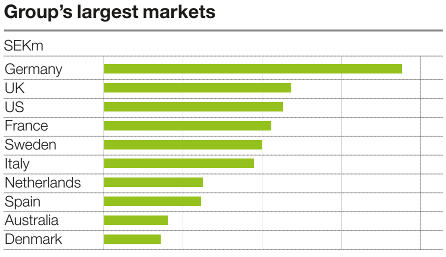
SCA Annual Report
**2010**

# SCA at a glance

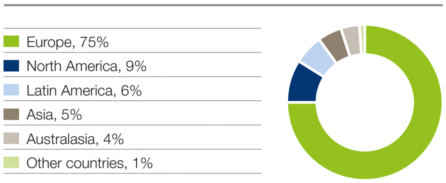
SCA creates value by fulfilling the needs of customers and consumers in a spirit of innovation, through continuous efficiency enhancements and with a clear desire to contribute to sustainable development. The Group develops, produces and markets personal care products, tissue, packaging, publication papers and solid-wood products, and has sales in more than 100 countries. In 2010, SCA had annual sales of SEK 109bn and about 45,000 employees.

SCA
c/o Life

**Group's largest markets**




**SCA's sales per region**





## SCA Group

SCA is a global hygiene and paper company that develops and produces personal care products, tissue, packaging solutions and forest products. SCA has sales in more than 100 countries under many strong brands.

## Personal Care

The business area comprises three product segments: incontinence care, baby diapers and feminine care. Production is conducted at 27 facilities in 23 countries. Products are sold in more than 100 countries throughout the world.

## Tissue

Consumer tissue consists of toilet paper, kitchen rolls, facial tissue, handkerchiefs and napkins. In the Away-From-Home (AFH) tissue segment, SCA delivers complete hygiene concepts to companies and institutions. Production is conducted at 38 facilities in 18 countries. Products are sold in some 80 countries throughout the world.

## Packaging

SCA is a full-service supplier of packaging solutions and offers both transport and consumer packaging. SCA operates one innovation centre and 16 design centres. Production is conducted at 170 facilities in 21 countries. Products are sold in 36 countries in Europe.

## Forest Products

Production comprises publication papers, pulp and solid-wood products, and is conducted at 17 facilities in three countries. Products are mainly sold in Europe, but also in Asia, North Africa and North America.

| Net sales, SEKm | Operating profit, SEKm | Capital employed, SEKm | Operating cash flow, SEKm | Average number of employees |
|---|---|---|---|---|
| **109,142** | **9,608** | **102,227** | **9,755** | **45,341** |

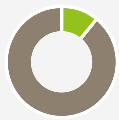
Share of net sales

22%
SEK 25,027m

Share of operating profit

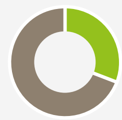
29%
SEK 2,922m

Share of capital employed



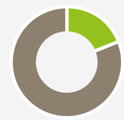
11%
SEK 10,620m

Share of operating cash flow



32%
SEK 3,230m

Share of average number of employees



19%
8,610 employees

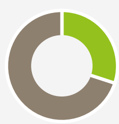
Share of net sales

36%
SEK 39,870m

Share of operating profit

30%
SEK 3,041m

Share of capital employed



36%
SEK 36,168m

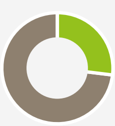
Share of operating cash flow

39%
SEK 4,033m

Share of average number of employees

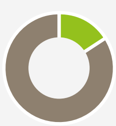
38%
17,327 employees

Share of net sales



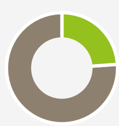
27%
SEK 29,633m

Share of operating profit



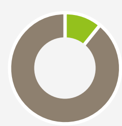
16%
SEK 1,577m

Share of capital employed



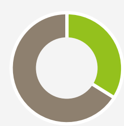
22%
SEK 22,229m

Share of operating cash flow



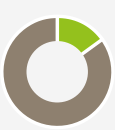
11%
SEK 1,168m

Share of average number of employees



34%
15,218 employees

Share of net sales



15%
SEK 17,123m

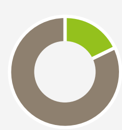
Share of operating profit

25%
SEK 2,455m

Share of capital employed

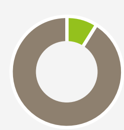
31%
SEK 31,475m

Share of operating cash flow



18%
SEK 1,860m

Share of average number of employees



9%
4,186 employees

# Recognition

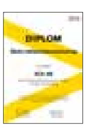
SCA has been listed on the FTSE4Good global sustainability index since 2001.

SCA is included in OMX GES Sustainability Nordic and OMX GES Sustainability Sweden, two indexes for responsible investments calculated by Nasdaq OMX in cooperation with GES Investment Services.

SCA was named one of the world's most ethical companies by the Ethisphere Institute in the US.

SCA was ranked as one of the world's most sustainable companies in 2010 by the responsible business magazine *Corporate Knights*.

SCA was cited as the best Swedish company for carbon dioxide reporting in the 2010 global Carbon Disclosure Project survey.



SCA won FAR's prize for the Best Sustainability Report 2009. FAR is a Swedish industry organisation for auditors and consultants.

In 2008, SCA became a UN Global Compact member. SCA's 2008 and 2009 Communication on Progress reports were selected as representative of Best Practice.

SCA applies the Global Reporting Initiative (GRI) at A level in its sustainability reporting. The report was audited by PwC.

# Contents

# The year at a glance

## Net sales amounted to SEK 109,142m (110,857)

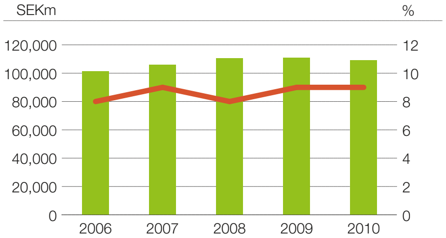
## Profit before tax[1)] totalled SEK 8,492m (8,004)

## Earnings per share amounted to SEK 7.90 (6.78)

## Proposed dividend is SEK 4.00 (3.70) per share

1) Excluding items affecting comparability.

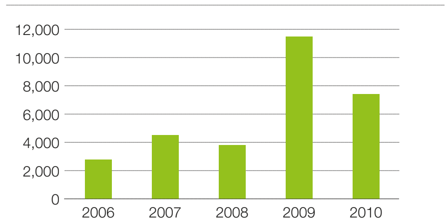
**Net sales and operating margin**



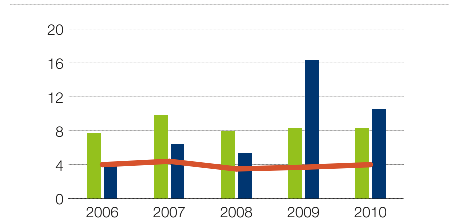

Net sales   Operating margin

Excluding items affecting comparability.

**Cash flow from current operations**




**Earnings, dividend and cash flow per share**




Earnings   Dividend

Cash flow from current operations

Earnings do not include items affecting comparability.
Dividend for 2010 relates to the proposed dividend.

**Key figures**

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | SEK | EUR[2)] | SEK | EUR[2)] | SEK | EUR[2)] |
| Net sales, SEKm/EURm | 109,142 | 11,450 | 110,857 | 10,466 | 110,449 | 11,532 |
| Operating profit, SEKm/EURm | 8,677 | 911 | 8,190 | 773 | 8,554 | 893 |
| Operating profit[1)], SEKm/EURm | 9,608 | 1,008 | 9,648 | 910 | 8,554 | 893 |
| Operating margin, % | 8 | | 7 | | 8 | |
| Operating margin, %[1)] | 9 | | 9 | | 8 | |
| Profit before tax, SEKm/EURm | 7,561 | 794 | 6,546 | 618 | 6,237 | 651 |
| Profit before tax[1)], SEKm/EURm | 8,492 | 891 | 8,004 | 755 | 6,237 | 651 |
| Profit for the year, SEKm/EURm | 5,592 | 587 | 4,830 | 456 | 5,598 | 584 |
| Profit for the year[1)], SEKm/EURm | 6,281 | 659 | 5,906 | 557 | 5,598 | 584 |
| Earnings per share, SEK | 7.90 | | 6.78 | | 7.94 | |
| Earnings per share[1)], SEK | 8.89 | | 8.32 | | 7.94 | |
| Cash flow from current operations per share, SEK | 10.53 | | 16.36 | | 5.42 | |
| Dividend, SEK | 4.00[3)] | | 3.70 | | 3.50 | |
| Strategic investments, incl. acquisitions, SEKm/EURm | –2,920 | –306 | –3,082 | –291 | –4,873 | –509 |
| Equity, SEKm/EURm | 67,821 | 7,538 | 67,906 | 6,577 | 67,252 | 6,147 |
| Return on capital employed, % | 8 | | 7 | | 8 | |
| Return on capital employed, %[1)] | 9 | | 9 | | 8 | |
| Return on equity, % | 8 | | 7 | | 9 | |
| Return on equity, %[1)] | 9 | | 9 | | 9 | |
| Debt/equity ratio, multiple | 0.51 | | 0.60 | | 0.70 | |
| Average number of employees | 45,341 | | 49,531 | | 51,999 | |

1) Excluding items affecting comparability.
2) See page 48 for exchange rates.
3) Proposed dividend.

# Strategy for sustainable profitability

All of SCA's business areas recorded an increase in sales in 2010. New products were developed and launched at an accelerated pace and the Group's positions in both mature and emerging markets were strengthened. SCA's sales rose by 5%, adjusted for exchange rate effects and divestments, while profit before tax increased by 6%, despite increased raw material costs and negative exchange rate effects. Earnings per share rose 17% and net debt was reduced by SEK 6bn.

**Performance in 2010**

In 2010, we observed a gradual recovery in the global economy and demand improved for all of our businesses. However, the strained budgetary situation in a number of countries impeded recovery and created a slight sense of uncertainty as regards future economic growth.

All business areas increased sales in local currencies and, as was the case last year, we were faced with new challenges, including rising raw material prices and a stronger Swedish krona. Thanks to our strategy, which focuses on costs and cash flow, capital efficiency, innovation and growth, our profit before tax for the year exceed the 2009 level. Higher volumes in all business areas, implemented price increases for Tissue and Packaging, combined with SEK 1bn in cost savings, offset a rise of SEK 5.2bn in raw material costs in addition to negative exchange rate effects. Net debt was reduced by SEK 6bn, of which net cash flow accounted for SEK 3bn and exchange rate and translation effects for the remaining portion. The debt payment capacity improved during the year.

*Personal Care*

Personal Care noted favourable sales growth for incontinence care and feminine care products, which was partially the result of higher investments in marketing activities. We also broadened our product range of incontinence care products under the TENA brand and grew our market shares. The rise in sales for personal care products in emerging markets was particularly healthy and a 10% increase was recorded. Nevertheless, profit for Personal Care was below the 2009 level, since higher volumes could not fully offset the rising cost of raw materials and marketing activities. During the year, an efficiency improvement programme was launched in the European diaper business aimed at enhancing profitability and the product offering.

*Tissue*

Demand for AFH tissue improved in pace with the economic upswing, while demand for consumer tissue remained stable. Sales in emerging markets grew 6% during the year. However, the sharp rise in raw material prices resulted in a decline in operating profit for Tissue compared with the preceding year. In the AFH segment, the Tork brand increased its market shares in North America and Europe and efforts to reduce the number of consumer tissue brands in Europe proceeded according to plan.

*Packaging*

Western European demand for corrugated board improved in pace with the economic recovery and rising industrial production and recorded an increase of 5%. Packaging was also affected by a steep rise in raw material prices, which were offset by price increases for both containerboard and corrugated board. Combined with higher volumes and the savings generated by the restructuring programme, operating profit improved significantly compared with the preceding year and we are now stronger and better prepared to face the competition.

*Forest Products*

Forest Products noted a slight improvement in net sales compared with the preceding year. The trend for pulp and solid-wood products was especially healthy and the rise in sales and improved profit was mainly attributable to the price increases carried out during the year. Raw material prices increased for the publication papers business at the same time as prices for our own products were lower, thus adversely impacting earnings. The operating profit achieved by the business area as a whole was in line with the preceding year, despite negative exchange rate effects.

*Improved capital efficiency*

As part of efforts during the year to improve capital efficiency, we initiated efficiency improvement programmes in the European baby diaper business and in Forest Products. Work on the restructuring programme that Packaging started in 2009 was completed during the year. As a result of these and other Group-wide measures, we cut our costs by SEK 1bn in 2010 compared with 2009.

**Growth**

Efficiency and innovation to generate sustainable growth is an effective strategy for achieving long-term competitiveness. These priorities have served us well in the past year and will help guide the Group's future activities. SCA's positions in mature and emerging markets were strengthened and the Group's sales rose by 5%, adjusted for exchange rate effects and divestments. With strong global and regional market positions and brands, a high pace of innovation and efficient production, SCA is well-positioned to leverage growth opportunities and improve profitability. Our strategy for existing markets is to continue growing by, for example, broadening the offering of product categories, product ranges and services. Growth will mainly be generated organically, in existing and new segments, but also through acquisitions. As a result of a gradual improvement in the global economy in 2010, the potential for growth is even greater in 2011.

*Hygiene business*

SCA is the world's third-largest hygiene company and sales of hygiene products account for about 60% of the Group's total sales. Today, we hold the number one or two position in many of the markets where we are active. The growth potential for hygiene products is favourable, particularly in emerging markets where rising disposable incomes lead to growth in demand. Sales in these markets in 2010 increased 8% in local currencies. The ambition is to further accelerate our expansion and a number of activities were implemented during the year to increase growth and improve profitability. In the Russian market, we commenced production of baby diapers at a new production facility. Incontinence care products will also be manufactured at this plant in 2011. In Mexico, we acquired the third-largest supplier of baby diapers and inaugurated a new tissue facility during the year. Construction work was started on a tissue plant in Colombia, with production set to commence in 2011. Market tests of incontinence care products in China, which were started in 2009, were extended to additional regions during the year, and feminine care products were launched in Malaysia under the Libresse brand.

Our insight and innovation work also constitute an integral part of efforts to generate increased growth and profitability. During the year, we developed a new innovation strategy for hygiene products and invested in greater consumer insight, in addition to trend, market and competitor intelligence, and research and design. This has enabled us to deliver a larger number of new products and services at an ever-increasing pace, which has also strengthened our customer offering and brands. Among other activities, we launched a new dispenser range for industrial customers, thinner baby diapers and ultra-thin incontinence care products during the financial year.

*Packaging and Forest Products*

SCA is Europe's second-largest packaging company and our customer-driven innovation work and continued efficiency enhancement programmes are important to strengthening positions and improving profitability. The focus on expanding the share in high value-added segments continues as does the development of packaging solutions with respect to function, design, logistics, transport and environmental impact. For example, SCA developed Trueflo during the year, a specially designed and fully recyclable solution for secure bulk shipment of liquids. SCA also launched ZeoCool, a temperature-controlled packaging that can maintain complete product integrity.

SCA is also one of Europe's most profitable producers of forest products and prioritises innovation and efficiency to strengthen positions and improve profitability. Efforts are primarily aimed at increasing the share of customised products for both publication papers and solid-wood products. Other aspects that are important to strengthen competitiveness include developing the value chain and making it more efficient and sustainable, and identifying new product areas. The new business unit SCA Energy was created during the year to advance SCA's growing renewable energy business. SCA is Europe's largest private forest owner and practices profitable and responsible forest management coupled with prudent nature consideration. The forest's stable and sustainable growth contributes to SCA's long-term value creation. Aside from its valuable contribution to raw material integration, the forest offers the potential for electricity generation, both in the form of biofuel and wind power.

**Sustainable value creation**

SCA's sustainability activities are integrated into the business and the Group's strategy for growth and value creation. We pursue continuous development to achieve our ambitious targets. A strong sustainability profile and position – for both the Group's product brands and the SCA brand itself – is the key to increasing competitiveness.

**A stronger SCA**

The experiences gained from the recession and the challenges we faced in 2010 have added to our knowledge. Our ability to offset the sharp rise in raw materials and the negative effects of a strong Swedish krona on the Group's profit is proof of our strength.

Our competitiveness is supported by SCA's broad product portfolio and raw material integration and we are a stronger company today than one year ago. We have stronger brands, more competitive products and more innovative product development. Combined with a clear strategy, leading market positions, rising demand in all business areas and, above all, the continued strong dedication of all employees, I believe there is good potential for continued efficiency improvements and increased, sustainable value creation for our shareholders and other stakeholders.

Jan Johansson, President and CEO

# The SCA share in 2010

The 2010 closing price on the Nasdaq OMX Stockholm for SCA's B shares was SEK 106.20 (95.45), corresponding to a market capitalisation of SEK 74bn (67). SCA's market capitalisation corresponds to slightly less than 2% (2) of the total market capitalisation on the Nasdaq OMX Stockholm. Since the beginning of 2010, the share price rose 11%, while the Nasdaq OMX Stockholm rose 23% during the same period. The highest closing price for SCA's B shares during the year was SEK 108.80, which was noted on 23 February. The lowest price was SEK 84.00 on 20 May. The proposed dividend is SEK 4.00 per share, see below under the section "Dividend."

### Trading in SCA shares

In 2010, SCA celebrated its 60th anniversary as a listed company. SCA shares are quoted and traded primarily on the Nasdaq OMX Stockholm, and as American Depository Receipts (ADR level 1) in the US through Deutsche Bank. In addition to indexes directly linked to the Nasdaq OMX Stockholm, SCA is included in other indexes, such as the FTSE Eurotop 300 and MSCI Eurotop 300. SCA is also represented in sustainability indexes, including the FTSE4Good.

### Liquidity

In 2010, the volume of SCA shares traded on the Nasdaq OMX Stockholm was 678 million (653), representing a value of approximately SEK 67bn (53). Average daily trading for SCA on the Nasdaq OMX Stockholm amounted to 2.7 million shares, corresponding to a value of SEK 267m (211). Trading on Chi-X, BATS Europe, Burgundy and Turquoise amounted to 260 million SCA shares during the year, corresponding to about 25% of total trading in the share.

### Ownership

Some 57% (58) of the share capital is owned by investors registered in Sweden and 43% (42) by foreign investors. The US and the UK account for the highest percentage of shareholders registered outside Sweden, with 15% and 14%, respectively.

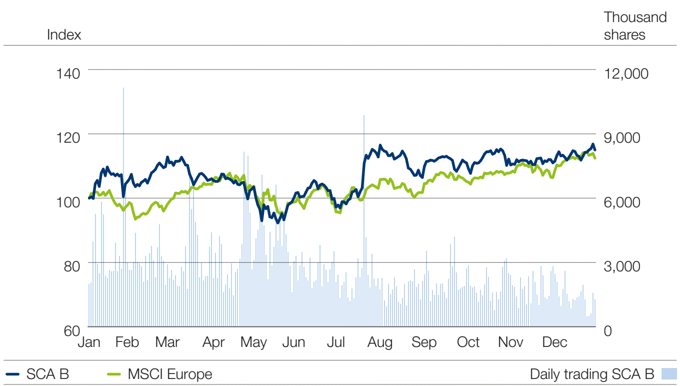
### Dividend

The Board of Directors has proposed a dividend to shareholders of SEK 4.00 per share for the 2010 financial year. The 2010 dividend represents a dividend yield of 3.8% per share, based on SCA's share price at the end of the year. SCA's dividend policy is described on page 8.

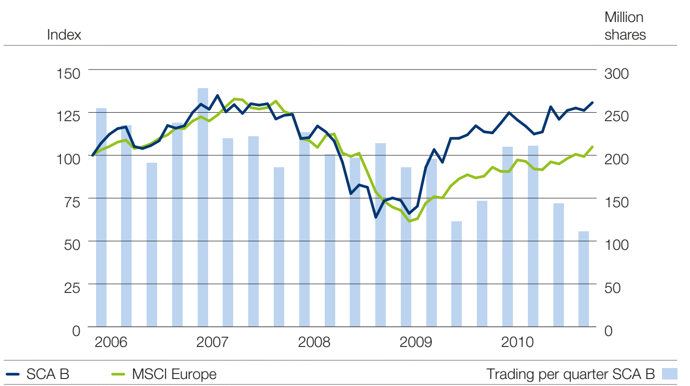
**Ticker names**

| | |
|---|---|
| Nasdaq OMX Stockholm | SCA A, SCA B |
| New York (ADR level 1) | SVCBY |

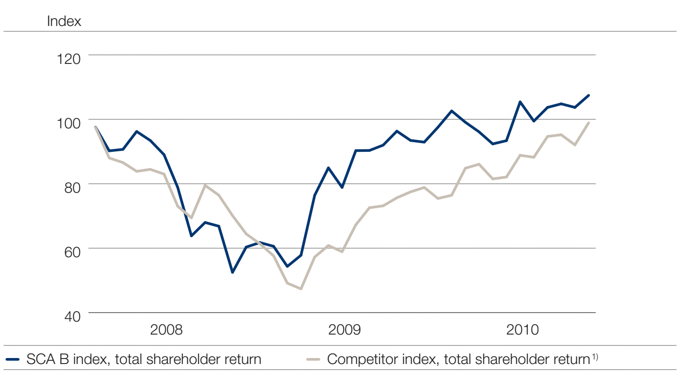
**Total shareholder return 2010**




**Total shareholder return 2006–2010**




**Total shareholder return 2008–2010**




1) Weighted index of competitors' total shareholder return. SCA's total shareholder return also surpasses that of its competitors over a five and ten-year term. Competitors are selected to reflect SCA's operations. They comprise 40% hygiene companies, 30% packaging companies and 30% forest companies. The index is used when comparing the SCA share's performance over a three-year term for the long-term portion (LTI) of senior executive's variable remuneration.

