460	1,532	1,502	1,934
of which nonrecurring items	-	-	-	-	-	400
Operating profit excluding nonrecurring items	1,545	1,454	1,460	1,532	1,502	1,534

Business Areas - Operating surplus margins

%	1999			1998		
	II	I	IV	III	II	I
Hygiene Products	14	14	13	14	14	15
Consumer products	11	11	11	12	12	13
AFH and incontinence products	17	17	17	17	16	18
Packaging	17	15	14	16	16	15
Graphic Paper	17	16	16	17	18	16
Wood-containing publication papers	28	28	27	28	28	24
Fine papers, paper merchanting, market pulp	10	8	8	10	12	10
Forest and Timber	19	20	24	19	21	21
Group operating surplus margin	16	16	16	16	16	19

Quarterly Data

Business Areas - Operating margins

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

Group - margins

Operating surplus margin	16.0	15.6	15.6	16.5	16.3	19.1
Operating margin	9.4	9.0	9.2	10.1	10.1	12.7
Financial net margin	-1.6	-2.0	-2.2	-2.2	-2.0	-1.8
Profit margin	7.8	7.0	7.0	7.9	8.1	10.9

Volumes

Thousand metric tons	99:2	99:1	98:4	98:3	98:2	98:1
Liner products						
Production	562	550	497	562	555	554
Deliveries	582	557	516	518	543	586
Wood-containing publication papers						
Production	295	302	295	301	303	301
Deliveries	295	290	311	300	300	288
Fine papers						
Production	197	186	179	190	183	184
Deliveries	203	183	182	193	164	181

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