### Data per share

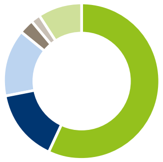
All earnings figures include items affecting comparability unless otherwise indicated.

| SEK per share unless otherwise indicated | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Earnings per share after full tax: | | | | | |
| After dilution | 7.90 | 6.78 | 7.94 | 10.16 | 7.75 |
| After dilution, excluding items affecting comparability | 8.89 | 8.32 | 7.94 | 9.80 | 7.75 |
| Before dilution | 7.90 | 6.78 | 7.94 | 10.17 | 7.76 |
| Market price for B share: | | | | | |
| Average price during the year | 100.20 | 83.18 | 84.76 | 119.00 | 107.24 |
| Closing price, 31 December | 106.20 | 95.45 | 66.75 | 114.50 | 119.17 |
| Cash flow from current operations[1] | 10.53 | 16.36 | 5.42 | 6.42 | 3.95 |
| Dividend | 4.00[2] | 3.70 | 3.50 | 4.40 | 4.00 |
| Dividend growth, %[3] | 4 | 5 | 6 | 9 | 9 |
| Dividend yield | 3.8 | 3.9 | 5.2 | 3.8 | 3.4 |
| P/E ratio[4] | 13 | 14 | 12 | 11 | 14 |
| Price/EBIT[5] | 13 | 13 | 11 | 12 | 14 |
| Beta coefficient[6] | 0.82 | 0.78 | 0.84 | 0.73 | 0.73 |
| Pay-out ratio (before dilution), % | 51 | 55 | 44 | 41 | 48 |
| Equity, after dilution | 96 | 96 | 95 | 91 | 83 |
| Equity, before dilution | 96 | 96 | 94 | 90 | 83 |
| Average number of shares after dilution (millions)[7] | 702.3 | 702.3 | 702.2 | 702.2 | 701.4 |
| Number of registered shares 31 December (millions)[7] | 705.1 | 705.1 | 705.1 | 705.1 | 705.1 |
| Number of shares after full conversion (millions)[7] | 705.1 | 705.1 | 705.1 | 705.1 | 705.1 |

[1] See definitions of key ratios on page 102.
[2] Board proposal.
[3] Rolling 10-year data.
[4] Share price at year-end divided by earnings per share after full tax and dilution.
[5] Market capitalisation plus net debt plus non-controlling interests divided by operating profit. (EBIT = earnings before interest and taxes).
[6] Share price volatility compared with the entire stock exchange (measured for rolling 48 months).
[7] 2006 adjusted for 3:1 split.

### Shareholders by country, capital

Sweden, 57%
US, 15%
UK, 14%
Luxembourg, 3%
France, 2%
Other, 9%



### Shareholders by category, capital

Institutions, 81%
Private individuals, 19%

Source: Euroclear

### SCA's ten largest shareholders

According to Euroclear's official share register for directly registered and trustee-registered shareholders at 31 December 2010, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights (before dilution):

| Shareholder | No. of votes | Votes % | No. of shares | Holding % |
|---|---|---|---|---|
| AB Industrivärden | 474,700,000 | 29.33 | 68,800,000 | 9.76 |
| Handelsbanken* | 223,495,284 | 13.81 | 36,755,787 | 5.21 |
| SEB* | 85,048,211 | 5.26 | 16,655,114 | 2.36 |
| Skandia | 59,495,387 | 3.68 | 7,188,215 | 1.02 |
| Alecta | 36,720,120 | 2.27 | 14,040,012 | 1.99 |
| AMF – Insurance and Funds | 18,879,740 | 1.17 | 14,234,354 | 2.02 |
| Nordea | 17,855,611 | 1.10 | 7,322,056 | 1.04 |
| Second Swedish National Pension Fund | 15,515,795 | 0.96 | 11,697,923 | 1.66 |
| Third Swedish National Pension Fund | 13,247,164 | 0.82 | 5,828,851 | 0.83 |
| Swedbank Robur funds | 12,640,893 | 0.78 | 12,462,063 | 1.77 |

* Including mutual funds and foundations. Source: Euroclear

### Shareholder structure

| Holding | No. of share-holders | No. of shares | Holding % | Votes % |
|---|---|---|---|---|
| 1–500 | 47,711 | 8,877,736 | 1.26 | 1.24 |
| 501–1,000 | 13,930 | 10,645,331 | 1.51 | 1.36 |
| 1,001–5,000 | 15,786 | 34,614,863 | 4.91 | 4.65 |
| 5,001–10,000 | 2,148 | 15,510,524 | 2.20 | 2.02 |
| 10,001–15,000 | 609 | 7,668,469 | 1.09 | 0.99 |
| 15,001–20,000 | 309 | 5,533,305 | 0.78 | 0.61 |
| 20,001– | 1,278 | 622,259,866 | 88.25 | 89.13 |
| **Total** | **81,771** | **705,110,094** | **100.00** | **100.00** |

Source: Euroclear

### Percentage of foreign ownership

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| % | 43 | 42 | 41 | 43 | 43 |

### Share distribution

| 31 December 2010 | Series A | Series B | Total shares |
|---|---|---|---|
| Number of registered shares | 101,408,278 | 603,701,816 | 705,110,094 |
| of which treasury shares | | 2,767,605 | |

### Shares issues, etc. 1993–2010

Since the beginning of 1993, the share capital and the number of shares have increased due to issues of new shares, conversions and splits, as detailed below:

| | | No. of shares | Increase in share capital, SEKm | Cash payment, SEKm | Series A | Series B | Total |
|---|---|---|---|---|---|---|---|
| 1993 | Conversion of debentures and new subscription through Series 1 warrants | 4,030,286 | 40.3 | 119.1 | | | |
| | New share issue 1:10, issue price SEK 80 | 17,633,412 | 176.3 | 1,410.7 | 62,145,880 | 131,821,657 | 193,967,537 |
| 1994 | Conversion of debentures | 16,285 | 0.2 | – | 62,145,880 | 131,837,942 | 193,983,822 |
| 1995 | Conversion of debentures | 3,416,113 | 34.2 | – | 62,145,880 | 135,254,055 | 197,399,935 |
| 1999 | New share issue 1:6, issue price SEK 140 | 32,899,989 | 329.0 | 4,579.0 | 62,133,909 | 168,166,015 | 230,299,924 |
| 2000 | Conversion of debentures | 101,631 | 1.0 | 15.0 | 61,626,133 | 168,775,422 | 230,401,555 |
| 2001 | New share issue, private placement | 1,800,000 | 18.0 | 18.0 | 45,787,127 | 186,414,428 | 232,201,555 |
| 2002 | New share issue through IIB warrants | 513 | 0 | 0.1 | 41,701,362 | 190,500,706 | 232,202,068 |
| 2003 | Conversion of debentures and subscriptions through IIB warrants | 2,825,475 | 28.3 | 722.9 | 40,437,203 | 194,590,340 | 235,027,543 |
| 2004 | Conversion of debentures | 9,155 | 0.1 | 1.1 | 40,427,857 | 194,608,841 | 235,036,698 |
| 2007 | Split 3:1 | 470,073,396 | – | – | 112,905,207 | 592,204,887 | 705,110,094 |

# Strategy

**SCA is a global hygiene and paper company that develops and produces personal care products, tissue, packaging solutions and forest products. The Group's sales amount to SEK 109bn, with the hygiene business accounting for 60% of this amount. SCA sells its products in some 100 countries under many strong brands, including TENA and Tork, both of which are globally leading brands.**

Efficiency and innovation to generate sustainable growth is an effective strategy for achieving long-term competitiveness. These priorities were important in the past year and will form the basis for the Group's continued work. SCA's prioritised areas are costs and cash flow, capital efficiency, innovation and growth. The Group's proximity to customers and consumers, and knowledge of local and regional market conditions – combined with global experience, strong brands, efficient production and innovativeness – represent key competitive factors. Sustainability is also a prioritised area and forms an integral part of the business and of the Group's strategy for growth and value creation. As a consequence of the steady improvement in the global economy in 2010, there is greater potential for growth in 2011.

**SCA's market positions**

| | Europe | North America | Global |
|---|---|---|---|
| Incontinence care | 1 | 3 | 1 |
| Baby diapers | 3 | – | 4 |
| Feminine care | 3 | – | 5 |
| Consumer tissue | 1 | – | 3 |
| AFH tissue | 1 | 3 | 3 |
| Packaging | 2 | | |
| Publication papers | 6 | | |
| Solid-wood products | 3 | | |

SCA is Europe's largest private forest owner.

**Costs, cash flow and capital efficiency**

SCA is active in an intensely competitive market and a continuous focus on cost efficiency is vital to ensure the continued competitiveness of the Group. Reducing costs and increasing capital efficiency generates improved cash flow and value creation.

Improved capital efficiency, lower costs and strengthened cash flow are achieved through efficiency-enhancement measures and optimisation of capital employed in all parts of the Group. As a rule, more efficient production also yields positive environmental effects and lower costs. One example of this is the 1,300 small-scale energy-saving activities carried out by the Group in recent years, resulting in a reduction in carbon dioxide emissions and annual savings of about SEK 600m. Special attention is also given to leveraging synergies between operations and improving the supply chain, as well as discontinuing non-competitive units.

In 2010, the Group's focus on costs and cash flow, as well as capital efficiency, yielded the following:

- Restructuring programmes and savings measures in all areas of the Group contributed to a cost reduction of about SEK 1bn.
- Cash flow from current operations amounted to SEK 7.4bn.
- Improved productivity and efficiency in substantial parts of the Group combined to increase capital efficiency.
- Net debt declined by SEK 6bn, of which net cash flow accounted for SEK 3bn and exchange rate and translation effects for the remainder. The debt payment capacity improved.

**Innovation**

Innovation is a means of developing and differentiating SCA's products and services, retaining and strengthening market positions, building strong brands, driving growth by expanding the offering to existing customers in existing markets, and attracting new customers in new markets.

Sustainability aspects and product safety are high on the agenda of customers and consumers and, consequently, so is the development of new products and services.

SCA has a long history of successful innovations. The company's innovation activities are pursued in line with a model adapted to match the requirements of the individual business areas. The innovation process represents a fundamental framework for concept generation and is based on trends in the business environment, insight into customer and consumer requirements and technological progress. Through well-defined process steps, creative and valuable ideas are developed in a systematic an effective manner toward the launch of sustainable, value-generating and profitable products and services.

SCA also applies open innovation as an integral part of the innovation process. Open innovation enables access to external competence and resources, which is particularly valuable in terms of customer and consumer insight, and know-how from related industries in a global perspective. The interaction between open innovation and SCA's in-house innovation activities helps to accelerate the development process and cut costs.

The Group-wide model also generates cost synergies and enables efficient resource allocation.

In 2010, the Group developed a new innovation strategy for hygiene products and investments were made in greater consumer insight, in addition to trend, market and competitor intelligence, and research and design. This has enabled the Group to deliver more new products at an increasingly rapid pace, which also strengthens the customer offering and brands.

The number of patent applications is directly related to innovation activities. SCA's patent department drives and creates value from intellectual property rights that is closely linked to SCA's growth and profitability. Read more about SCA's work in the area of innovation on pages 16 and 17.

**Growth**

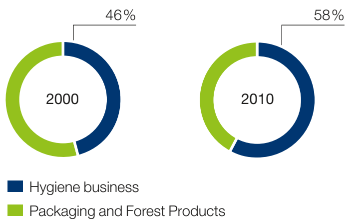
SCA aims to be the leading company in the markets in which it conducts operations. All operations in mature markets, such as Western Europe and North America, will continue to strengthen their positions. In addition to defending and reinforcing its position in mature markets, the aim is to advance positions in emerging markets, primarily in regions where SCA already has representation. The rapidly growing BRICIT* countries have also been assigned high priority. Although growth will mainly take place organically, in old and new segments, it will also occur through acquisitions.

Through strong global and regional market positions and brands, innovativeness and efficient production, SCA is well positioned to leverage the growth potential existing in both mature and emerging markets. In existing markets, SCA aims to grow through such activities as broadening the offering of product categories, product ranges and services.

*Brazil, Russia, India, China, Indonesia, Turkey

A strong profile and position in sustainability for the Group's product brands and the SCA brand itself results in enhanced competitiveness and growth. Read more about SCA's sustainability work on pages 50–53 and in SCA's Sustainability Report at www.sca.com.

**Increased share for Hygiene business**




*Hygiene business*

With sales of hygiene products amounting to SEK 65bn, or about 60% of the Group's total sales, SCA is currently the world's third-largest hygiene company.

The growth potential for hygiene products remains favourable and the main drivers are global population growth, an aging population, increased market penetration and higher disposable incomes. In addition, customers and consumers in mature markets are becoming more aware of, and demand more from, comfort and sustainability. A higher standard of living and increased consumption of hygiene products are strongly interconnected. SCA prioritises growth in hygiene products. SCA's annual organic growth target for Personal Care products is 5–7%, while the target for Tissue is 3–4%. In the hygiene business, emerging markets account for about 25% of sales and the ambition is to increase this share.

As the share of sales of hygiene products in the Group grows, the sensitivity to economic fluctuations decreases, thus ensuring long-term stable profitability, growth and value creation.

*Packaging and Forest Products*

For Packaging and Forest Products, the target is to grow in pace with the market. It is crucial to continue the work focused on efficiency and innovation and to increase the share of value-added products. Activities aimed at developing the value chain and making it more efficient and sustainable and identifying new product areas in close cooperation with customers are also prioritised in order to increase competitiveness.

## Strategic priorities

To improve profitability, increase growth and achieve the Group's financial target for return on capital employed, SCA has established the following prioritised areas:

### Costs and cash flow · Capital efficiency · Innovation · Growth

Strategic priorities per business area:

| Personal Care | Tissue | Packaging | Forest Products |
|---|---|---|---|
| • Higher growth in prioritised emerging markets<br>• Advance SCA's leading position in incontinence care under the TENA brand<br>• Increase the launch rate of innovations<br>• Enhance the efficiency of production and distribution | • Continued focus on innovation<br>• Greater presence in emerging markets<br>• Optimisation of production and distribution<br>• Increase growth in AFH under the Tork brand<br>• Continued development of the brand platform within consumer tissue in Europe | • Raise the share of complete packaging solutions<br>• Lead development in the packaging market through innovation and product development<br>• Continued rationalisation and efficiency enhancement<br>• Continued focus on Europe | • Shift toward more value-added and customised products within publication papers and solid-wood products<br>• Utilise the potential for energy production<br>• Continued productivity improvements<br>• Greater raw material integration<br>• Gradual expansion of the pulp operation |

The Group's financial target: return on capital employed of 13%
In 2010, return on capital employed, excluding restructuring costs, was 9%

## Business concept

To sustainably develop, produce and market increasingly value-added products and services within Personal Care, Tissue, Packaging and Forest Products. SCA's products simplify the everyday lives of hundreds of millions of people around the globe. They also generate strong cash flows that enable favourable dividend growth and increased value for the SCA share.

## Sustainability targets

- Carbon dioxide from fossil fuels shall be reduced by 20% between 2005 and 2020.
- Responsible use of wood raw material.
- Reduce water usage by 15% and the organic content of wastewater by 30% between 2005 and 2010. 2010 was the final year of the target and work is under way to establish new targets.
- Compliance with the Code of Conduct throughout the Group.

Read more about the sustainability targets on pages 52–53.

# Return and capital structure

**Required rate of return in operating activities**
SCA measures and evaluates profitability in operating activities by monitoring return on capital employed (ROCE). The target for ROCE in the Group has been set at 13% and varies among the business areas based on their different circumstances.

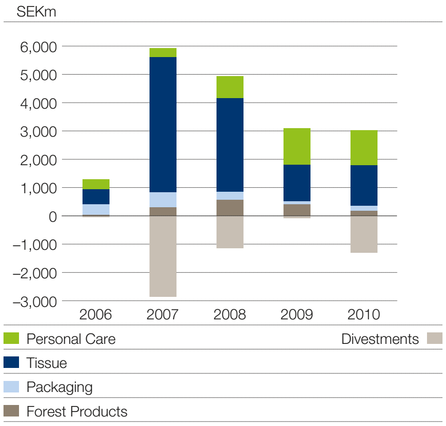
**Required rate of return on investments**
SCA's required rate of return on expansion investments shall satisfy the return requirement assigned to each of the business areas. The required rate of return is determined by the capital market's estimated return requirement on an investment in SCA shares and current long-term interest rates. The return requirement, the weighted average cost of capital (WACC), is based on SCA's capital structure from a debt/equity ratio of 0.70.

**Dividend policy**
SCA aims to provide long-term stable and rising dividends. Over a business cycle, approximately one-third of cash flow from current operations (after interest expenses and tax) is normally allocated to dividends. If, in the long term, cash flow from current operations exceeds what the company can place in profitable expansion investments, the surplus shall be used to amortise loans or is returned to shareholders through higher dividends or share repurchases. The Board resolved to propose a dividend of SEK 4.00 for the 2010 financial year, corresponding to an increase of 8% compared with 2009. Accordingly, dividends have risen by an average of 4.5% per year over the past decade.

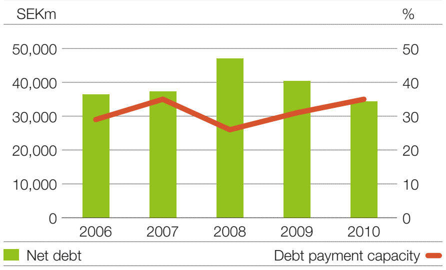
**Capital structure**
SCA's debt/equity ratio, measured as net debt in relation to recognised equity, was 0.51 at 31 December 2010. This was lower than SCA's long-term target of 0.70. The debt/equity ratio target of 0.70 takes into account SCA's business risk, the composition of the product portfolio and its substantial forest holdings. Periodically, the debt/equity ratio may deviate from the target. Over the past decade, the debt/equity ratio has varied between 0.44 and 0.70. SCA has a credit rating for long-term borrowing of Baa1/BBB+ and short-term borrowing of P2/A2 from Moody's and Standard & Poor's, respectively, and a short-term credit rating of K1 in Sweden from Standard & Poor's. During the autumn, Standard & Poor's changed its outlook for SCA from negative to stable. For more detailed information about SCA's financial risk management, see pages 48–49.

**Incentive programme**
SCA's incentive programme is designed to contribute to the creation of shareholder value. The programme for senior executives has two components: achievement of cash-flow, growth and earnings targets, which are determined annually by the Board, and the performance of SCA shares compared with an index consisting of SCA's largest global competitors. For more information about the structure of the programme, see Note 6 (Personnel and Board costs), on page 71.

**Strategic investments, acquisitions and divestments**




**Net debt and debt payment capacity**

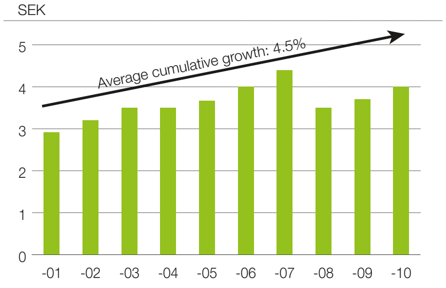



**Key ratios**

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Operating profit** | | | |
| Margin[1] (%) | 8.8 | 8.7 | 7.7 |
| **Cash flow from current operations** | | | |
| Outcome (SEK bn) | 7.4 | 11.5 | 3.8 |
| **Return metrics** | | | |
| Return on capital employed[1] (%) | 9.1 | 8.6 | 8.1 |
| Return on equity[1] (%) | 9.4 | 8.8 | 8.7 |
| **Financial metrics** | | | |
| Debt/equity ratio (multiple) | 0.5 | 0.6 | 0.7 |
| Market adjusted debt/equity ratio (multiple) | 0.5 | 0.6 | 1.0 |
| Debt payment capacity (%) | 35 | 31 | 26 |

[1] Excluding items affecting comparability.

**Dividend per share**



# Board of Directors' Report

# Operations and structure

SCA is a global hygiene and paper company that develops, produces and markets personal care products, tissue, packaging, publication papers and solid-wood products. SCA offers products that make everyday life for people considerably easier. Based on customer and consumer needs, new and more value-added products are constantly being developed for consumers, institutions, industry and the retail trade. SCA's products largely consist of renewable and recyclable materials.

Although Europe is SCA's main market, the Group also holds strong positions in North America, Latin America and Asia Pacific. Expansion takes place through organic growth and acquisitions, primarily within Personal Care and Tissue. SCA owns approximately 2.6 million hectares of forest land, which guarantees just under half of the Group's timber supplies and enables efficient raw material integration and effective cost control. SCA conducts extensive sawmill operations as a natural complement to the forest operations.

### Organisation

SCA consists of four business areas – Personal Care, Tissue, Packaging and Forest Products. The business areas are organised in six business groups. The SCA Personal Care Europe business group manufactures and sells personal care products in Europe and Africa. SCA Tissue Europe's operations involve manufacture and sales of consumer and AFH tissue in Europe. Also located in Europe is the SCA Packaging Europe business group, which manufactures and sells packaging solutions, and the SCA Forest Products business group, which manufactures publication papers, pulp, timber and solid-wood products. The SCA Asia Pacific and SCA Americas business groups include tissue and personal care products.

The Global Hygiene Category (GHC) is a unit that creates the potential for global growth in the hygiene categories. GHC shall focus on long-term strategies for all segments in tissue and personal care. To capitalise on synergies among the business areas, GHC is responsible for developing customer and consumer insight, innovation, technology processes and the brand portfolio.

### Significant events during the year

SCA's Asian packaging operation, which generated annual sales of approximately USD 250m, was divested. The sales price was USD 200m.

The acquisition of Copamex's baby diaper operations in Mexico and Central America strengthened SCA's position in Latin America and supplemented the portfolio of hygiene products in the region.

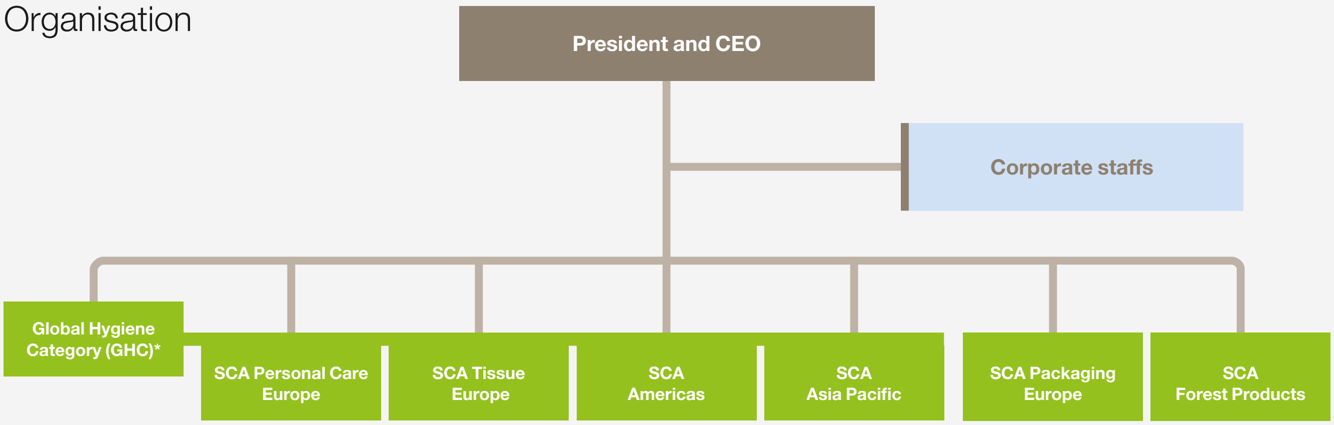
The production of tissue commenced at the new facility in Mexico, located close to Mexico City, which improved the offering to consumers and competitiveness in the region.

SCA opened a facility for personal care products south of Moscow in Russia. The plant produces baby diapers and will also commence production of incontinence care products in 2011. SCA is thus able to meet escalating demand for hygiene products in Russia.

The restructuring programme in the Packaging business area was concluded during the year. By year-end 2010, the entire projected annual savings of slightly more than SEK 1bn had been achieved on an annual basis. Furthermore, a decision was made to implement an efficiency improvement project in the European baby diaper operations. The operations were restructured and one of the decisions made was to close the Personal Care plant in Linselles, France. In addition, an efficiency improvement project in Forest Products at Ortviken paper mill in Sweden was initiated.

SCA and Persson Invest formed a jointly owned sawmill company in Sweden, Gällö Timber AB, in June 2010.

## Organisation




* GHC's task is to manage innovation, brand strategy and technology for all of the Group's hygiene operations.

# Acquisitions, investments and divestments

**Divestment of Asian packaging operation**
SCA divested its Asian packaging operation during the second quarter. The sales price amounted to USD 200m, which was paid in cash on 30 June 2010. The Asian packaging operation reported sales of approximately USD 250m in 2009 and had approximately 4,200 employees. The transaction resulted in neither a capital gain nor a capital loss. The operation was deconsolidated on 30 April 2010. Following the divestment, SCA will direct its resources in Asia on growth in hygiene products.

**New tissue plant in Mexico commissioned**
During the final quarter of the year, production started at a new tissue facility in Mexico that will improve the offering to customers and boost competitiveness and profitability in the region. The plant is situated in close proximity to the key market of Mexico City and the surrounding area. The tissue machine has an annual capacity of 60,000 tonnes. The project also comprises a recycled fibre plant, a converting hall with three lines for toilet paper as well as a distribution centre. The investment amounted to approximately USD 210m. The Mexican tissue market is highly consolidated and SCA is currently the second-largest player with a market share of 18%. Producer brands, including SCA's own brands, are totally dominant in the Mexican convenience goods market. Market growth in Mexico has been 4–5% annually over the past five years and SCA's assessment is that the market will grow by approximately the same figure in the immediate years ahead.

**Strengthened presence in Mexico through purchase of baby diaper business**
In October 2010, SCA completed the approximately SEK 360m purchase of the Copamex baby diaper business in Mexico and Central America. The company produces the baby diaper brands Dry Kids for the Mexican market and Tessy Babies for consumers in Central America. Annual sales in the acquired business amounted to about USD 60m. Copamex holds the number three position in baby diapers in Mexico. SCA already commands several strong regional market positions in hygiene products, including incontinence care, feminine care and tissue. The acquisition strengthens SCA's presence in Latin America, and adds to SCA's current portfolio of hygiene products in the region.

**New SCA facility to meet Russian demand for hygiene products**
In September 2010, SCA inaugurated a personal care plant in Russia. The facility is located in Veniov, in the Tula Region south of Moscow. The investment was valued at approximately EUR 85m between 2008 and 2010 and is the first of its kind in local production of baby diapers in Russia and the CIS region. The plant will manufacture Libero baby diapers and TENA incontinence care products to meet the growing market demand for hygiene products in Russia. In addition to meeting customer requirements more rapidly, SCA will decrease its import of products from its plants in Poland and the Netherlands, thereby reducing high costs for freight and duties. The new facility supplements the tissue manufacturing in Sovetsk, opened in February 2010, in the same region. Tissue is sold under the brands Tork and Zewa and is also manufactured in Svetorgorsk, close to St. Petersburg in Russia. SCA anticipates healthy growth in all categories in the hygiene segment in Russia and CIS region.

**Jointly-owned sawmill company in Sweden, Gällö Timber AB**
SCA and Persson Invest formed a jointly-owned sawmill company in Sweden, Gällö Timber AB, in June 2010. The new company is owned jointly by Persson Invest and encompasses Persson Invest's two sawmills and SCA's sawmill in the region. With the products from Gällö Timber, SCA can offer higher volumes of solid-wood products, a total of more than 2 million $m^3$, which will enhance SCA's competitiveness in Europe and other markets. Gällö Timber AB adds net sales of approximately SEK 500m on a yearly basis to SCA and annual volume of approximately 230,000 $m^3$ of solid-wood products. The joint venture required an investment of SEK 65m.

**Expansion of Tunadal sawmill in Sweden**
In June, SCA decided to invest SEK 250m in the Tunadal sawmill in Sundsvall, Sweden. The investment was primarily made in a new log sorting line and will yield an annual increase in production of 140,000 $m^3$ of spruce wood products. The investment enhances competitiveness and increases SCA's share of value-added and customised products, which is necessary for competing with the best spruce sawmills in Europe. The new log sorting line is scheduled to be put into operation in July 2011.

# Other Group information

**Parent Company**
The Group's Parent Company, Svenska Cellulosa Aktiebolaget SCA (publ), owns most of the forest land and other real estate relating to forestry operations, and grants felling rights for standing forest to the subsidiary SCA Skog AB. The Parent Company is otherwise the owner of a number of business group companies and performs Group-wide management and administrative functions. In 2010, the Parent Company rec-ognised operating income of SEK 185m (196) and reported a profit before appropriations and tax of SEK 1,164m (33,351). During the year, the Parent Company's net investments and divestments in shares and participations in companies outside SCA amounted to SEK 0m (0). Investments in property and plant totalled SEK 133m (80) during the year. Cash and cash equivalents at year-end were SEK 0m (0).

**Research and development (R&D)**
During the year, research and development costs amounted to SEK 713m (738), which is equivalent to 0.7% of consolidated net sales. Research and development is conducted both centrally and locally in the various business groups. The central activities are carried out in the form of R&D in the fields of materials and technology, while the local units work with product development, often in direct cooperation with customers.

**Holdings of treasury shares**
SCA implemented a directed cash issue of a total of 1,800,000 shares in 2001. These shares were subsequently acquired by SCA to be used for transfer to senior executives and key individuals under the employee stock option programme. The programme ended in 2009.

Following the share split in 2007 and transfer of the shares under the concluded programme, the company holds a total of 2,767,605 treasury shares.

**Distribution of shares**
During the year, 1,627,075 Class A shares were converted into Class B shares. The proportion of Class A shares was 14.4% at year-end. The number of treasury shares was 2,767,605.

**Dividend**
The Board of Directors proposes that the dividend be raised by 8.1% to SEK 4.00 (3.70) per share, representing 51% of earnings per share in 2010 and 38% of cash flow from current operations per share. The dividend is expected to total approximately SEK 2,809m (2,599). Accordingly, dividend growth in the most recent ten-year period has amounted to 4.5%. The Board's assessment is that the proposed dividend will provide the Group with the scope to fulfil its obligations and make the required investments. The record date for entitlement to receive dividends is proposed as 12 April 2011.

**Environmental impact in Sweden**
SCA conducts 16 operations for which a permit is required and six that are under obligation to submit reports in Sweden. Operations for which permits are required or reporting is mandatory account for 14% (12) of consolidated net sales.

Six permits relate to the manufacture of pulp and paper. These operations impact the environment through emissions to air and water, solid waste and noise. Nine permits relate to the production of solid-wood and value-added products, and biofuels. These operations affect the environment through emissions to air and water, and noise. One permit relates to the manufacture of fuel pellets. This operation affects the environment through emissions to air and water, as well as noise.

The operations required to submit reports comprise the production of corrugated board (three plants), EPS packaging (two plants), and display packaging (one plant).

The production of corrugated board packaging, EPS packaging and display packaging impacts the external environment through emissions to air and water and by generating solid waste.

**Guidelines for remuneration of senior executives**
The Board has decided to propose to the 2011 Annual General Meeting the following unchanged guidelines for determining salaries and other remuneration for senior executives to apply for the period following the Annual General Meeting.

"Remuneration to the CEO and other senior executives will be a fixed amount, possible variable remuneration, additional benefits and pension. Other senior executives include the Executive Vice President, Business Group Managers and equivalent, and Central Staff Managers. The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession. Fixed and variable remuneration are to be linked to the executive's responsibility and authority. For the CEO, as well as for other senior executives, the variable remuneration is to be limited and linked to the fixed remuneration. The variable remuneration is to be based on the outcome of predetermined objectives and, as far as possible, be linked to the increase of value of the SCA share, from which the shareholders benefit. Programmes for variable remuneration should be formulated so that the Board, if exceptional financial circumstances prevail, has the possibility to limit, or refrain from, payment of variable remuneration if such an action is considered reasonable and in compliance with the company's responsibility to shareholders, employees and other stakeholders.

In the event of termination of employment, the notice period should normally be two years should the termination be initiated by the company, and one year, when initiated by the senior executive. Severance pay should not exist.

Pension benefits are to be either defined benefit or defined contribution plans, or a combination of both, and entitle the senior executive to pension from the age of 60, at the earliest. To earn the pension benefits, the period of employment must be long term, at present 20 years. When resigning before the age providing entitlement to pension, the senior executive will receive a paid-up pension policy from the age of 60. Variable remuneration is not pensionable income. Matters of remuneration to senior executives are to be dealt with by the Remuneration Committee and, as regards the President, be resolved by the Board of Directors."

The Board's proposal concurs with the guidelines adopted by the 2010 Annual General Meeting. For information concerning the company's application of these guidelines and information on the company's expenses, see Note 6 on page 71 of this Annual Report.

# Sales and earnings

Operating profit, excluding restructuring costs, was level with the preceding year and amounted to SEK 9,608m (9,648). Higher prices and volumes along with cost savings offset sharply higher raw material costs and negative exchange rate effects.

**Net sales**

Net sales decreased slightly to SEK 109,142m, compared with SEK 110,857m in the preceding year. Exchange rate effects reduced consolidated net sales by 6%. Sales for Personal Care and Tissue declined by 3% and 4% respectively, primarily due to exchange rate effects, while rising prices and volumes contributed to an increase in sales. The sales increase in emerging markets was 10% for Personal Care and 6% for Tissue. Packaging increased its sales by 4% as a result of higher volumes and prices, which more than offset the negative exchange rate effects, closures and divested operations. Net sales for Forest Products rose due to higher prices for pulp and solid-wood products as well as acquisitions.

**Earnings**

Operating profit, excluding restructuring costs of SEK 931m (1,458), was level with the preceding year and amounted to SEK 9,608m (9,648). Profit for Personal Care and Tissue declined by 10% and 23%, respectively. Packaging increased its profit to SEK 1,577m (413) and Forest Products' profit fell 2%. Higher prices and volumes along with cost savings and lower energy costs increased profit, while sharply rising raw material costs and negative exchange rate effects reduced profit.

Financial items amounted to an expense of SEK 1,116m (expense: 1,644). The decrease is attributable to lower interest rates and lower average net debt. Profit before tax, excluding restructuring costs, improved by SEK 488m and amounted to SEK 8,492m (8,004). The average tax rate for the year was 26%. Profit for the period, excluding restructuring costs of SEK 689m (1,076) after tax, amounted to SEK 6,281m (5,906). Earnings per share rose to SEK 8.89 (8.32), excluding restructuring costs, and to SEK 7.90 (6.78) including restructuring costs.

**Key figures**

The Group's gross margin, excluding restructuring costs, amounted to 22.6%, compared with 23.6% in the preceding year, and the operating margin was 8.8%, compared with 8.7% in 2009. Return on capital employed, excluding restructuring costs, remained unchanged at 9%, and return on equity was also unchanged at 9% compared with the preceding year. The interest coverage ratio rose to 7.8, compared with 5.0 in the preceding year.

**Summary income statement**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Net sales | 109,142 | 110,857 | 110,449 |
| Gross profit 1) | 24,618 | 26,113 | 22,259 |
| Operating profit 2) | 9,608 | 9,648 | 8,554 |
| Financial items | –1,116 | –1,644 | –2,317 |
| **Profit before tax 2)** | **8,492** | **8,004** | **6,237** |
| Tax 2) | –2,211 | –2,098 | –639 |
| **Profit for the year 2)** | **6,281** | **5,906** | **5,598** |

1) In figures for 2008, reclassification took place between Cost of goods sold and Sales, general and administration.

2) Excluding items affecting comparability in 2010 amounting to an expense of SEK 931m before tax and SEK 689m after tax and an expense in 2009 totalling SEK 1,458m before tax and SEK 1,076m after tax.

Increase in profit before tax:

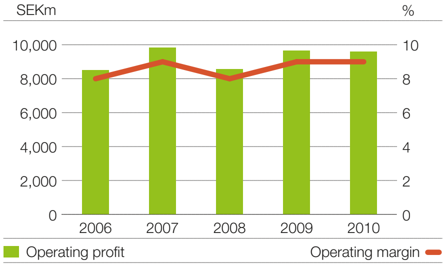
**6%**

Operating margin:

**9%**

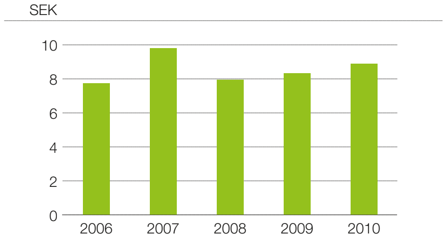
Excluding items affecting comparability.

**Operating profit and operating margin**



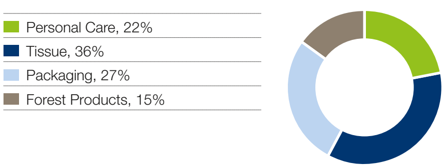

Excluding items affecting comparability.

**Earnings per share after dilution**




Excluding items affecting comparability.

**Net sales, share of Group**



# Operating cash flow

A high level of control of the operating cash flow is an integral part of SCA's long-term competitiveness strategy. Cash flow from current operations amounted to SEK 7,399m (11,490). The decline is primarily attributable to changes in tied up working capital.

Operating cash surplus declined by 4% to SEK 15,097m (15,733). Working capital increased mainly as a result of higher inventory values resulting from higher raw material prices. The change was attributable to all business areas. Working capital in proportion to net sales was 8% (7). Current capital expenditures, which declined SEK 390m during the year, amounted to SEK 3,647m (4,037), corresponding to 3% of net sales. Operating cash flow fell to SEK 9,755m, compared with SEK 14,133m in the preceding year.

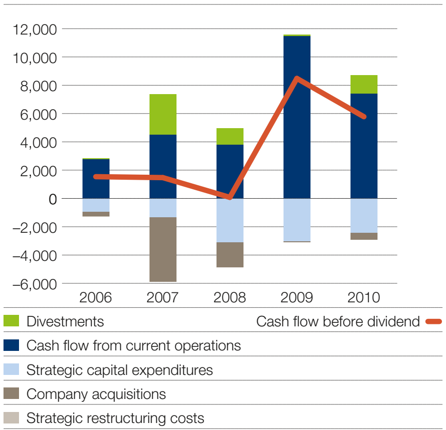
Financial items declined by SEK 528m to an expense of SEK 1,116m (expense: 1,644). The decline was an effect of lower interest rates and lower average net debt. Tax payments totalled SEK 1,255m (1,003). Cash flow from current operations amounted to SEK 7,399m, compared with SEK 11,490m in the preceding year.

Strategic capital expenditures made to strengthen organic growth amounted to SEK 2,427m (3,031). The year's expense for strategic capital expenditures pertained primarily to investments in Tissue in Mexico, Personal Care in Russia and Packaging in Germany.

Net debt decreased by SEK 6,024m during the year, to SEK 34,406m at year-end. Net cash flow reduced net debt by SEK 3,119m. The fair value measurement of pension assets, pension obligations and financial instruments reduced net debt by SEK 695m. Exchange rate movements attributable to the strengthening of the Swedish krona decreased net debt by SEK 2,210m.

The debt/equity ratio was 0.51 (0.60). The debt payment capacity improved to 35% (31).

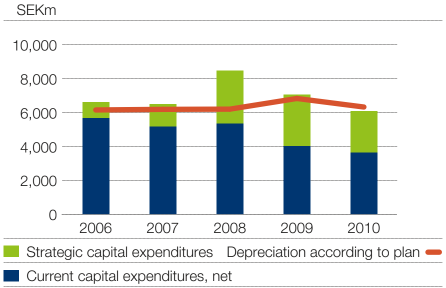
### Cash flow, Group



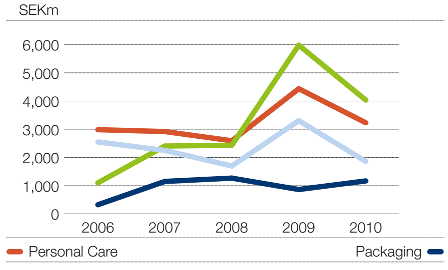

### Summary operating cash flow statement

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Operating cash surplus | 15,097 | 15,733 | 13,869 |
| Change in working capital | –1,042 | 3,307 | –19 |
| Current capital expenditures, net | –3,647 | –4,037 | –5,353 |
| Restructuring costs, etc. | –653 | –870 | –684 |
| **Operating cash flow** | **9,755** | **14,133** | **7,813** |
| Financial items | –1,116 | –1,644 | –2,317 |
| Income taxes paid, etc. | –1,240 | –999 | –1,686 |
| **Cash flow from current operations** | **7,399** | **11,490** | **3,810** |
| Strategic capital expenditures, net | –1,623 | –3,007 | –3,733 |
| **Cash flow before dividend** | **5,776** | **8,483** | **77** |

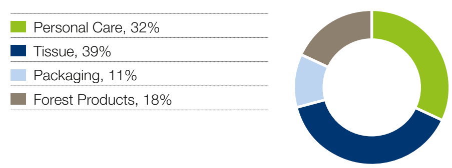
### Capital expenditures




### Operating cash flow by business area




### Operating cash flow, share of the Group



# Financial position

### Assets and capital employed

The Group's total assets declined 5% compared with the preceding year and amounted to SEK 142,978m (149,859). Non-current assets decreased by SEK 4,898m, compared with the preceding year, to SEK 108,909m, of which property, plant and equipment fell SEK 5,237m to SEK 56,167m and intangible assets declined SEK 1,593m to SEK 20,958m. Property, plant and equipment declined SEK 4,401m, mainly due to exchange rate movements, and SEK 913m as a result of the divestment of the Asian packaging operation. Current and strategic capital expenditures in property, plant and equipment amounted to SEK 6,254m and depreciation for the year to SEK 5,999m. Intangible assets declined SEK 1,510m mainly due to exchange rate movements.

Current assets decreased by SEK 1,983m to SEK 34,069m (36,052) primarily as a result of exchange rate effects and a decline in cash and cash equivalents, while inventories rose due to higher raw material costs. Working capital amounted to SEK 8,899m (8,126). Capital employed was 6% lower than in the preceding year and totalled SEK 102,227m (108,336). A distribution of capital employed by currency is shown in the table on the right.

The value in Swedish krona of the Group's foreign net assets at year-end was SEK 76,596m (78,080). The decline is mainly due to exchange rate effects.

### Equity

Consolidated equity amounted to SEK 67,821m (67,906) at year-end. Net profit for the period increased equity by SEK 5,592m (4,830), while shareholder dividends reduced equity by SEK 2,657m (2,489). Equity increased by SEK 368m after tax through remeasurements of the net pension liability to market value. The remeasurement of financial instruments to market value increased equity by SEK 691m after tax. Exchange rate movements, including the effect of hedges of net foreign investments, decreased equity by SEK 4,079m.

### Financing

At year-end, the Group's interest-bearing gross debt amounted to SEK 36,506m (44,104). The average maturity period was 2.9 years at the same date. The decrease in gross debt was largely due to the positive cash flow and effects of exchange rate movements.

Net debt at year-end amounted to SEK 34,406m, compared with SEK 40,430m at the beginning of the year. The net cash flow was impacted in the amount of SEK 3,119m. Furthermore, net debt declined by SEK 695m due to the fair value measurement of pension assets and obligations, as well as the fair value measurement of financial instruments. Exchange rate movements resulting from the strengthening of the Swedish krona reduced net debt by SEK 2,210m.

### Key figures

The debt/equity ratio was 0.51 (0.60) and the visible equity/assets ratio was 47% (45). Return on capital employed (ROCE) and on equity (ROE), excluding restructuring costs, amounted to 9% (9) and 9% (9), respectively. The capital turnover rate was 1.04 (0.99). At year-end, working capital amounted to 8% (7) of net sales.

**Consolidated capital employed by currency, SEKm**

| | 2010 | % | 2009 | % | 2008 | % |
|---|---|---|---|---|---|---|
| EUR | 31,381 | 31 | 35,139 | 32 | 41,940 | 37 |
| SEK | 35,141 | 34 | 35,745 | 33 | 33,623 | 29 |
| USD | 7,639 | 8 | 8,339 | 8 | 9,298 | 8 |
| GBP | 7,322 | 7 | 8,182 | 8 | 7,911 | 7 |
| Other | 20,744 | 20 | 20,931 | 19 | 21,482 | 19 |
| **Total** | **102,227** | **100** | **108,336** | **100** | **114,254** | **100** |

**Consolidated balance sheet**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Intangible assets | 20,958 | 22,551 | 23,160 |
| Property, plant and equipment | 56,167 | 61,404 | 63,700 |
| Biological assets | 26,069 | 25,397 | 24,711 |
| Other non-current assets | 5,715 | 4,455 | 4,794 |
| **Total non-current assets** | **108,909** | **113,807** | **116,365** |
| Current assets | 34,069 | 36,052 | 42,603 |
| **Total assets** | **142,978** | **149,859** | **158,968** |
| Equity | 67,821 | 67,906 | 67,252 |
| Non-current liabilities | 38,158 | 44,356 | 53,008 |
| Current liabilities | 36,999 | 37,597 | 38,708 |
| **Total equity and liabilities** | **142,978** | **149,859** | **158,968** |
| Working capital | 8,899 | 8,126 | 11,818 |
| Capital employed | 102,227 | 108,336 | 114,254 |
| Net debt | 34,406 | 40,430 | 47,002 |

ROCE:

**9%**

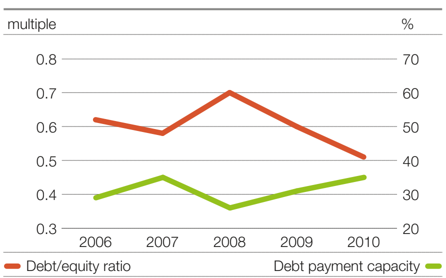
Excluding items affecting comparability

Working capital[1]:

**8%**

[1] Working capital as a percentage of net sales

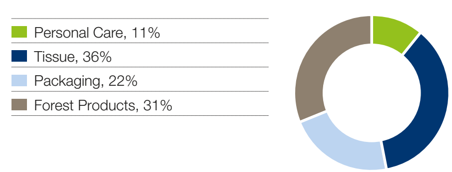
**Debt/equity ratio and debt payment capacity**




**Return on capital employed and equity**


Excluding items affecting comparability.

**Capital employed, share of Group**



# Innovation for profitable growth

Innovation is a means of developing and differentiating SCA's products and services, retaining and strengthening market positions, building stronger brands and driving growth.

SCA has a long history of successful innovations. Successful innovation activities lead to differentiation and increased added value for SCA's customers and consumers, thereby contributing to strong, market-leading positions and brands, and creating value for SCA's shareholders and stakeholders.

A number of interactive driving forces create the need for continuous innovation activities. In general, SCA works with innovations in order to:

- Meet changing demands and requirements among customers and consumers.
- Create long-term, profitable differentiation vis-à-vis competitors.
- Create value by combining higher customer and consumer value with reduced manufacturing costs.
- Generating growth in sales, earnings and in the number of customers and consumers.

Innovation is a multifaceted, complex framework of activities that occur in various forms. SCA defines innovations and their potential market impact on the basis of the following three levels:

- Upgrade: An upgrade innovation is a modification of an existing offering, and is always necessary to remain competitive. Upgrade is the most common form of innovation across all companies.
- New generation: For SCA, new generation innovations occur when a completely new offering for the company is launched for an existing customer or consumer segment.
- Breakthrough: Breakthrough innovations, which are relatively rare in most industries, are new growth platforms that completely transform an entire industry and create new customer or consumer segments or provide an entirely new offering to existing customer segments.

**SCA's general innovation process**

SCA's general innovation process is deeply embedded in the Group's strategy and business model. It represents a fundamental framework for concept generation and innovation based on trends in the business environment, insight into customer and consumer requirements and technological progress. The innovation-related processes are continuously honed and streamlined.

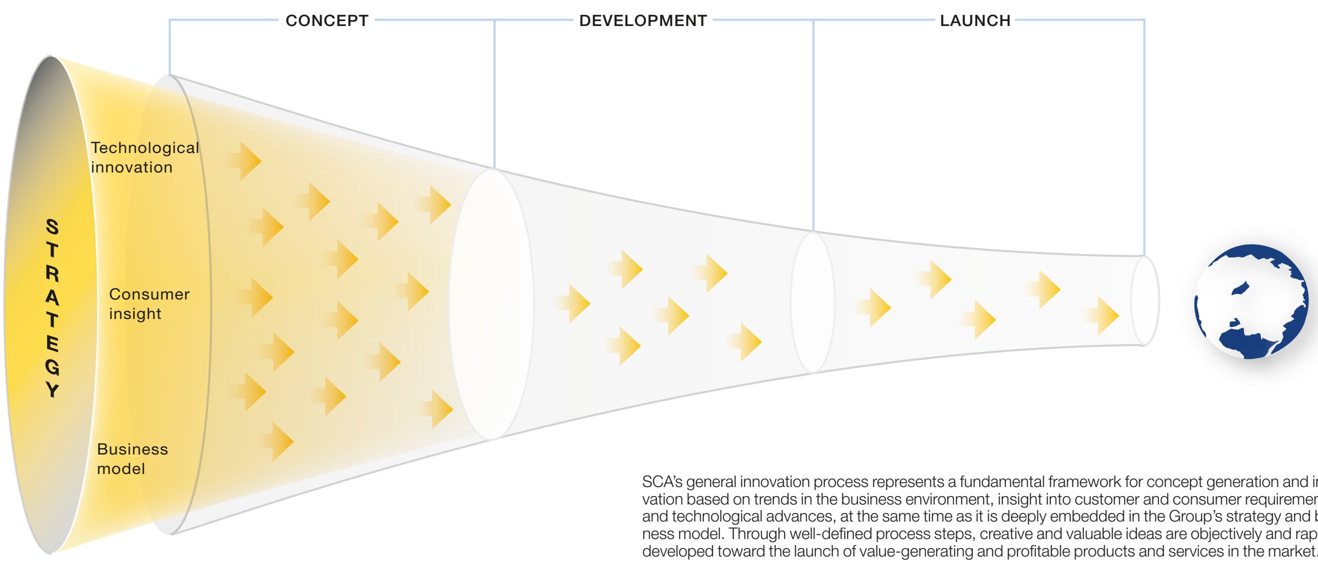
Innovation activities in the Group's four business areas rest on three basic building blocks: customer and consumer insight, new technology and business model.

Innovations can start anywhere in the Group or in cooperation with external partners in a network. Experience proves that an innovation becomes successful only when there is coherence between customer and consumer insight, new technology and the business model.

The illustration below shows the manner in which the various building blocks interact in the innovation process. This type of model is used in SCA's most innovative business areas: Personal Care and Tissue, and in a similar manner in Packaging and Forest Products.

The hygiene business (Personal Care and Tissue) use the same model for evaluating innovations in the various phases of the innovation process: concept, development and launch. This enables the operations to estimate and monitor the value of innovations when they are launched

## SCA's general innovation process:




SCA's general innovation process represents a fundamental framework for concept generation and innovation based on trends in the business environment, insight into customer and consumer requirements and technological advances, at the same time as it is deeply embedded in the Group's strategy and business model. Through well-defined process steps, creative and valuable ideas are objectively and rapidly developed toward the launch of value-generating and profitable products and services in the market.

in the market. The innovations that do not make sufficient progress in the process can be eliminated at an early stage and resources effectively reprioritised. A shared process and follow-up of innovations launched in the market enable the focus to be directed to the products that generate the greatest value.

The shared model also generates cost synergies and enables effective resource allocation.

**Open innovation**

SCA also applies the open innovation model. Through collaboration with external and internal resources in the innovation process, the Group optimises access to expertise and resources, thus accelerating development processes and cutting costs. SCA primarily uses open innovation for patent exchange, and partnership with suppliers and selected companies and by utilising innovation brokers.

**SCA's patenting activities**

The number of patent applications is directly related to the innovation work and, in 2010, SCA submitted applications for 64 patents. Patenting activities are pursued in a central support organisation with a global focus. Some 30 employees work at SCA's patent department who, together with the business organisation, drive and create value from intellectual property rights that is directly linked to SCA's growth and profitability. The patenting activities take the form of industry intelligence and ensuring appropriate protection for SCA's product solutions and innovations in order to create and maintain a valuable patent portfolio.

**Innovation in hygiene business**

Innovation in the hygiene segment is a prerequisite for retaining and strengthening market shares, building strong brands and creating new values for customers and consumers. A faster innovation and launch pace are two focus areas.

Read more about innovation activities in Personal Care on page 21 and in Tissue on page 25.

**Innovation in Packaging**

SCA's Packaging business area has innovation expertise in many areas throughout the organisation. Packaging seeks to develop optimal packaging solutions with regard to function, design, logistics, transport, and environmental footprint. Another innovation area is strengthening retail points of sale and reducing the complexity of the industry's packaging solutions.

Read more about innovation activities in Packaging on page 29.

**Innovation in Forest Products**

Innovations are a tool used by the Forest Products business area to further strengthen its competitiveness. Efforts in this respect permit Forest Products to move up the value chain and produce products and solutions with higher value and margins. By this means, SCA differentiates itself from the rest of the industry, while also meeting the requirements of business partners and customers.

Read more about innovation activities in Forest Products on page 33.

## *Examples of innovation:*

**TENA Ultra Thins**

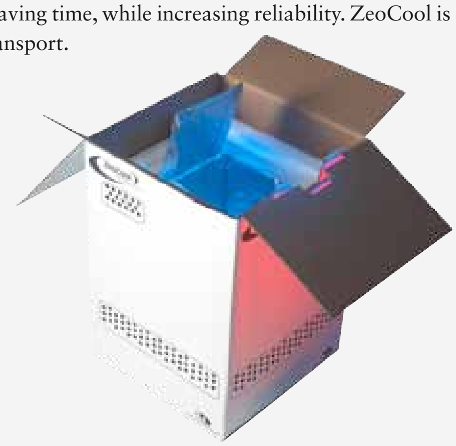
During the year, TENA launched a new ultra-thin incontinence pad, featuring improved comfort and the same safety and odour control of a thicker pad.


**Tork Xpressnap Café**

In response to the demands of the growing café market for a customised solution, SCA has launched a smaller model of the Tork Xpressnap napkin dispenser, which delivers only one napkin at a time. This reduces costs for customers and saves resources, which is positive from a sustainability perspective.


**ZeoCool**

ZeoCool is a temperature-controlled packaging that maintains complete product integrity of +2° C to +8° C by controlling the internal payload space by reacting to the external ambient temperature. Among other applications, ZeoCool is designed for shipping pharmaceutical and medicinal products requiring constant low temperatures during shipping. Combining both heating and cooling technology through exothermic reactions and evaporative cooling, ZeoCool eliminates the need for conditioning coolants with fridges and freezers, reducing space requirements, operational costs and saving time, while increasing reliability. ZeoCool is ideal for all modes of transport.



# Value-adding brand-building

SCA's brand-building focuses on developing distinct and relevant brands based on high customer and consumer insight. Innovation is a key element in this work. Successful innovation work results in differentiation and higher added-value for customers and consumers, which contributes to strong market-leading brands and value creation for SCA's shareholders and stakeholders. Through increased market shares for global and regional brands, the Group's positions were strengthened in mature as well as prioritised growth markets during 2010.

**Shared values**

SCA's three core values Respect, Responsibility and Excellence, form the basis for how the Group conducts business and advances the operation – with a strong focus on environmental and social responsibility. These values unite all 45,000 employees at SCA under a shared set of beliefs that form the basis for leadership and employeeship.

Respect and responsibility for people and the environment involves continuously developing operations in a sustainable and responsible manner. The pursuit of excellence provides inspiration to renew and improve products and solutions in order to generate increased added value for all of SCA's customers, consumers and other stakeholders.

The Group's value-based activities provide the platform for building confidence in SCA among customers, employees, shareholders and other stakeholders. In a corresponding manner, the selection of business partners is also based on SCA's values.

**Brand strategy**

SCA's strategy is to build a strong Group-wide brand in which SCA is a guarantor for all of the Group's product brands and ensures that products, raw materials, processes and the entire operations are developed in a sustainable and responsible manner.

In addition, the strategy is to build a brand portfolio with strong product brands, globally, regionally and locally. A strong local presence, combined with SCA's global strength, creates close relations with customers and consumers while the economies of scale result in increased efficiency. The strategy also facilitates cross-market synergies and cost savings.

Responsiveness and insight with regard to customer and consumer needs drive innovation and business activities, and these are decisive for developing SCA's brands. The expertise and commitment of the employees is crucial in this effort. In the hygiene business, which encompasses most of the Group's product brands, SCA works actively with brand training internally under the name SCA Brand Academy.

**Brand model**

To ensure continuous development of SCA's brands, activities are pursued in line with a shared method and model. This way of working defines the positioning of each brand with the aim of developing, activating and following up coordinated activities, from innovation and product development to the consumer in the store. The model also enables consistent follow-up of established goals and generates cost synergies and facilitates efficient resource allocation. The brand portfolio is evaluated in the annual strategy process.

SCA c/o Life

*The SCA brand is summarised by c/o life:*
*Because our products make life easier for you and for millions of people around the world. Because our resources and the way we work are natural parts of the global lifecycle. And because we care.*

## *Brands within Packaging and Forest Products*

Packaging and Forest Products mainly conduct operations under the SCA brand, but also work with product brands.

**Product brands within Forest Products**

- Power Pot is the seedling developed by SCA that is marketed to forest owners.
- SCA's pulp grades are marketed under the product names Celeste, Star and Luna.
- Publication paper products are presented as part of the Grapho family, for example, GraphoCote, GraphoVerde and GraphoMax.

**Product brands within Packaging**

To secure a unique offering for customers, Packaging has a number of patented packaging solutions and paper grades that are positioned under the brands Herculight, ZeoCool, Mira, Trueflo and Freshpack.

## *Global brands within the hygiene business:*


SCA is world-leading in incontinence care with the global brand TENA.

TENA is sold in more than 100 countries, with sales exceeding EUR 1bn.

The global market share is 25%. The market shares in Europe and North America are 41% and 20%, respectively.

In the AFH tissue segment, SCA is the world's third-largest supplier with the global brand Tork.

Tork is sold in 80 countries, with sales of more than EUR 1bn.

SCA is the market leader in Europe with a 19% market share and holds a 20% market share in North America.

## *Examples of regional brands within the hygiene business:*

SCA's strongest market for baby diapers is the Nordic region, with more than a 60% market share for the Libero brand.

Libero holds more than an 80% market share in Sweden and Norway for pant diapers.

Libero is growing rapidly in Russia and parts of Eastern Europe.


Libresse is SCA's leading brand for feminine care products and is centred geographically in Europe, with a market-leading position in the Nordic region with a 32% market share and strong growth in Russia.

The brand was launched successfully in Malaysia during 2010.


Tempo is SCA's consumer tissue brand with strong market positions in Europe. Tempo offers products for personal hygiene, including toilet paper and handkerchiefs.

Tempo is the market leader in handkerchiefs in Hong Kong, with a 67% market share.

Tempo is also growing in the Middle East and Asia.

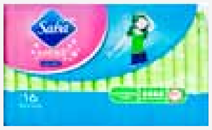
SCA's baby diapers are sold in Southeast Asia under the Drypers brand and are market-leading in Malaysia and Singapore, with 37% and 22% market share, respectively. Drypers also hold advanced positions in Thailand and the Philippines.

Saba is SCA's brand for feminine care products in Mexico and Central America.

Saba holds a strong position in Mexico, with about a 25% market share and advanced positions in several markets in Central America.

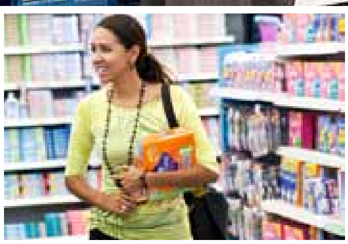
Plenty is SCA's leading consumer tissue brand for products for homes and households in Europe. Plenty commands strong market positions in the UK, the Netherlands, Austria and Switzerland.

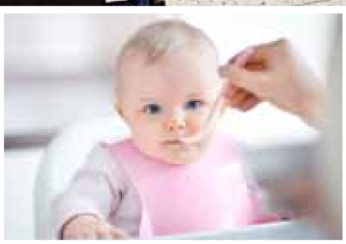






# Personal Care




## Share of Group


Net sales, 22%
**SEK 25,027m**


Operating profit, 29%
**SEK 2,922m**


Capital employed, 11%
**SEK 10,620m**


Av. no. of employees, 19%
**8,610 employees**

## Financial targets

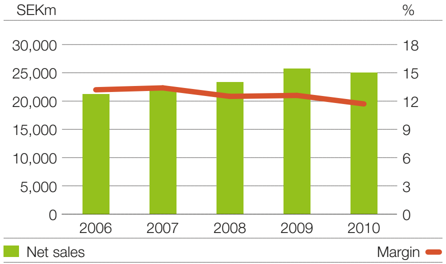
- 5–7% annual organic growth
- 30% return on capital employed

## Outcome 2010

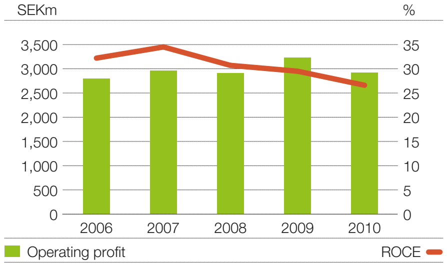
- Growth[1] 2%
- Return on capital employed 27%
- Operating margin 12%

[1] Excluding exchange rate effects.

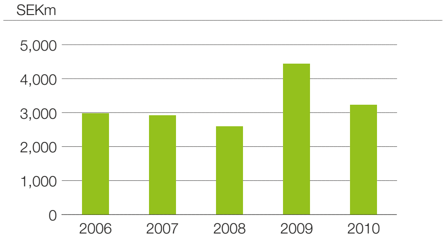
## Net sales and operating margin




## Operating profit and ROCE




## Operating cash flow



# Personal Care

SCA is one of the world's largest companies in personal care products and has a portfolio of incontinence care, baby diapers and feminine care products. All three segments have a high innovation rate and new products are launched continuously. The company's products are sold under SCA's own brands, for example, the TENA global brand for incontinence care, or retailers' brands and are distributed via the retail trade and care institutions in more than 100 countries.

**Strategic priorities:**

- Develop SCA's world-leading position in incontinence care under the TENA brand.
- Continuously enhance production and distribution efficiency.
- Continue to gain in-depth insight into consumer and customer needs and apply this knowledge to product development and increase the launch rate of innovative product offerings.
- Increase the growth rate in fast-growing markets in Eastern Europe, Russia, Asia, Latin America and the Middle East.
- Grow through category expansion under global brands and a greater share of high-value products.
- Continue activities related to the global brand platforms and utilise synergies.

### Market and brands

The global market for personal care products has annual sales of just over SEK 290bn and is growing at a rate of some 3% annually. Europe accounts for about 30% and North America for 20% of the overall market. Growth is fuelled by innovation, higher market penetration and increased disposable incomes. In mature markets, baby diapers and feminine care products have attained high market penetration, while the aging population and low market penetration drive demand for incontinence products. In developing countries, the use of all product categories is expanding as the level of disposable income increases and insight into the health benefits of hygiene grows.

SCA is one of the largest companies in personal care products in the world, with a portfolio of global, regional and local brands.

In incontinence care, SCA is a world leader with its global brand TENA, which generates annual sales of more than EUR 1 billion. The global market share totals 25% and the market shares in Europe and the US are 41% and 20%, respectively. SCA increased its market shares in both Europe and North America in 2010 due to a broader and improved product offering.

SCA is the third-largest player in baby diapers in Europe with a market share of 12%. In Europe, SCA sells baby diapers under own brands and retailers' brands. SCA's strongest market is the Nordic region with a market share of more than 60% under the Libero brand, which is also growing rapidly in Russia and parts of Eastern Europe. SCA commands a leading position in Southeast Asia with the Drypers brand and in South America with the Pequeñín brand through a joint venture. The brands DryKids and Tessy babies were acquired in Mexico and Central America during the year.

SCA is the third largest player in feminine care in Europe with a market share of 8%. SCA holds leading positions in the Nordic region, Australia, New Zealand and fast-growing markets in Eastern Europe, Russia, Latin America and the Middle East. Libresse, Libra, Bodyform, Saba, Nosotras and Nana are some of SCA's strong feminine care brands supported by SCA's global brand platform.

### Production and efficiency

SCA manufactures at 27 production plants in 23 countries. Products are distributed via the retail trade, chemists and care institutions in more than 100 countries. Production efficiency is consistently improved by means of modernisation and investments in new and existing facilities. As a result, these efforts enhance the cost structure and strengthen product quality and operational reliability. During the year, an efficiency programme in SCA's European baby diaper operations was initiated to strengthen the customer offering and competitiveness. As part of this work, a production facility in France was closed and manufacturing transferred to an existing plant in Poland. In addition, the efficiency of a plant in the Netherlands was enhanced. The manufacture of baby diapers commenced at a new production facility in Russia during the year. Production of incontinence care products will also start at the same plant in 2011.

### Innovation and product development

SCA invests considerable resources in its efforts to gain deep insight into consumer and customer needs. This insight forms the basis for the Group's innovations and product development. The number of launches of new and upgraded products has increased steadily in recent years. The emphasis is on function, fit, design, cost efficiency and sustainable products.

**SCA's market positions**

| | Europe | North America | Global |
|---|---|---|---|
| Incontinence care | 1 (41%) | 3 (20%) | 1 (25%) |
| Baby diapers | 3 (12%) | – | 4 (5%) |
| Feminine care | 3 (8%) | – | 5 (5%) |

Data is based on market data and SCA's estimates.

In 2010, SCA continued to develop new products at an increasingly rapid pace, advanced its positions in both mature and emerging markets and strengthened the global brand TENA and its regional and local brands.

## Growth

Several factors suggest the continuation of healthy growth in personal care products, particularly in emerging markets. Growth is driven by innovation, the global population increase, an aging population, higher market penetration and increased disposable incomes. SCA's target is annual organic growth of 5–7%.

## Incontinence care

Incontinence affects between 5–7% of the world's population. The global market totals some SEK 55bn, and is growing at about 4% annually. Europe accounts for slightly more than 40% of the total market and North America for just under 30%. Market growth is driven by a higher pace of innovation, increasing market penetration, an aging population, rising household incomes and growing welfare requirements. Market penetration in mature markets is low and is even lower in emerging markets.

With the TENA brand, SCA is the global leader with a market share of 25% and sales in more than 100 countries. SCA also commands a very strong position in Europe, with a market share of 41%. SCA will develop its leading market position through superior consumer insight, innovative product development and efficient production.

Institutional care and homecare account for 62% of the global market. Here, the main focus is on supplying high-quality products combined with qualified advisory services that simplify handling procedures and reduce costs for care providers.

The retail market is the fastest growing segment, accounting for 38% of the global market. SCA provides support through information, advertisements and the development of products that are increasingly discreet, easy to use and effective.

Increasing understanding and acceptance among consumers is crucial as regards incontinence, a topic that is often surrounded by social taboos. Demand is strengthened through information and marketing is supported by effective, comfortable and easily accessible products.

SCA's top priority is high growth in all segments with strengthened global market leadership in developed markets and establishing leading positions in Eastern Europe, Russia, Asia, the Middle East and Latin America. China is a market with low penetration and favourable demographic conditions with immense growth potential for incontinence care.

## Baby diapers

The global market totals approximately SEK 140bn, and is estimated to grow at about 3% annually. The European market accounts for almost 30%, with low annual growth. The most significant growth is in Asia, Latin America, the Middle East and Africa, where birth rates are high and household incomes are rising. The majority of children worldwide under the age of two still do not enjoy the practical and effective hygiene provided by disposable diapers, which means that there is significant future potential.

SCA markets baby diapers in some 70 countries. SCA is the third-largest player in the European market, with a share of 12%. In the Nordic region, SCA has more than 60% of the market with its Libero brand, which is also growing rapidly in Russia and parts of Eastern Europe. SCA also holds leading positions in parts of Southeast Asia and Latin America. The efficiency of the business model for retailers' brands has been enhanced to ensure competitiveness and profitability. Focus is directed to strengthening the favourable positions of SCA's own brands in such mature markets as the Nordic region, New Zealand and fast-growing markets in Eastern Europe, Russia, Latin America, the Middle East and Southeast Asia. Emerging markets have excellent conditions for continued growth due to low market penetration and high demand.

## Feminine care

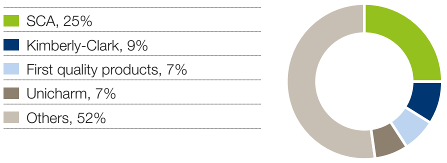
The global feminine care market amounts to about SEK 90bn and is growing by approximately 2% annually. The European market accounts for about 25% and is dominated by pads, representing 50%, while panty liners and tampons each account for 25%.

SCA sells feminine care products in more than 80 countries. In Europe, SCA is the third-largest player, with a market share of 8%. SCA holds strong market positions in Latin America, Europe, Australia and New Zealand. The proportion of the Group's sales is increasing in Latin America, Russia, Eastern Europe, and the Middle East, where SCA commands strong positions and focuses on growth.

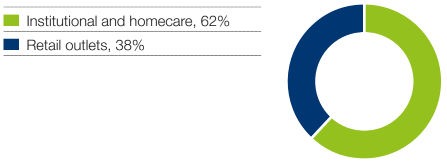
The growing number of women of childbearing age, and relatively low market penetration in fast-growing countries, contribute to a high increase in demand in emerging markets.

Feminine care products are developed for the company's own regional and local brands, which are supported by SCA's global brand platform. Based on in-depth consumer and customer insight, SCA prioritises investments in new product concepts and marketing and endeavours to strengthen its competitiveness through continuous efficiency enhancement and cost-effective production in such areas as Eastern Europe. Emerging markets have excellent conditions for continued growth due to low market penetration and high demand.

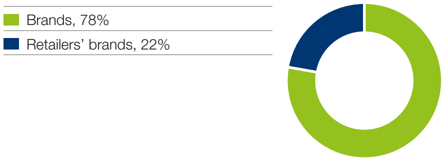
**Incontinence care – global market shares**



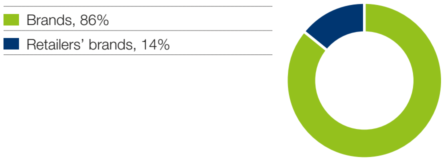

**Incontinence care – sales channels, global market**




**Baby diapers – brand categories, Europe**




**Feminine care – brand categories, Europe**




Data is based on market data and SCA's estimates.

# Operations in 2010

**Key events**

- Strengthened global leadership for the TENA brand in incontinence care.
- Higher pace of innovation and launch of improved customers offerings.
- Start of production of baby diapers in Russia.
- Acquisition of baby diaper operation in Mexico.
- Efficiency improvement programme commenced in European baby diaper operations.

Operating profit, SEKm:

**2,922**

Operating margin:

**12%**

**Net sales** fell by 3% (rose by 2% excluding exchange rate effects) to SEK 25,027m (25,716). Increased market activities impacted volumes positively and sales rose by 2%. The volume increase is related to incontinence and feminine care. Sales rose in emerging markets by 10% excluding exchange rate effects. High demand was noted in mature markets in 2010 and emerging markets continued to report strong increases in demand.

Sales for incontinence care under the TENA brand rose by 4%, excluding exchange rate effects. Growth in Latin America, Russia and Eastern Europe remained very healthy. A new ultra-thin incontinence care product was launched during the year, which uses new technology to offer improved comfort with the same safety and odour control as thicker products. As a complement to the leading premium segment, a new competitive product line was launched to capitalize on growth in the economy segment. The ongoing market test in China was expanded to new regions during the year and SCA trained about 5,000 nurses in incontinence care. The market share in incontinence care for SCA's global brand TENA rose from 24% to 25%. Market shares strengthened in both Europe and North America to 41% and 20%, respectively.

Sales for baby diapers declined by 4%, excluding exchange rate effects. This decrease is mainly attributable to the European baby diaper operations to retailers' own brands. New thinner and more comfortable baby diapers were launched during the year. Other advantages with SCA's thin diapers are the lower amount of raw materials required and lower freight volumes, which is positive in terms of both the environment and costs. In selected markets, SCA – as the first brand in Europe – successfully introduced a pant diaper in the economy segment. The Libero brand's environmental profile was strengthened during the year now that all sizes of open diapers and baby care products meet the requirements of the Nordic Eco-label. The third-largest supplier of baby diapers in the Mexican market was acquired and an efficiency improvement programme was initiated in the European baby diaper operations. Annual savings are estimated at EUR 15m, which are expected to be generated from the third quarter of 2011. SCA invested in local production to meet increasing demand in Russia. The production of baby diapers began in 2010 and production of incontinence care products will commence during 2011.

Sales for feminine care rose by 6% excluding exchange rate effects, driven by favourable sales growth in emerging markets. SCA launched feminine care products under the Libresse brand in Malaysia and tampons in Sweden and the Netherlands with encouraging results. In Latin America, SCA produced a product range for Saba with a small number of feminine care products in each package, which improves availability for consumers with lower disposable incomes.

**Operating profit** was 10% lower than in the preceding year (6% excluding exchange rate effects) and amounted to SEK 2,922m (3,235). Higher volumes and lower costs did not fully offset higher costs for raw materials and marketing activities.

**Operating margin** was 11.7% (12.6).

**Return on capital employed** totalled 27% (29).

**Operating cash surplus** fell to SEK 4,111m (4,467). Operating cash flow declined to SEK 3,230m (4,436). The lower operating cash surplus and higher tied-up working capital reduced cash flow. Current capital expenditures were lower than in the preceding year.

**Capital expenditures** amounted to SEK 1,358m (2,027).

**Key figures**

| SEKm | 2010 | 2009 |
|---|---|---|
| Net sales | 25,027 | 25,716 |
| Operating cash surplus | 4,111 | 4,467 |
| Change in working capital | –166 | 835 |
| Current capital expenditures | –545 | –795 |
| Other changes in operating cash flow | –170 | –71 |
| Operating cash flow | 3,230 | 4,436 |
| Operating profit | 2,922 | 3,235 |
| Operating margin, % | 12 | 13 |
| Capital employed | 10,620 | 11,430 |
| ROCE, % | 27 | 29 |
| Strategic investments | | |
| plant and equipment | –813 | –1,232 |
| company acquisitions/divestments | –412 | –44 |
| Average number of employees | 8,610 | 7,269 |

Excluding restructuring costs.

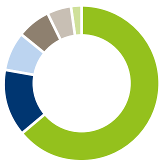
**SCA's sales by product segment**

- Incontinence care, 56%
- Baby diapers, 27%
- Feminine care, 17%

SCA's sales to retailers' brands as a proportion of total sales:
Incontinence care, 0%
Baby diapers, 21%
Feminine care, 9%

**SCA's sales by region**

- Europe, 64%
- North America, 14%
- Latin America, 8%
- Asia, 7%
- Australasia, 5%
- Other, 2%



# Tissue




## Share of Group

Net sales, 36%
**SEK 39,870m**

Operating profit, 30%
**SEK 3,041m**

Capital employed, 36%
**SEK 36,168m**

Av. no. of employees, 38%
**17,327 employees**

### Financial targets

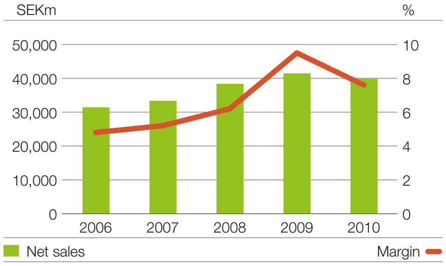
- 3–4% annual organic growth
- 13% return on capital employed

### Outcome 2010

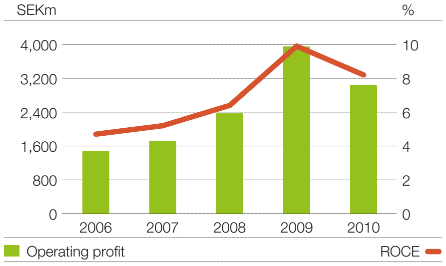
- Growth[1)] 2%
- Return on capital employed 8%
- Operating margin 8%

[1)] Excluding exchange rate effects.

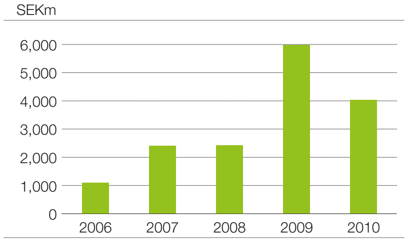
### Net sales and operating margin




### Operating profit and ROCE




### Operating cash flow



# Tissue

SCA is the world's third-largest supplier of tissue. The company offers consumer tissue products including toilet paper, kitchen rolls, facial tissue, handkerchiefs and napkins. Products are sold both under own and retailers' brands. In the Away-From-Home (AFH) product segment – encompassing hospitals, healthcare institutions, large work-places, restaurants and hotels – SCA develops and sells complete hygiene solutions comprising dispensers, tissue, soap, service and maintenance.

**Strategic priorities:**

- Continue to strengthen the global Tork brand in AFH tissue.
- Increase growth in AFH tissue.
- Continue to focus on consumer and customer insight, innovations, product development and marketing.
- Raise the company's presence in emerging markets, mainly through proprietary brands.
- Continue development of the consumer tissue brand platform in Europe.
- Strengthen positions of own consumer tissue brands.
- Provide a clearer, added-value offering for retailers' brands.
- Enhance efficiency of production and distribution.

**Market and brands**

The global market for tissue is valued at approximately SEK 385bn annually. Europe accounts for some 25% and North America for about 30% of the overall market, with growth rates of 3% and 2%, respectively. There is a higher growth rate in Eastern Europe than in more mature markets in the West as a result of rising disposable incomes and greater use of tissue products.

SCA is Europe's largest supplier of consumer tissue, with a market share of 25%, and is the world's third-largest with an 8% market share. SCA has the brands Familia and Favorita in South America through joint ventures, which hold strong positions in such emerging markets as Colombia, Chile and Equador. SCA has a strong position with the Regio brand in the large Mexican market. SCA is the second-largest tissue supplier in Australia. Tempo, Zewa and Plenty are the leading brands in large parts of Europe. The Edet brand has a strong position in the Nordic region.

For AFH tissue, SCA is number three globally with the Tork brand, which commands a 16% share of the market. SCA is the market leader in Europe with a 19% market share and is number three in North America with a market share of 20%.

For consumer tissue, a new brand platform was developed in Europe to improve the performance in meeting consumer requirements and build stronger brands over time. The aim is to enhance the efficiency of the brand portfolio and also differentiate the brands for products intended for personal hygiene and products intended for homes and households. The work on implementing the brand platform is progressing according to plan.

**Production and efficiency**

Production takes place at SCA's 38 facilities in 18 countries. The manufacturing processes and logistics are optimised through continuous improvements, investments in more efficient plants and the discontinuation of unprofitable capacity. The integration of previous acquisitions facilitated the rationalisation of the European tissue operations and production was concentrated on efficient facilities in strategic locations. The following activities were undertaken to strengthen competitiveness through cost-efficient production and increase growth in emerging markets: SCA is investing in new capacity in Latin America and Russia. A new production plant was commissioned in Russia in 2009 and a new facility in Mexico was opened at the end of 2010. The construction of a tissue plant in Colombia commenced, with production scheduled to start in 2011.

**Innovation and product development**

The ability to understand the demands of tomorrow's consumers and customers is a fundamental strategy for the creation of lasting value. SCA is investing major resources in insight and innovation, with all product development taking place on the basis of in-depth customer and consumer insight. In recent years, a large number of new and upgraded products have been launched and the service level enhanced. Focus is directed to the development of materials and functions to ensure a broader selection, improved strength, softness and absorption capacity, and different types of dispensers to offer more comfortable and effective use.

**SCA's market positions**

| | Europe | North America | Global |
|---|---|---|---|
| Consumer tissue | 1 (25%) | – | 3 (8%) |
| AFH tissue | 1 (19%) | 3 (20%) | 3 (16%) |

Data is based on market data and SCA's estimates.

SCA continued to develop new products at an increasingly fast pace, advanced its positions in both mature and emerging markets and strengthened the global brand Tork and its regional brands.

### Growth

The conditions for continued growth in tissue are favourable, particularly in emerging markets. Growth is driven by innovation, the global population increase, higher market penetration and increased disposable incomes. Market penetration outside Western Europe and the US remains relatively low, with considerable growth potential. SCA's target is annual organic growth of 3–4%.

### Consumer tissue

The global market for consumer tissue is valued at approximately SEK 290bn annually. Europe accounts for some 25% and North America for slightly less than 30% of the overall market, with growth rates of 4% and 2%, respectively. There is a higher growth rate in Eastern Europe than in more mature markets in the West as a result of rising disposable incomes and greater use of tissue products.

SCA is the largest supplier in Europe and in the rapidly expanding Russian market. SCA is the third-largest supplier in Latin America and in Australia, SCA commands the number two position. SCA conducts sales of consumer tissue in some 60 countries.

SCA prioritises growth in the fast-growing markets in Eastern Europe and Latin America, which are strongly brand defined.

Consumer tissue includes toilet paper, kitchen rolls, facial tissue, handkerchiefs and napkins. SCA offers retailers a complete range of products in the highest quality segments under SCA's own brands and high-quality products for retailers' brands. For a number of years, SCA has been working with a full-service offering that includes production and delivery, as well as service cooperation for product development, product range, design, marketing and logistics. This service concept has been well received by the leading European retail chains.

SCA sells 49% of its products under its own brands and the remainder are sold under retailers' brands. SCA's target is to further strengthen brand positions in the mature European markets, while maintaining the important market for retailers' brands.

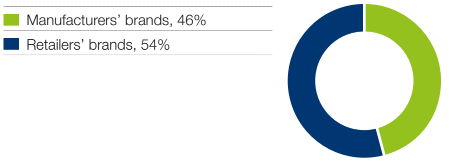
### AFH tissue

The global market for AFH tissue totals about SEK 95bn, of which North America and Western Europe account for just over 40% and 30%, respectively. In this segment, the market is expanding by about 3% annually in Western Europe, somewhat less in the US and by a significantly higher rate in the rest of the world.

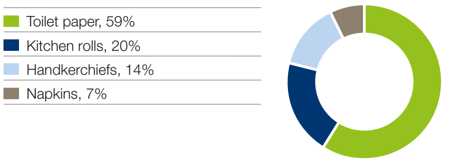
SCA works with the global brand Tork, which is sold in 80 countries and generates sales of more than EUR 1bn every year. A global brand provides significant synergies since there is little difference in consumer and customer preferences with regard to paper and dispenser systems in different parts of the world. The Tork brand is the market leader in Europe and one of the leaders in North America.

In the AFH segment, SCA delivers complete hygiene concepts to institutions and companies comprising tissue products and various models of dispensers, soap, alcogel, lotion and services. Most of the customers are active in such areas as healthcare, industry, offices, hotels and restaurants. Products are distributed via whole-salers and service companies. SCA's market position is particularly strong in the restaurant sector in North America, where nearly every second napkin is supplied by SCA.

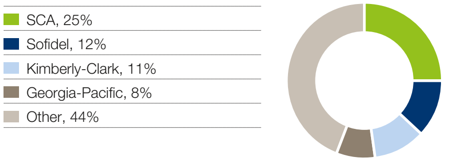
**Brand categories – Consumer tissue, Europe**



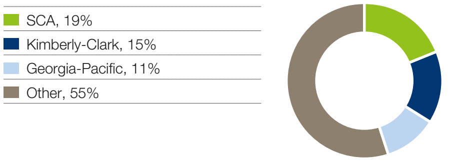

**Product breakdown – Consumer tissue, Europe**



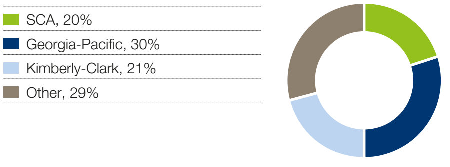

**Market shares – Consumer tissue, Europe**




**Market shares – AFH tissue, Europe**




**Market shares – AFH tissue, North America**




Data is based on market data and SCA's estimates.

# Operations in 2010

**Key events**

- Higher market shares for the Tork brand.
- Higher pace of innovation and launch of new products.
- Start of production at tissue plant in Mexico.

Operating profit, SEKm:

**3,041**

Operating margin:

**8%**

**Net sales** fell by 4% (rose by 2% excluding exchange rate effects) to SEK 39,870m (41,425). Higher volumes of AFH tissue increased sales by 1% and higher prices increased sales by 1%. Sales in emerging markets rose by 6%, excluding exchange rate effects.

In Europe, demand for AFH tissue rose in line with the upswing in the economy, while demand for consumer tissue was stable. In North America, demand for AFH tissue was stable.

Sharply elevated raw material costs during the year resulted in intensive efforts to improve profitability and SCA implemented gradual price increases during the second half of 2010. In addition, focus was directed to reducing costs, further increasing the pace of innovation and launch, and improving the production structure and customer service.

Sales of consumer tissue rose by 1% excluding exchange rate effects. The increase is primarily due to strong growth in Eastern Europe and Russia. The implementation of the new brand platform for consumer tissue in Europe continued throughout the year, the aim of which was to reduce the number of brands. Several new products were launched during the year and SCA strengthened its leading position in the Russian market with the Zewa brand. SCA launched moist toilet paper under the Edet brand in the Netherlands. The packaging is attached directly to the wall using suction pads, which do not damage the bathroom wall. In Hong Kong, handkerchiefs specially designed for children were launched under the Tempo Kids brand.

Sales for AFH tissue rose by 5% excluding exchange rate effects. The increase is attributable to healthy growth in North America, Western Europe, Russia and Latin America. With its Tork brand, SCA increased its market shares for AFH tissue in both Europe and North America during the year. In Europe, the market share rose from 18% to 19% and in North America from 18% to 20%. A new series of dispensers, Tork Performance, was successfully launched during the year. To offer solutions customised to the needs of the growing cafe market, SCA launched a smaller variation of the Tork Xpressnap dispenser, which delivers only one napkin at a time. This reduces costs for customers while saving on resources, which is positive from a sustainability perspective. New needs-adapted packaging which is easier to carry, open and handle was developed for cleaning personnel during the year.

Production started at a new facility in Mexico during the year to improve SCA's customer offering, competitiveness and profitability in the region. The construction of a tissue plant commenced in Colombia with production scheduled to start in 2011.

**Operating profit** declined by 23% (19% excluding exchange rate effects) to SEK 3,041m (3,946). The sharp increase in raw material costs during the year led to the decline in operating profit. Higher prices and volumes and lower production and energy costs had a positive impact on profit.

**Operating margin** amounted to 7.6% (9.5).

**Return on capital employed** was 8% (10).

**Operating cash surplus** declined to SEK 5,277m (6,363). Operating cash flow decreased to SEK 4,033m (5,979). The lower operating cash surplus combined with higher tied-up working capital reduced cash flow. Current capital expenditures were lower than in the preceding year.

**Capital expenditures** totalled SEK 2,522m (2,596).

**Key figures**

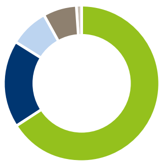
| SEKm | 2010 | 2009 |
|---|---|---|
| Net sales | 39,870 | 41,425 |
| Operating cash surplus | 5,277 | 6,363 |
| Change in working capital | –27 | 1,196 |
| Current capital expenditures | –1,113 | –1,301 |
| Other changes in operating cash flow | –104 | –279 |
| Operating cash flow | 4,033 | 5,979 |
| Operating profit | 3,041 | 3,946 |
| Operating margin, % | 8 | 10 |
| Capital employed | 36,168 | 37,196 |
| ROCE, % | 8 | 10 |
| Strategic investments | | |
| plant and equipment | –1,409 | –1,295 |
| company acquisitions/divestments | –17 | 68 |
| Average number of employees | 17,327 | 17,714 |

**SCA's sales by product segment**

- Consumer tissue, 62%
- AFH tissue, 38%

**SCA's sales by region**

- Europe, 66%
- North America, 18%
- Australasia, 8%
- Latin America, 7%
- Asia, 1%



# Packaging




### Share of Group

Net sales, 27%
**SEK 29,633m**

Operating profit, 16%
**SEK 1,577m**

Capital employed, 22%
**SEK 22,229m**

Av. no. of employees, 34%
**15,218 employees**

### Financial goal

- 10% return on capital employed

### Result 2010

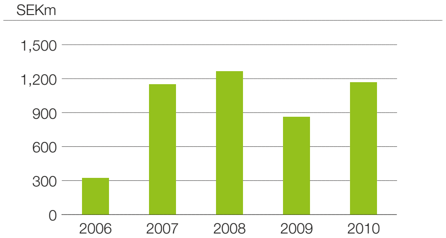
- Growth[1] 20%
- Return on capital employed 7%
- Operating margin 5%

[1] Excluding exchange rate effects, divestments and closures.

### Net sales and operating margin


### Operating profit and ROCE


### Operating cash flow



# Packaging

SCA is Europe's second-largest packaging company. The Packaging business area is a fully integrated – from forest to recycling – sustainable company. Packaging is a full-service supplier of packaging solutions for a large number of applications, including consumer and display packaging, shelf-ready packaging solutions, customised protective packaging and transport packaging made primarily from corrugated board, as well as an entire service concept aimed at manufacturers, distributors and retailers. Most of SCA's packaging is used for food, consumer durables and industrial products.

**Strategic priorities:**

- Continue to rationalise and streamline operations.
- Provide complete packaging solutions and added-value offering.
- Lead development in the packaging market through innovation and product development.
- Capitalise on growth opportunities in profitable, high-value segments.
- Continued focus on Europe.

**Market**

The European corrugated-board market is valued at approximately SEK 235bn and grows 2–3% annually over a business cycle.

SCA is the second-largest producer of corrugated board and containerboard in Europe with market shares of 10% and 8%, respectively. The European market is fragmented and the capacity of the five largest producers of corrugated board and containerboard accounts for about 45% of the European market.

SCA commands favourable market positions in transport packaging where customers often seek to establish long-term partners for complete logistics and design solutions. Thanks to its market-leading position in innovation and design, SCA holds a strong position in the high-value segment of food and consumer-durables. In collaboration with its customers, the Group develops complete packaging solutions to meet exacting demands regarding the quality and appearance of packaging. SCA holds large market shares in the fast-growing international luxury goods segment in where quality and product presentation and the brand can be enhanced through packaging.

**Production and efficiency**

SCA has some 170 facilities and mills in 21 countries in Europe, of which 34 plants are located in eight Eastern European countries. Containerboard is produced at six mills, of which four produce recycled grades and two kraftliner. SCA, Europe's second-largest supplier of corrugated board packaging, operates in an integrated business model in which customers are offered major advantages in the form of efficient, sustainable production networks and business systems. To strengthen competitiveness through cost-efficient production, the production processes and logistics are optimised through continual improvements, investments in more efficient plants and the closure of unprofitable capacity. During the year, the restructuring programme initiated in 2009 was concluded. By year-end 2010, the entire projected annual savings of slightly more than SEK 1bn had been achieved on an annual basis.

**Innovation and product development**

SCA develops complete packaging solutions and has strategic competence and competitiveness with an Innovation Centre and 16 Design Centres in Europe. At these centres, new packaging solutions are developed, and new technologies, material solutions and design tools are tested in close cooperation with customers. The creation of attractive opportunities for product display in stores is a key factor for strengthening brand recognition for customers. The aim is to adapt and optimise the functionality of packaging based on logistical requirements and deliver a complete solution for each step of the packaging chain.

The SCA R&D Centre in Sundsvall, Sweden, conducts strategic research and development. The centre houses internal specialist expertise within key areas, but the centre also cooperates closely with the adjacent Mid-Sweden University in Sundsvall.

SCA analyses the entire delivery chain to minimise material consumption and maximise material and energy recovery. Decisions on packaging designs can have a high environmental impact. The right design allows SCA to provide its customers with packaging that ensures optimum performance without unnecessary waste. The right design also ensures better cubic utilisation. If goods can be shipped more densely, less transport is required, less fuel is consumed and fewer emissions are generated. The right design requires the right tools and SCA uses a number of proprietary tools during the design process.

Today's society demands packaging that facilitates sustainable distribution and is produced from materials with the least possible environmental impact. SCA's integration system complies with this principle: corrugated board begins with fibre from the forest that is used for production of paper and packaging and ends with the recovery of recycled fibre, all of which is managed within the Group.

### Growth

Within Packaging, SCA will continue to focus on Europe, with the aim of achieving growth in pace with the market. Continued focus on efficiency and innovation are important initiatives to increase the share of value-added products. Work on developing the value chain and making it more efficient and sustainable as well as finding new product areas are also initiatives aimed at strengthening competiveness. Long-term competitiveness is also benefited by SCA's environmental profile.

There is a distinct trend toward lighter packaging and packaging with higher-quality printing requirements. Demand for consumer-goods packaging is stable and is tracking consumption trends. Growth in transport packaging is sensitive to economic movements and varies depending on trends in the trade and manufacturing industries. High-value segments are less sensitive to economic movements than packaging for capital goods.

In the long term, SCA's focus is to develop its leading positions in advanced packaging in high value-added segments. These segments have a more stable rate of growth and offer SCA future expansion opportunities with solid growth.

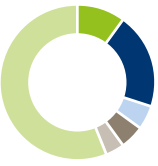
### Corrugated board

At the same time as its leading positions in advanced packaging are developed in high value-added segments, the efficiency of more standardised packaging solutions for such applications as the transport and packaging of industrial components is being enhanced. Needs-adapted and purpose-designed packaging is a prerequisite for international trade and is thus a crucial factor in ensuring the welfare of the global economy. To an increasing degree, packaging is used to transport, market and sell its content. Packaging is thus an important carrier of the brand and market communication.

The two largest market categories for corrugated board packaging are the food and manufacturing industries, which account for approximately 45% and 30%, respectively. The largest segment in the food industry is processed food, followed by fresh food and beverages. Consumer durables is another major market category, accounting for about 15% of the total market.

**Corrugated board, producers in Europe (capacity)**

SCA, 10%
Smurfit Kappa, 20%
DS Smith, 5%
SAICA, 5%
Mondi, 4%
Other, 56%



Sources: SCA, Pöyry

**Containerboard, producers in Europe (capacity)**

SCA, 8%
Smurfit Kappa, 17%
SAICA, 7%
Mondi, 6%
Prinzhorn, 6%
Other, 56%

Sources: SCA, Pöyry

# Operations in 2010

### Key events

- Increased rate of innovation and growth in high value-added segments.
- Restructuring programme carried out as planned.
- Divestment of the Asian corrugated board operation.

**Operating profit, SEKm:**

**1,577**

**Operating margin:**

**5%**

**Net sales** rose 4% (20% excluding exchange rate effects, divestments and closures) to SEK 29,633m (28,359). Higher prices and volumes increased sales by 11% and 9%, respectively. The closure of the New Hythe testliner mill in the UK in 2009, together with the divestment of the Asian packaging operation during the second quarter of 2010, reduced sales by 5%.

The demand in Western Europe for corrugated board improved during the year in pace with the recovery of the economy and rising industrial production and rose 5%. Liner (containerboard) and corrugated board prices rose successively during the year.

The restructuring programme initiated in 2009 was carried out according to plan. A total of 16 corrugated board plants and the testliner plant in the UK have been closed, and personnel reductions corresponding to approximately 2,100 positions have been carried out. By year-end 2010, the entire projected annual savings of slightly more than SEK 1bn had been achieved on an annual basis.

The Asian corrugated board operation, with sales of USD 250m and about 4,200 employees at 15 plants in China, Singapore, Malaysia and Indonesia, was divested during the year. The sales price amounted to USD 200m. The sale did not generate a capital gain or loss. The operations were deconsolidated at the end of April.

In line with the strategy to grow within high-value segment in packaging, SCA developed Trueflo during the year, a system designed and developed specifically as a one-trip solution for the efficient and secure bulk shipment of liquids and semi-liquids. The system is constructed in fully recyclable all-virgin materials and is delivered flat. The container is easily assembled by one person, and offers superior strength and durability, enabling it to be stacked in transit and storage. The bag can be customised to suit various applications, and the positioning of the discharge valve at pallet level, where it is protected during transit, also promotes 100% discharge of the contents.

SCA also launched ZeoCool, a temperature-controlled packaging. Controlling the internal payload space by reacting to the external ambient temperature, ZeoCool maintains complete product integrity of +2° C to +8° C. Among other applications, ZeoCool is designed for shipping pharmaceutical and medicinal products requiring low temperatures during shipping. ZeoCool eliminates the need for conditioning coolants with fridges and freezers, reducing space requirements, operational costs and saving time. ZeoCool is ideal for all modes of transport, air, sea and road.

**Operating profit** rose sharply and amounted to SEK 1,577m (413). The increase is mainly attributable to higher prices and volumes, and savings from the restructuring programme. Higher raw material costs and exchange rate effects had a lowering effect on profit.

**Operating margin** was 5.3% (1.5).

**Return on capital employed** amounted to 7% (2).

**Operating cash surplus** improved to SEK 2,921m (2,047), and operating cash flow was SEK 1,168m (864). A higher level of tied-up working capital was partly compensated by a lower level of current capital expenditures.

**Capital expenditures** amounted to SEK 1,195m (1,268).

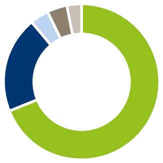
### Key figures

| SEKm | 2010 | 2009 |
|---|---|---|
| Net sales | 29,633 | 28,359 |
| of which internal | 347 | 534 |
| Operating cash surplus | 2,921 | 2,047 |
| Change in working capital | –330 | 489 |
| Current capital expenditures | –1,023 | –1,157 |
| Other changes in operating cash flow | –400 | –515 |
| Operating cash flow | 1,168 | 864 |
| Operating profit | 1,577 | 413 |
| Operating margin, % | 5 | 1 |
| Capital employed | 22,229 | 25,799 |
| ROCE, % | 7 | 2 |
| Strategic investments | | |
| plant and equipment | –172 | –111 |
| company acquisitions/divestments | 1,278 | – |
| Average number of employees | 15,218 | 20,307 |

Excluding restructuring costs.

### SCA's sales by product segment

- Conventional corrugated board packaging, 69%
- Consumer packaging, 20%
- Service, 4%
- Industrial packaging, 4%
- Protective packaging, 3%




# Forest Products

## Share of Group

Net sales, 15%
**SEK 17,123m**

Operating profit, 25%
**SEK 2,455m**

Capital employed, 31%
**SEK 31,475m**

Av. no. of employees, 9%
**4,186 employees**

### Financial targets

- 11% return on capital employed

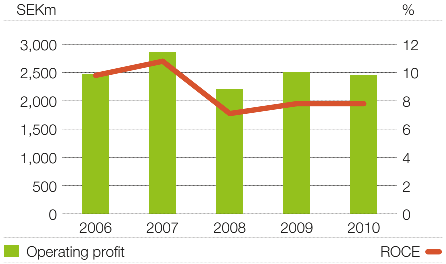
### Outcome 2010

- Growth[1] 3%
- Return on capital employed 8%
- Operating margin 14%

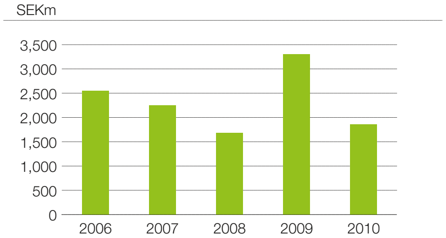
[1] Excluding exchange rate effects.

### Net sales and operating margin


### Operating profit and ROCE




### Operating cash flow



# Forest Products

SCA is one of Europe's most profitable producers of forest products based on its in-depth customer insight, high innovative ability, efficient production, high value-added products, integration with SCA's own wood raw material and a sustainability perspective at all levels. Forest Products offers its customers magazine paper, newsprint, pulp, wood components for building construction and furniture manufacturing, customised wood products for the building trade, solid-wood products and biofuel. SCA is Europe's largest private forest owner.

**Strategic priorities:**

- Rationalisation and efficiency enhancement to achieve higher profitability.
- Higher share of value-added and customised products in publication papers and solid-wood products.
- Greater raw material integration
- Utilise the commercial strength of SCA's leading position in the environmental area, for example, in renewable raw materials and recyclable products.
- Capitalise on the potential of energy production and effective energy solutions available in SCA's extensive holdings of forests and forestland and in the industry's processes and by-products.
- Gradual expansion of the pulp operations.

### Market and brands

SCA is Europe's largest private forest owner with a holding of 2.6 million hectares of forest, of which 2.0 million is cultivated. SCA is the sixth-largest publication papers manufacturer and the third-largest solid-wood products manufacturer.

Forest products primarily conducts operations under the SCA brand but also works with product brands. Luna is a strong brand for a pulp grade with high absorption capacity. GraphoVerde is a high-quality magazine paper with more than 50% recycled fibre and GraphoMax is an uncoated publication paper grade based entirely on fresh fibre. The printing characteristics of GraphoMax are very impressive, making the paper grade ideal for advertising materials in particular.

### Production and efficiency

Manufacturing takes place at SCA's 17 facilities in three countries. Having its own logistics is part of the company's integration strategy, with loading and unloading terminals in Sweden and on the continent and freight transportation on vessels. SCA's forest assets are located in northern Sweden, where the Group has built up an efficient supply system for its own mills and sawmills. The company's forest holdings are managed on a very long-term basis. Integration of SCA's own wood raw material is a key aspect of the company's strategy that contributes to stable cash flow and reliable supplies, and facilitates quality and cost control. SCA's forest holdings are becoming increasingly important as competition for timber raw material in northern Europe intensifies and demand for biomass from the energy sector grows.

Productive, cost-effective production plants – and not necessarily a high market share – are a precondition for favourable profitability. As a result, SCA applies what is referred to as the strong-mill concept, which focuses resources on a number of large, high-tech paper and pulp mills and sawmills. The concentration of resources and know-how creates a platform for value-building innovation – resulting in market-leading product development and manufacturing.

### Innovation and product development

Innovation is an integral part of SCA's strategy to shift its operations towards increasingly developed products in high-value segments and towards more attractive customer offerings. Focus is directed to further processing, customisation in segments with favourable price trends and growth to gain higher profitability. Efforts in this respect permit Forest Products to move up the value chain and produce products and solutions with higher value and margins. By this means, SCA differentiates itself from the rest of the industry, while also meeting requirements among business partners and customers.

SCA R&D Centre in Sundsvall, Sweden, conducts strategic research and development. The centre has specialist know-how in key areas and works closely with Mid-Sweden University in Sundsvall, which adjoins the Centre.

The properties of the company's publication papers are developed continuously, enabling the product to match a newspaper's or magazine's profile and message.

In solid-wood products, SCA develops and further processes purpose-designed products for interiors, carpentry and the building trade. All products are customised for the next stage in the processing chain and are supported by services and warehousing integrated into the customer's distribution and sales. Development programmes are not solely focused on products, but also involve the development of business models, service, distribution solutions and so forth. Development work is largely conducted together with customers.

### Growth

The aim for Forest Products is to grow in line with the market. Continuing the work on enhancing efficiency and customer-driven innovation is essential for consolidating positions and improving profitability. The primary focus is on increasing the share of customised publication papers and solid-wood products. Efforts to develop the value chain, make it more efficient and sustainable, and develop new product areas are also important to strengthening competitiveness. A new business unit, SCA Energy, was started in 2011 to drive and develop SCA's expanding business operations in renewable energy. Work is progressing on realising SCA's wind power venture via the agreement with the Norwegian energy company, Statkraft, in 2007. Long-term competitiveness is also favoured by access to the Group's own wood raw material and SCA's environmental profile.

Although demand for both wood and other building materials declined compared with pre-financial crisis levels, wood is strengthening its position as a material. The favourable environmental and climate-neutral properties of wood products are in demand from customers and have also resulted in several countries stimulating high wood utilisation. This trend is expected to persist and the supply of materials, rather than demand, will govern market trends in wood products. Demand is expected to increase for renewable energy, particularly when the EU and other countries establish political means for achieving the pledges they have made to lower fossil carbon emissions and increase use of renewable energy.

### Publication papers

The European market for publication papers amounts to SEK 140bn. Magazine paper accounts for approximately 50%, while newsprint primarily makes up the remainder. The publication papers market is well-consolidated in Europe. The five largest players have a market share of 80% or higher for most paper grades. SCA is the sixth-largest publication papers manufacturer in Europe. SCA is the eighth largest among manufacturers of LWC paper and sixth among producers of SC paper and newsprint.

The expected, trend-based market growth for publication papers was adjusted downward as a result of more intense competition for public and advertising expenditures from electronic media. Magazine paper is still expected to show volume growth, however, primarily in Asia and South America. The global newspaper market is anticipated to remain more stable, with a slight dip in Europe and North America.

SCA specialises in the prime-quality segments in magazine paper – SC and LWC paper. These paper grades are used for magazines, catalogues and advanced printed advertising, which are all areas that offer favourable long-term global growth. This focus on quality segments is supported by the company's in-depth knowledge of paper production, as well as its capacity for innovation and ability to select the right raw materials for specific pulp and paper grades.

In Sweden, SCA Ortviken paper mill capitalises on the high quality of the raw material from its own forests. In the southern UK, close to Europe's largest concentration of paper consumers, the jointly owned company Aylesford Newsprint uses 100% recovered paper in the production of newsprint. In Austria, close to the large forests of the alpine region and major population centres, SCA Laakirchen utilises fresh fibre from the forest and recovered fibre in the production of high-quality publication papers.

SCA's sales of publication papers are made primarily to the Western European market and to major publishers of newspapers and magazines.

### Pulp, timber and solid-wood products

The European market for solid-wood products amounts to some SEK 110bn, with demand primarily deriving from the construction and house building industries, which are relatively cyclical. SCA has further developed its operations towards processed and customised, semi-finished products and components with high-value content and more balanced demand. SCA's sawmill operations are the third largest in Europe. The industry is dominated by many small and mid-sized sawmills. Combined, the five leading suppliers account for only about 20% of the European market.

In the solid-wood products area, the strategy is to move towards more value-added and customised products in markets that offer long-term growth. SCA's own raw materials, production and logistics expertise, and closer cooperation with customers, generate competitive advantages. SCA is a qualified supplier of purpose-designed wood products to industry for further processing into such items as panels, floors, windows, doors and furniture. Finished-wood components for window manufacturing, for example, represent another growth market. Products for the "do-it-yourself" markets are delivered planed and prepackaged. Service and advanced logistics solutions are of key significance for the building materials trade. SCA works in close cooperation with its customers in its principal markets in Scandinavia, France and the UK. In Italy, Asia, North Africa and the US, SCA is a specialised supplier within several niche markets.

Forest Products has an annual pulp capacity of 520,000 tonnes. Approximately 40% of this capacity is utilised within SCA for the production of tissue and publication papers. The remainder is sold to external customers. The pulp market is exposed to significant movements in volume and price due to intense international competition. SCA has positioned itself in the high-quality segment based on its excellent access to and expertise in unique long-fibred Nordic wood raw material. During the year, an investment in a new lime kiln at Östrand pulp mill was initiated. This investment will facilitate an increase in production and lower the mill's emissions of fossil carbon emissions.

SCA's FSC-certified forests are substantially more productive today than they were just a few decades ago. This permits an expansion of forest-based production, including the economic production of biofuel. SCA is one of Europe's largest suppliers of forest-based biofuels, such as tree branches, crowns, stumps, bark, sawdust, peat and processed products, such as pellets and briquettes. SCA BioNorr in Sweden supplies households and central boilers with pellets, a market with an annual growth rate of 20%, and continues to have excellent growth prospects. SCA's pellets plant in Härnösand is the largest in Sweden and the market share in Sweden is approximately 6%.

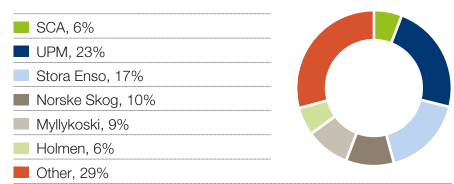
#### Publication papers definitions

**LWC paper** *Light Weight Coated*
A coated paper with a high mechanical pulp content. Used for high-quality magazines and advertising materials with demanding colour-printing requirements.

**SC paper** *Super Calandered publication*
A paper with a high-gloss surface and a high content of mechanical and/or recycled pulp. Mainly used for catalogues, magazines and advertising materials.

**Newsprint**
A paper used for newspapers that is based on mechanical pulp from fresh wood fibre or recycled fibre.

#### Publication papers, producers in Europe (capacity)




Source: Pöyry, PPPC

# Operations in 2010

**Key events**

- New business unit formed, SCA Energy.
- Sales company established in China.
- Jointly-owned sawmill company founded.
- Efficiency improvement programme commenced at Ortviken paper mill.
- Increased share of value-added products.

Operating profit, SEKm:

**2,455**

Operating margin:

**14%**

**Net sales** rose by 1% (3% excluding exchange rate effects) to SEK 17,123m (16,983). Lower prices in publication papers operations reduced sales by 7%, while sales increased by 6% as a result of higher prices in pulp and solid-wood products. Higher volumes boosted sales by 2% and acquisitions by 2%.

European demand for magazine paper and newsprint rose by 6% and 2%, respectively, in 2010. SCA's deliveries of FSC-certified publication papers increased by 35% in 2010.

In the publication papers operations, an efficiency improvement project commenced at Ortviken paper mill during the year. The project entails about a 10% decrease in the workforce. Once fully implemented, annual savings are estimated to amount to SEK 45m.

GraphoMax, an uncoated publication paper grade based entirely on fresh fibre and with very impressive printing characteristics, was launched during the year and was very well received by customers.

In solid-wood products, SCA and Persson Invest formed a jointly owned sawmill company in Sweden, Gällö Timber AB. The new company encompasses three sawmills, one of which was formerly owned by SCA. Gällö Timber AB adds net sales of approximately SEK 500m on a yearly basis and annual volume of approximately 230,000 m³ of solid-wood products.

Furthermore, a decision was made to invest SEK 250m in the Tunadal sawmill. The investment was primarily made in a new log sorting line and will yield an annual increase in production of 140,000 m³ of spruce wood products. The investment increases SCA's share of value-added and customised products. In addition, a plant was inaugurated in Kramfors for the manufacture of the IKEA's Gorm shelving unit. The plant will produce one million pre-packaged solid-wood shelves per year for delivery to IKEA stores in northern Europe.

During the year, a sales company for solid-wood products was established in China, the second-largest importer of solid-wood products after the US. SCA's sales to China have risen in recent years and the establishment of this company provides favourable conditions for continued expansion.

A new business unit, SCA Energy, was formed. In addition to wind power, the unit encompasses the existing business operations of forest-based fuel and fuel pellets and will assume responsibility for the development of new business opportunities in the energy sector.

Work is progressing on realising SCA's wind power venture via the agreement with the Norwegian energy company, Statkraft, in 2007. The project involves six wind farms with a total of about 450 wind turbines and production of 2.4 TWh per year. The project is currently subject to environmental court proceedings. SCA has major additional potential for expansion in wind power. Some 64 wind turbines already produce power on SCA's land. Wind power is an example of a new area of application for SCA's forest assets.

**Operating profit** declined by 2% to SEK 2,455m (2,503). A positive trend was noted in pulp and solid-wood products, primarily due to price increases, which improved earnings. Raw material costs rose in publication papers, while the prices of SCA's own products were lower, which led to a decrease in profit. Productivity improvements had a positive impact on earnings. Exchange rate effects had a substantial negative impact.

**Operating margin** was 14.3% (14.7).

**Return on capital employed** was 8% (8).

**Operating cash surplus** was in line with the preceding year at SEK 3,216m (3,233), while operating cash flow declined to SEK 1,860m (3,305). The decrease is mainly due to changes in inventories resulting from higher raw materials prices.

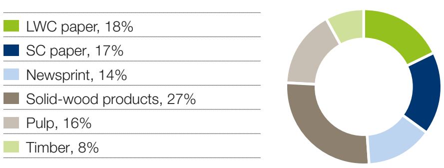
**Capital expenditures** totalled SEK 888m (1,153).

**Key figures**

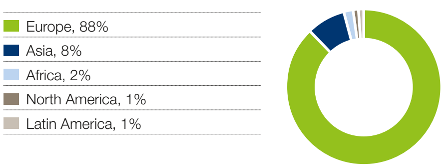
| SEKm | 2010 | 2009 |
|---|---|---|
| Net sales | 17,123 | 16,983 |
| of which internal | 2,471 | 1,286 |
| Operating cash surplus | 3,216 | 3,233 |
| Change in working capital | –706 | 797 |
| Current capital expenditures | –797 | –760 |
| Other changes in operating cash flow | 147 | 35 |
| Operating cash flow | 1,860 | 3,305 |
| Operating profit | 2,455 | 2,503 |
| Operating margin, % | 14 | 15 |
| Capital employed | 31,475 | 31,359 |
| ROCE, % | 8 | 8 |
| Strategic investments | | |
| plant and equipment | –91 | –393 |
| company acquisitions/divestments | –83 | –5 |
| Average number of employees | 4,186 | 4,172 |

Excluding restructuring costs.

**SCA's sales by product segment**




**SCA's sales by region**



# Governance for long-term competitiveness

SCA in its current form, with operations in 100 countries, own production in about 40 countries and with four business areas, imposes rigorous demands on responsibility and governance. The ultimate aim of governance at SCA is to secure the Group's commitments towards all its stakeholders: shareholders, customers, suppliers, providers of credit, society and employees – commitments that are expressed in the company's business targets and strategies.

From a strategic and business-driven perspective, responsibility and governance take on other dimensions. SCA's view is that by achieving success through governance, the Group is also guided towards more effective control. The company's business processes shall represent the focal point, with a set of rules and regulations that not only support these, but are distinctly integrated in the business operation.

Several initiatives have been taken to simplify and focus internal governance and the internal rules and regulations. Central to this work has been:

- that governance and rules and regulations are highly commercially focused on business goals and strategies,
- that the Group's risks are thoroughly analysed and grounded in the business strategy and governance work, both at a Board and operational level, and that
- follow-up and evaluation work is conducted with a high degree of quality and congruity.

**Corporate governance, including remuneration, pages 36–43**
This section describes the rules and regulations and the Group's corporate governance, including a description of the operational organisation. It also details the Board of Directors' responsibilities and its work during the year. Information regarding remuneration and remuneration issues in SCA and internal control in the Group are also included here. SCA applies the Swedish Code of Corporate Governance without any deviations.

**Risk management, pages 44–49**
SCA's processes to identify and manage risks are part of the Group's strategy work and are pursued at a local and Group-wide level. The section dealing with risk management describes the most significant risks, and the policies and measures that the Group applies to manage these.

**Sustainability, pages 50–53**
SCA's sustainability work is an integral part of the company's business operation and values. In the same way as governance and responsibility are based on targets and strategies, sustainability activities also applies this approach. This helps the company to reduce risk and costs, strengthen competitiveness and attract talent and investors.

**President**
SCA's President and CEO is responsible for and manages the day-to-day administration of the Group and follows the Board's guidelines and instructions. The President and CEO is supported by the Executive Vice President, who is also the CFO, and the Corporate Senior Management Team, see page 43, whose work the CEO leads. The Corporate Senior Management Team consists of the President, the Executive Vice President, Business Group Presidents and the equivalent, and managers for the corporate staffs Finance, Communications, Strategy and Business Development, Sustainability, HR and Legal Affairs. In addition, the hygiene business has a separate management body. The formal work plan for the Board of Directors and terms of reference issued by the Board of Directors to the President detail, for example, the division of work between the Board and President. In consultation with the Chairman of the Board, the President prepares documentation and decision data for the Board's work.

SCA consists of four business areas (Personal Care, Tissue, Packaging and Forest Products), which are divided into six business groups. The Group also has a global unit for category control (brand, innovation and technology), Global Hygiene Category (GHC), which leads and coordinates these issues in the hygiene business.

SCA's business groups adhere to the principle of distinct decentralisation of responsibility and authority. The business groups are fully responsible for developing their respective operations through established goals and strategies; a process that is also centrally coordinated. The business groups are responsible for their operating result, capital and cash flow. The position of the business and results are followed up by the entire Corporate Senior Management Team on a monthly basis. Each quarter, business review meetings are conducted where the management of each business group personally meets the President, the CFO and others. These meetings function as a complement to the daily monitoring of operations. Through formal work plans and terms of reference, a number of issues of material significance are placed under the control of the CEO and the Parent Company's Board of Directors.

## More detailed information at www.sca.com

- Articles of Association
- Swedish Code of Corporate Governance
- Information from Annual General Meetings in previous years, since 2004 (notices, minutes, President's speeches and press releases)
- Information from the Nomination Committee, since 2006 (composition, proposals and work)
- Information ahead of the 2011 Annual General Meeting (notice, Nomination Committee proposals, Board's proposal for principles for remuneration of the President and other senior executives, information routines for notifying attendance at the meeting, etc.)
- Earlier Corporate Governance Reports, since 2005

*Information regarding SCA's ownership structure is presented on page 5.*

# Governance at SCA

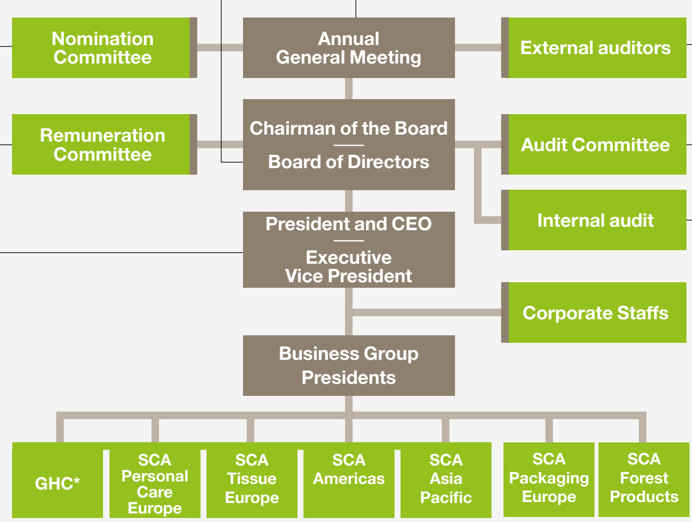
**Nomination Committee**
The Nomination Committee represents the company's shareholders and is charged with the sole task of drafting proposals for adoption at the Annual General Meeting with respect to election and remuneration matters and, in certain cases, proposing procedural motions for the next Nomination Committee.

**Annual General Meeting**
The Annual General Meeting (AGM) is SCA's highest decision-making body, which all shareholders are entitled to attend to have a matter considered and to vote for all shares held by the shareholder. The company's Board of Directors is elected at the AGM. The AGM also appoints the company's auditors

**Board of Directors**
The Board of Directors has overall responsibility for the company's organisation and administration through regular monitoring of the business and by ensuring the appropriateness of the organisation, management team, guidelines and internal control. The Board approves strategies and targets, and decides on major investments, acquisitions and divestments of operations.

In accordance with the decision of the AGM, the Board of Directors shall comprise eight members elected by the Annual General Meeting with no deputies. In addition, Board members shall include three members and three deputies appointed by the employees.

*Chairman of the Board*
The Chairman of the Board leads the work of the Board and is responsible for ensuring that it is effectively organised and that work is efficiently conducted. This includes continuously monitoring the company's operations in close dialogue with the President and CEO and ensuring that other Board members receive information and decision data that will enable high-quality discussion and decisions by the Board. The Chairman leads the assessment of the Board's and the President's work. The Chairman also represents the company in ownership matters.




* Global Hygiene Category (GHC) was established to manage innovation, brand strategy and technology for the Group's hygiene business.

*Audit Committee*
The tasks of the Audit Committee, which is not authorised to make decisions, include monitoring financial reporting and the efficiency of the company's internal control, internal audit and risk management. The committee keeps itself informed on the audit, reviews and monitors the impartiality and independence of the auditors, and contributes proposals for the AGM's election of auditors.

**Internal audit**
At SCA, it is the responsibility of all employees to ensure effective internal governance and control in the operation or process for which they are responsible. Since 2006, internal audit is a separate function with the task of evaluating and improving efficiency in SCA's internal governance and control, as well as its risk management. The function has 12 employees and the manager reports to the Audit Committee and the Board regarding internal audit matters and to the CFO with respect to other matters. The internal auditors are geographically located throughout the world where SCA conducts operations. The function examines, among other aspects, SCA's internal processes for ordering, invoicing, purchasing and financial reporting, IT systems, compliance with SCA's policies, including its Code of Conduct, HR issues and various types of projects. The function also offers internal advisory services in connection with internal control matters.

**External auditors**
The company's auditors, elected at the Annual General Meeting, examine SCA's annual report and consolidated financial statements, the Board's and President's administration and the annual reports of subsidiaries, and submit an audit report.

The audit is performed in accordance with the Swedish Companies Act and auditing standards in Sweden as stipulated by FAR SRS, which is based on international auditing standards according to the International Federation of Accountants (IFAC).

*Remuneration Committee*
The Remuneration Committee, which is not authorised to make decisions, drafts the Board's motions in issues relating to remuneration principles, remuneration and other terms and conditions of employment for the company's senior executives. The committee monitors and assesses programmes for variable remuneration, the application of the AGM's resolution on guidelines for remuneration of senior executives and the applicable remuneration structure and remuneration levels in the Group.

**Internal rules and regulations, etc.**
- Articles of association
- Formal work plan of the Board of Directors
- Terms of reference issued by the Board to the President
- Policy documents (e.g. financial, communications, risk management, pension, HR) and instructions (payment authorisation and payment)
- Code of Conduct

**External rules and regulation, etc.**
- The Swedish Companies Act
- Swedish and international accounting legislation
- Nasdaq OMX Stockholm's rules and regulations
- Swedish Code of Corporate Governance

# Activities during the year

**Annual General Meeting**
The AGM was held on Monday, 26 April 2010, in Sundsvall, Sweden. The meeting was attended by 796 shareholders, either personally or by proxy, corresponding to 61.1% of votes in the company. Attorney-at-Law Sven Unger was elected Chairman of the Meeting.

**Resolutions by the meeting**
- dividend of SEK 3.70 (3.50) per share to be paid for the 2009 financial year,
- re-election of Board members Rolf Börjesson, Sören Gyll, Jan Johansson, Leif Johansson, Sverker Martin-Löf, Anders Nyrén and Barbara M. Thoralfsson, and the election of Pär Boman as a new Board member,
- re-election of Sverker Martin-Löf as Chairman of the Board,
- adoption of guidelines for determining the salary and other remuneration of the President and other senior executives, see page 40 and Note 6 on page 71.

The minutes of the meeting in full and information on the 2010 AGM, including the President's speech, can be accessed at www.sca.com

**Nomination Committee**
The 2010 AGM decided that the Nomination Committee for the 2011 AGM should comprise representatives of not fewer than four of the largest and not more than the six of the largest shareholders in terms of voting rights, as well as the Chairman of the Board, who is also the convener. The Nomination Committee shall submit proposals relating to the Chairman of the Meeting, the Board of Directors, the Chairman of the Board, Board fees and remuneration for committee work, fees for the company's auditors, and proposals to the Nomination Committee prior to the 2012 AGM. In its work, the Nomination Committee shall consider the rules that apply to the independence of Board members and that the selection for those nominated shall be based on expertise and experience relevant to SCA.

*Composition of the Nomination Committee for the 2011 AGM*
The composition of the Nomination Committee for the 2011 AGM is as follows:
- Carl-Olof By, AB Industrivärden, Chairman of the Nomination Committee
- Håkan Sandberg, Handelsbanken Pension Foundation, among others
- Pontus Bergekrans, SEB Funds
- Torbjörn Callvik, Skandia Liv
- Bo Selling, Alecta
- Sverker Martin-Löf, Chairman of the Board of SCA

All shareholders have had an opportunity to submit proposals to the Nomination Committee. The Nomination Committee's proposals for the 2011 Annual General Meeting are presented in the notification of the AGM and on SCA's website www.sca.com. The 2011 AGM will be held on 7 April, see page 104.

The Nomination Committee was convened on three occasions. The Chairman of the Board presented the Board evaluation, which is conducted annually, and provided the Nomination Committee with information regarding Board and committee work during the year.

**Board of Directors**
SCA's Board of Directors comprises eight members elected by the Annual General Meeting.

Board members Rolf Börjesson, Sören Gyll, Jan Johansson (SCA's President and CEO) Leif Johansson, Sverker Martin-Löf, Anders Nyrén and Barbara M. Thoralfsson were re-elected to the Board. Pär Boman was elected as a new Board member. Sverker Martin-Löf was elected as Chairman of the Board.

The independence of Board members is presented in the table below. SCA complies with the requirements of the Swedish Code of Corporate Governance that stipulate that not more than one member elected by the AGM shall be a member of company management, that the majority of the members elected by the AGM shall be independent in relation to company and company management, and that not fewer than two of these shall also be independent in relation to the company's major shareholders. All of the Board members have experience of the requirements incumbent upon a listed company. The employees have appointed the following three representatives to the Board: Lars Jonsson, Örjan Svensson and Thomas Wiklund, and their deputies, Anders Engqvist, Bert-Ivar Pettersson and Harriet Sjöberg.

*Board activities*
In 2010, the Board was convened nine times. At all Board meetings, the President held a presentation of the financial and market position. In addition, the established formal work plan encompasses a number of separate points, such as the adoption of the interim reports and the annual report. On a regular basis throughout the year, the Board has dealt with reports from the Audit and Remuneration Committees and reports

**Classification of the largest shareholders, Nomination Committee 2011 (share of votes)**

| | % |
|---|---|
| AB Industrivärden | 29.3 |
| Handelsbanken Pension Foundation, among others | 13.8 |
| SEB Funds | 5.3 |
| Skandia Liv | 3.7 |
| Alecta | 2.3 |

**Board of Directors and committees**

| | | | Committee | | Attendance | | |
|---|---|---|---|---|---|---|---|
| Board member | Elected | Independent[1] | Audit | Remuneration | Board meetings | Audit Committee | Remuneration Committee |
| Pär Boman | 2010 | ■ | | | 7/7 | | |
| Rolf Börjesson | 2003 | | | x | 9/9 | | 2/2 |
| Sören Gyll | 1997 | | x | | 8/9 | 5/6 | |
| Jan Johansson | 2008 | ■ | | | 9/9 | | |
| Leif Johansson | 2006 | | | x | 9/9 | | 2/2 |
| Sverker Martin-Löf, chairman | 1986 | ■ | x | Chair | 9/9 | 6/6 | 2/2 |
| Anders Nyrén | 2001 | ■ | Chair | | 8/9 | 6/6 | |
| Barbara Milian Thorlafsson | 2006 | | | | 9/9 | | |

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

■ = Dependent in relation to the company's major shareholder, AB Industrivärden.

■ = President of SCA, dependent in relation to the company and the Corporate Senior Management Team, and in relation to the company's major shareholder, AB Industrivärden.

■ = Dependent in relation to company management.

on internal control and financial operations. The company's auditors presented a report on their audit work during the year and these issues were discussed.

In 2010, the Board's activities were also characterised by prospective issues of central importance. A great deal of attention was paid to strategic issues and the development of operations in the Group's growth markets.

On different occasions, Business Group Presidents and senior managers held presentations of their operations.

At the final Board meeting of the year, the Board approved the operational strategy and the financial plan for the period 2011–2012.

*Evaluation of the Board's work*

The work of the Board, like that of the President, is evaluated annually using a systematic and structured process, the purpose of which is to obtain a sound basis for the Board's own development work and to provide the Nomination Committee with a certain amount of decision data to assist in its nomination work. The Chairman of the Board is responsible for the evaluation. In 2010, the evaluation took the form of a questionnaire and discussions between the Chairman of the Board and the members. The evaluation covers such areas as the Board's method of work, expertise and the year's work. The Board was provided with feedback after the results were compiled. The Nomination Committee was also informed of the results of the evaluation.

*Audit Committee*

In 2010, the Audit Committee comprised Chairman Anders Nyrén, Sören Gyll and Sverker Martin-Löf. The Audit Committee held six meetings in 2010. In its work that includes monitoring financial reporting, the committee dealt with relevant accounting issues, internal auditors' reviews, auditing work and a review of various measurement issues, such as testing of impairment requirements for goodwill, the measurement of forest assets and the preconditions for the year's pension liability calculations.

*Remuneration Committee*

The Remuneration Committee consists of Chairman Sverker Martin-Löf, Leif Johansson and Rolf Börjesson. The Remuneration Committee held two meeting during the year. In addition, a number of issues were addressed by circular letter, for example, in connection with various management changes. Activities in 2010 mainly concerned remuneration and other employment terms and conditions for senior executives, and current remuneration structures and remuneration levels in the Group.

**Internal audit**

The basis of the work is a risk analysis conducted in cooperation with SCA's management team. The risk analysis concludes in an audit plan, which is presented to the Audit Committee. In 2010, about 110 audit projects were performed. During the year, the function reported its observations at each meeting with the Audit Committee and on one occasion to the Board of Directors of SCA.

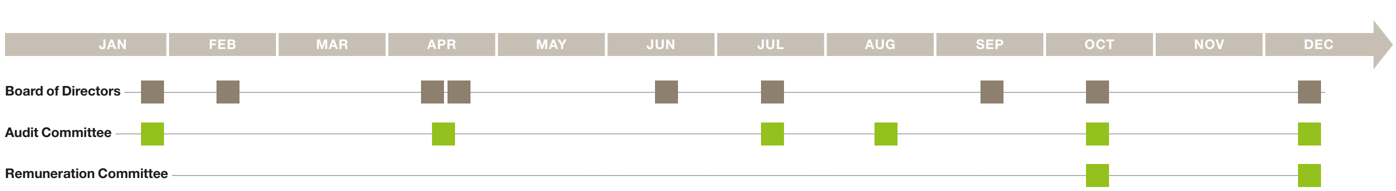
Work in 2010 also involved following up the units' progress with process-based control, follow-up and reporting of the efficiency in internal governance and control, and separate assessments of the internal control in countries where SCA has major investments and in joint ventures.

**External auditors**

The 2008 Annual General Meeting appointed the accounting firm of PricewaterhouseCoopers AB as the company's auditors for a mandate period of four years. The accounting firm notified the company that Anders Lundin, Authorised Public Accountant, would be the senior auditor. Anders Lundin is also auditor for AarhusKarlshamn AB, Electrolux AB, Husqvarna AB, AB Industrivärden, Melker Schörling AB and Loomis AB. The auditor holds no shares in SCA.

In accordance with its formal work plan, the Board met with the auditors at three regular Board meetings in 2010. The auditors also attended each meeting of the Audit Committee. At these meetings, the auditors presented and received opinions on the focus and scope of the planned audit and delivered verbal audit and review reports. Furthermore, at the Board's third regular autumn meeting, the auditors delivered an in-depth verbal report on the audit for the year. The formal work plan specifies a number of mandatory issues that must be covered. These include matters of importance that have been a cause for concern or discussion during the audit, business routines and transactions where differences of opinion may exist regarding the choice of accounting procedures, as well as accounting for consultancy work assigned to the audit firm by SCA and the audit firms independence in relation to the company and its management. On each occasion, Board members have had an opportunity to ask the auditors questions. Certain parts of the detailed discussion on the accounts take place without representatives of company management being present.

**Board and Committee meetings**



# Remuneration, Corporate Senior Management and Board of Directors

**Guidelines**

The 2010 Annual General Meeting adopted guidelines for remuneration of senior executives that are based on a total remuneration package comprising a fixed salary, variable salary and other benefits, and a pension. These unchanged guidelines are also proposed for the 2011 AGM, see page 12.

The total remuneration is to correspond to market practice and be competitive in the senior executive's field of profession. Fixed and variable remuneration is to be linked to the manager's responsibility or authority. For the CEO, as well as for other senior executives, the variable remuneration is to be limited and linked to the fixed remuneration. Other senior executives include the Executive Vice President, Business Group Presidents and Central Staff Managers.

The variable remuneration is to be based on the outcome of predetermined objectives and, as far as possible, be linked to the increase in value of the SCA share, from which the shareholders benefit. The pension is not to be based on variable remuneration. Programmes for variable remuneration should be formulated so that the Board, if exceptional circumstances prevail, has the possibility to limit, or refrain from, payment of variable remuneration if such an action is considered reasonable and in compliance with the company's responsibility to shareholders, employees and other stakeholders.

Pension benefits are to be either defined benefit or defined contribution, or a combination of both, and entitle the senior executive to pension from the age of 60, at the earliest. To earn the pension benefits, the period of employment must be long term, at present 20 years. When resigning before the age providing entitlement to pension, the senior executive will receive a paid-up pension policy from the age of 60. Matters of remuneration of senior executives are to be dealt with by the Remuneration Committee and, as regards the President, resolved by the Board of Directors.

**Remuneration of the President and other senior executives**

Remuneration of the President and other senior executives is presented in Note 6 on page 71. Variable remuneration for the CEO, Executive Vice President and Business Group Presidents was maximised to a total of 85% of the fixed salary for 2010. For one Business Group President, stationed in the US, the maximum outcome is 95%, while the corresponding limit for other executives is 75%.

The programme for variable remuneration is divided into a short and long-term portion.

- The short-term portion (Short-Term Incentive, or STI) for the CEO, Executive Vice President and Business Group Presidents may amount to a maximum of 50% of the fixed salary. For one Business Group President, stationed in the US, the maximum outcome is 60%, while the corresponding limit for other senior executives is 40%. In 2010, the STI goals were based on cash flow, growth and earnings at both Group and business group levels, and one non-financial goal. For 2011, the goals are spread across cash flow, operating profit, sales growth and costs, as well as measureable non-financial activity goals. One example is the business-wide goal that has been established to promote innovation in the hygiene business.
- The long-term portion (Long-Term Incentive, or LTI) may amount to a maximum of 35% of the fixed salary, providing that the executive invests half of the net outcome in the company's share, and a maximum of 25% if such investment is not made. The established LTI goal is based on the price performance of the company's B shares measured as the Total Shareholder Return (TSR) index, compared with a weighted index of competitors' shares according to the TSR principle, over the most recent three-year period. The comparative companies are selected to correspond to SCA's operations comprising hygiene operations (40%), packaging operations (30%) and forest operations (30%). For 2011, the long-term remuneration (LTI) will be able to amount to a maximum of 50% of the fixed salary. In return, the senior executive must invest half of the variable LTI compensation, after tax withholdings, in SCA shares. The shares may then not be sold before the end of the third calendar year after entry into the current LTI programme. The structure and essential terms and conditions of the LTI were approved by the Board in 2003. See Note 6, page 71 for further information.

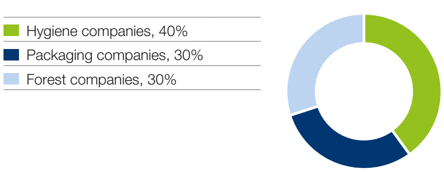
**Variable remuneration and strategic targets**

Programmes for variable remuneration are formulated to support the Group's strategic targets. The short-term programme is individually adapted and based mainly on cash flow, operating profit and growth. The long-term programme is based on the SCA share's long-term total return.

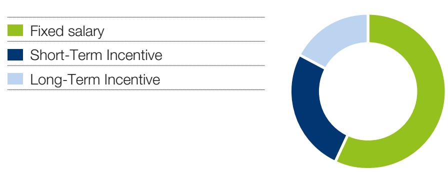
**Remuneration of the Board**

According to the resolution by the AGM, the total fees paid to the AGM-elected Board members were SEK 4,600,000. See Note 6, page 71 for further information.

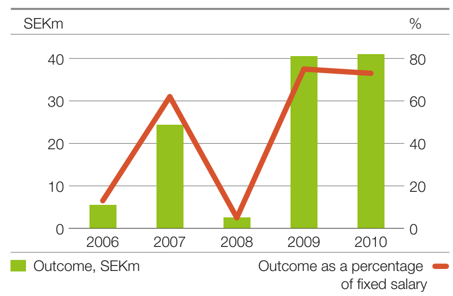
**LTI – Comparative companies, shares**




**Potential maximum remuneration, breakdown**




**Outcome, variable remuneration, 2006–2010**



# Internal control of the financial reporting

The Board's responsibility for internal governance and control is regulated in the Swedish Companies Act, the Annual Accounts Act and in the Swedish Code of Corporate Governance. The Annual Accounts Act requires that the company, each year, describe its system for internal control and risk management with respect to financial reporting. The Board bears the overall responsibility for financial reporting and its formal work plan regulates the internal division of work between the Board and its committees.

The Audit Committee has an important task to prepare the Board's work to assure the quality of financial reporting. This preparation work includes issues relating to internal control and regulation compliance, control of recognised values, estimations, assessments and other activities that may impact the quality of financial statements. The committee has charged the company's auditors with the task of specifically examining the degree of compliance in the company with the rules for internal control, both general and detailed.

**Financial reporting to the Board**

The Board's formal work plan stipulates which reports and information of a financial nature shall be submitted to the Board at each regular meeting. The President ensures that the Board receives the reports required that enable the Board to continuously assess the company's and Group's financial position. Detailed instructions specifically outline the types of reports that the Board shall receive at each meeting.

**External financial reporting**

The quality of external financial reporting is guaranteed via a number of actions and procedures. The President is responsible for ensuring that all information issued, such as press releases with financial content, presentation material for meetings with the media, owners and financial institutions, is correct and of a high quality. The responsibilities of the company's auditors include reviewing accounting issues that are critical for the financial reporting and reporting their observations to the Audit Committee and the Board of Directors. In addition to the year-end report, the auditor also reviews the six-month report.

**Risk management**

With regard to financial reporting, the risk that material errors may be made when reporting the company's financial position and results is considered the primary risk. To minimise this risk, control documents have been established pertaining to accounting, procedures for annual accounts and follow-up of reported annual accounts. A Group-wide system for reporting annual accounts has also been introduced. SCA's Board of Directors and management assess the financial reporting from a risk perspective on an ongoing basis. To provide support for this assessment, the company's income statement and balance sheet items are compared with earlier reports, budgets and other planned figures. Control activities that are significant to financial reporting are carried out using the company's IT system. For further information, see Risk and risk management on pages 44–49.

**Control activities and follow up**

Significant instructions and guidelines related to financial reporting are prepared and updated regularly by the Group's central controller organisation and are easily accessible on the Group's intranet. The central controller organisation is responsible for ensuring compliance with instructions and guidelines. Process managers at various levels within SCA are responsible for carrying out the necessary control measures with respect to financial statements. An important role is played by the business group's controller organisations, which are responsible for ensuring that financial reporting from each unit is correct, complete and delivered in a timely manner. In addition, each business group has a Finance Manager with responsibility for each business group's financial statements. The company's control activities are supported by the budgets prepared by each business group and updated during the year through continuous forecasts.

In recent years, SCA has introduced a standardised system of control measures involving processes that are significant to the company's financial statements. The controls are adapted to the operational process and system structure of each unit. Accordingly, each unit prepares a record of the actual controls to be carried out in the unit in question. Control of these processes is assessed through self-evaluation followed up by an internal audit. In some cases, SCA has enlisted external help to validate these control measures.

Financial results are reported and examined regularly within the management teams of the operating units and communicated to SCA's management at monthly and quarterly meetings. Before reports are issued, results are analysed to identify and eliminate any mistakes in the process until the annual accounts. For additional information, see Internal audit on page 39.

**Activities in 2010**

Activities to improve IT security in the financial systems that began in 2009 continued during the year. The outcome showed that a significant improvement had been made. For some time now, the entire SCA Group has used a shared reporting system for financial statements. An increasing number of units within SCA are also introducing the same reporting system. Another development is the co-location of accounting and reporting of several units in Shared Service Centers. Reporting is thus more efficient and uniform. A number of these centres were introduced during the year in the US and elsewhere. A project was initiated during the year aimed at reducing the number of legal entities in SCA and thereby simplifying the system structures. A follow up of the Group's process-based controls also took place. The follow-up showed that these controls are in place at the majority of SCA's units and that they function efficiently.

## Elected by the Annual General Meeting

**Sverker Martin-Löf** (1943)
*Tech Lic., Honorary PhD*
Chairman of the Board since 2002, formerly President and CEO of SCA. Chairman of the Board of Industrivärden, SSAB and Skanska. Vice Chairman of Ericsson. Member of the Board of Handelsbanken.
Elected: 1986
A shares: 3,000 B shares: 77,823
Independent of the company and corporate management.

**Pär Boman** (1961)
*Engineering and Business/ Economics degree*
President, CEO and member of the Board of Handelsbanken.
Elected: 2010
A shares: 1,000
Independent in relation to SCA's major shareholders.

**Rolf Börjesson** (1942)
*MSc Eng.*
Chairman of the Board of Ahlsell AB. Member of the Board of Avery Dennison and Huhtamäki Oyj.
Elected: 2003
B shares: 17,850
Independent of the company, corporate management and SCA's major shareholders.

**Sören Gyll** (1940)
*Honorary PhD Engineering*
Member of the Royal Swedish Academy of Engineering Sciences (IVA).
Elected: 1997
B shares: 4,407
Independent of the company, corporate management and SCA's major shareholders.

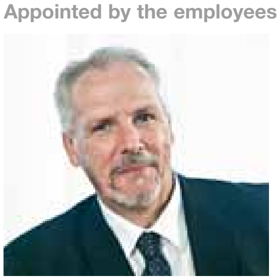
**Jan Johansson** (1954)
*Master of Laws*
President and CEO of SCA. Member of the Board of Handelsbanken.
Elected: 2008
B shares: 55,000

**Leif Johansson** (1951)
*MSc Eng.*
President of AB Volvo and CEO. Member of the Board of AB Volvo, Bristol-Myers Squibb Company and the Confederation of Swedish Enterprise. Member of the Royal Swedish Academy of Engineering Sciences (IVA).
Elected: 2006
B shares: 6,040
Independent of the company, corporate management and SCA's major shareholders.

**Anders Nyrén** (1954)
*MSc Econ, MBA*
President of AB Industrivärden and CEO. Chairman of the Board of Sandvik and Vice Chairman of Handelsbanken. Member of the Board of Ericsson, Ernströmgruppen, Industrivärden, SSAB and Volvo. Chairman of the Stock Market Company Association and the Association for Generally Accepted Principles in the Securities Market.
Elected: 2001
B shares: 1,200
Independent of the company and corporate management.

**Barbara Milian Thoralfsson** (1959)
*MBA, BA*
Member of the Board of Electrolux AB, Fleming Invest AS, Norfolier AS and Telenor ASA.
Elected: 2006
B shares: 3,000
Independent of the company, corporate management and SCA's major shareholders.

## Appointed by the employees



**Lars Jonsson** (1956)
Chairman Swedish Paper Workers Union dept. 167 at SCA Graphic Sundsvall AB, Östrand Pulp Mill, Timrå.
Member of the Swedish Trade Union Confederation (LO).
Appointed: 2005

**Örjan Svensson** (1963)
Senior Industrial Safety Representative at SCA Hygiene Products AB, Edet Bruk, Lilla Edet.
Member of the Swedish Trade Union Confederation (LO).
Appointed: 2005
B shares: 75

**Thomas Wiklund** (1955)
Shift Production Manager and Chairman of Ledarna (Swedish Organisation for Managers) at Munksund paper mill.
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2009

## Deputies

**Harriet Sjöberg** (1946)
Chairman, Unionen, SCA Hygiene Products AB, Gothenburg.
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2001
B shares: 1,815

**Bert-Ivar Pettersson** (1955)
Works Manager at SCA Graphic Sundsvall AB, Ortviken paper mill, Sundsvall.
Member of the Council for Negotiation and Cooperation (PTK).
Appointed: 2005

**Anders Engqvist** (1958)
Machine Operator at SCA Packaging Sweden AB, Värnamo.
Member of the Swedish Trade Union Confederation (LO).
Appointed: 2005

## Honorary Chairman

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

## Auditors

**PricewaterhouseCoopers AB**
Senior Auditor: Anders Lundin, Authorised Public Accountant.

## Secretary to the Board

**Anders Nyberg** (1951)
*Master of Laws*
Senior Vice President, Corporate Legal Affairs, General Counsel.
B shares: 34,146

*Information regarding individuals' own and related parties' shareholdings pertains to the situation on 31 December 2010.*

**Jan Johansson** (1954)
President and CEO
*Master of Laws*
Employed since 2007
B shares: 55,000

**Lennart Persson** (1947)
CFO and Executive Vice President, Head of Finance
*BSc BA*
Employed since 1987
B shares: 38,465

**Christoph Michalski** (1966)
President SCA Global Hygiene Category (as of 31 March 2011)
*MSc Econ.*
Employed since 2007
B shares: 5,300

**Thomas Wulkan** (1961)
President SCA Personal Care Europe
*BSc BA*
Employed since 2000

**Mats Berencreutz** (1954)
President SCA Tissue Europe
*MSc ME*
Employed since 1981
B shares: 3,917

**Michael Cronin** (1958)
President SCA Packaging Europe
*Marketing graduate*
Employed since 2010

**Ulf Larsson** (1962)
President SCA Forest Products
*BSc Forestry*
Employed since 1992
B shares: 4,400

**Sune Lundin** (1951)
President SCA Americas
*MSc*
Employed since 2008
B shares: 3,450

**Ulf Söderström** (1964)
President SCA Asia Pacific (as of 31 March 2011)
*Studies in economics, MBA*
Employed since 2009
B shares: 2,000

**Gordana Landén** (1964)
Senior Vice President, Corporate Human Resources
*BSc*
Employed since 2008
B shares: 1,580

**Anders Nyberg** (1951)
Senior Vice President, Corporate Legal Affairs, General Counsel
*Master of Laws*
Employed since 1988
B shares: 34,146

**Robert Sjöström** (1964)
Senior Vice President, Business Development and Strategy (as of 31 March 2011)
*MSc Econ, MBA*
Employed since 2009
B shares: 5,000

**Kersti Strandqvist** (1963)
Senior Vice President, Corporate Sustainability
*MSc Chem., Tech Lic.*
Employed since 1997
B shares: 297

**Camilla Weiner** (1968)
Senior Vice President, Corporate Communications
*MSc BA*
Employed since 2010

*Information regarding individuals' own and related parties' shareholdings pertains to the situation on 31 December 2010.*

# Risk and risk management

**Risks that can affect target fulfilment**
SCA is exposed to a number of risks that could exert a greater or lesser material impact on the Group. These risks are generally defined as factors that impact SCA's ability to achieve established targets for the Group. This applies to both financial targets and targets in other areas. SCA's targets are outlined in the section Strategy, on pages 6 and 7.

Many of the risks described could have a positive or negative impact on the Group. This implies that if risk develops in a favourable manner or if risk management is successful in counteracting the risk, target fulfilment could exceed expectations. From this perspective, risk could also entail opportunities for SCA. Examples include the GDP trend and the economic situation, the cost of input goods, customer and consumer behaviours, and movements in market prices.

**SCA's structure and value chain**
SCA's structure and geographically dispersed business entails in itself a certain degree of risk reduction. SCA conducts operations in four business areas that deliver to entirely, or partially, different customer segments and end-users. The various businesses are also affected to a somewhat different degree by the business cycle and general economic prosperity. The competitive situation also varies for the different businesses. SCA's products are sold through many different channels and distribution paths.

The operation has a large geographical spread. Sales are conducted in more than 100 countries and manufacturing is pursued at about 250 production units in some 40 countries. Sales are often based on local manufacturing.

SCA's structure also means that the raw material flows are, to a certain degree, integrated – from forest land to the finished consumer products. In 2010, 50% of SCA's wood raw materials requirements were sourced from the Group's own forests. The wood fibre is used for SCA's production of market pulp, containerboard and publication papers, in sawmill operations, and for the manufacture of tissue. Forest waste from SCA's activities is used in biofuel operations. The energy generated in the production process is used internally or sold.

## GDP trend and economic conditions

### Risk

SCA's volume trend is linked to the development of GDP and related factors, including industrial production, in countries representing SCA's main markets. Movements in the GDP trend influence demand for certain SCA products.

### Policy/Action

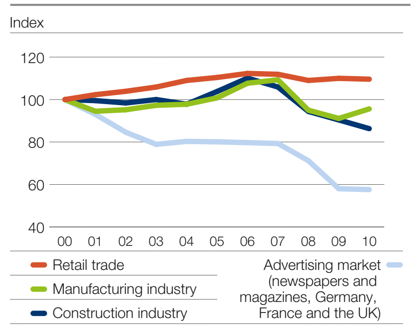
SCA has reduced the impact of the general economic trend by focusing on its hygiene business. Other operations are more sensitive to economic movements.

In 2010, Personal Care and Tissue accounted for 58% of SCA's sales. Sales to the retail market, which accounts for the bulk of sales of hygiene products, are more dependent on established consumption patterns and distribution than the economic climate. The institutional care and homecare facilities segment for incontinence products is also relatively unaffected by the business cycle, although it can be impacted by the public budget situation in certain countries. The segment in the hygiene business that is most sensitive to economic movements is AFH tissue, which is affected by the consumption of tissue outside the home, for example, within industry and offices, as well as in the hotel and restaurant industry.

The Packaging business area is more sensitive to economic movements. In 2010, it accounted for 27% of consolidated sales. The volume trend is influenced by developments in the food industry (about 45% of volumes) and the manufacturing industry (about 30%). Forest products are also vulnerable to economic movements. Sales of publication papers, representing 8% of SCA's sales, are affected by movements in business activity in the advertising sector. The relatively cyclical construction and private house industries impact SCA's solid-wood product business, which accounts for 4% of sales.

For all businesses, it is important that SCA manages the effects of the economic movements that occur by taking actions to reduce costs and by reviewing the capacity and production structure.

**Trend within SCA's key customer segments (Europe, Index in 2000 = 100)**




## Environmental impact and climate change

### Risk

SCA's operations have an impact on air, water, land and biological processes. These effects could lead to costs for restoring the environment. The matter of the economic impact of climate change is also growing in significance.

### Policy/Action

A number of years ago, SCA established a sustainability policy, which details guidelines for the Group's actions in the areas of environmental and social responsibility. Risks are minimised through preventive work in the form of certified environmental management systems, environmental risk inspections in conjunction with acquisitions, and remediation projects in connection with plant closures.

The Group's large forest holding has an extremely positive environmental effect through the absorption of carbon dioxide. Furthermore, the forest guarantees access to renewable forest raw materials.

Through its extensive Resource Management System (RMS), SCA monitors how the company utilises energy, water, transports and raw materials. The data is used for internal control and follow-up of established goals. SCA works proactively to decrease its climate footprint by reducing its energy consumption and emissions of greenhouse gases. Continuous work is conducted to reduce the already low levels of oil and coal used in the Group, and to increase the proportion of renewable energy, such as wind power. A comprehensive description of SCA's work in this area is provided in the Group's Sustainability Report.

The market pulp is subsequently used in the production of mainly tissue and personal care products. In 2010, some 41% of the pulp requirement was satisfied by the Group's own pulp production. SCA is also a major player in the recovered fibre market and in 2010 collected 36% of the Group's total recovered paper requirement. This was primarily used in tissue and packaging operations, but SCA's publishing papers business also used the collected recovered fibre.

**Processes for risk management**

SCA's Board determines the Group's strategic direction based on recommendations from Corporate Senior Management. The responsibility for long-term and overall management of strategic risks follows the company's delegation scheme, from the Board to the President, and from the President to the Business Group Presidents. This means that most operational risks are managed by SCA's business groups at a local level, but are coordinated when deemed necessary. The tools for this work primarily comprise continuous reporting by the business groups and the annual strategy process, which includes risks and risk management as part of the process.

SCA's financial risk management is centralised, as is the case for the corporate internal bank for financial transactions of Group companies and management of the Group's energy risks. The financial risks are managed in accordance with the Group's finance policy, which is approved by SCA's Board and, together with SCA's energy risk policy, comprises a framework for management activities. The risks are grouped and followed up on a regular basis to ensure compliance with these guidelines. SCA has also centralised the management of other risks. SCA has established a corporate internal audit unit, which ensures that the organisation complies with the Group's policies.

**Risk and risk management**

The most significant risks that impact SCA's ability to achieve established targets are presented on pages 44–49 together with a description of how these risks are managed.

| | Impact of political decisions | Changes in the behaviour and attitudes of customers and consumers | Dependence on major customers and distributors |
|---|---|---|---|
| Risk | SCA is affected by political decisions and administrative regulations in the more than 100 countries in which the Group conducts operations. These relate to general regulations, such as taxation and financial reporting. SCA is also impacted by more specific regulations, such as the granting of permits in accordance with the Environmental Code and reimbursement of expenses in the healthcare system. | Changes in the behaviour and attitudes of customers and consumers could affect demand for certain products and thus profitability. For example, competing substitutes could reduce demand for SCA's products. | The retail trade is SCA's single largest customer group and thus exercises considerable influence. SCA also uses other distributors or retailers that could impact the Group. A general consolidation process is taking place in several of SCA's sales channels, thus increasing dependence on individual customers. This increase in dependence could result in negative consequences if SCA does not fulfil the demands imposed. |
| Policy/Action | SCA monitors movements in its business environment, enabling it to evaluate developments and take actions. SCA is a member of national and international trade associations, which comprise the primary bodies for participation in public debates. For issues of importance to the company, SCA can also work directly in cooperation with regulatory bodies and the public. Examples include the project to construct wind turbines on SCA's land in central Sweden and the regular consultations held with Swedish Sami people regarding cooperation between forestry and reindeer husbandry.<br>Another key area for SCA is political developments in the environmental area, where SCA assesses and monitors legislation. Since most of SCA's operations are located in Europe, the EU is a natural focal point. One example of influence exerted in this area is the EU Waste Directive, where focused lobbying efforts ensured that the final directive did not disadvantage SCA's corrugated board boxes, compared with plastic boxes.<br>SCA works actively to disseminate knowledge regarding various national systems to decision-makers in countries where new structures are being built up. Examples include the development of systems for cost-free prescription of incontinence aids in countries where such benefits were not offered in the past. | SCA works proactively to adapt to and influence the behaviour and attitudes of customers and consumers. SCA improves customer insight by studying the attitudes and views of existing and potential consumers. For many of SCA's business areas, retail is an important customer and distribution channel. Consequently, changes in the retail sector attract a great deal of attention.<br>Another way of being proactive is through innovation, including in-house research and development. A major driving force for innovation comprises demands and requests from customers and consumers. Accordingly, development work is often conducted in direct cooperation with customers. An increasingly important factor is greater focus on sustainability with respect to environmental, financial and social factors. Other demands imposed on SCA's innovation include the desire to create profitable differentiation for SCA's products range and create value and growth, both for customers and SCA (read more about innovation on pages 16–17). In many countries, the degree of penetration is low, meaning only a small proportion of the population use SCA's products, compared with more developed countries. To increase acceptance of products, SCA focuses on matters influencing attitudes and on breaking taboos. This also applies to Europe and North America with regard to such items as incontinence care. | SCA's customer structure is relatively dispersed, with customers in many different areas of business. In the retail trade, the prevailing trend is towards increased concentration, which to date has resulted in fewer retail companies at a national and regional level. This could also present opportunities through closer cooperation. There are still a considerable number of retail companies, which reduces the risk for SCA. SCA also uses distributors, mainly for AFH tissue. A very large number of distributors are active in this segment and the international concentration is relatively low.<br>In 2010, SCA's ten largest customers accounted for 13% of SCA's sales. The single largest customer accounted for 2% of sales. Most of these customers were retail companies. The ten largest customers also include some large distributors of AFH tissue.<br>Credit risk in accounts receivable is dealt with in the section Credit risk, on page 49. |

## Expansion into new markets

### Risk

In recent years, SCA has expanded the operation into new geographic emerging markets outside Western Europe and North America. If the conditions differ from those in already established markets, this expansion could involve new risks for SCA.

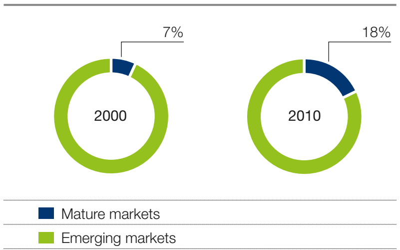
### Policy/Action

SCA can expand its business in various ways. The sale of SCA's products in new markets can be managed by agents or by the Group's own sales company. When it has been decided to conduct manufacturing in the local market, this may be carried out through a joint venture in cooperation with other owners or by SCA acquiring or forming a wholly owned company. A joint venture, through collaboration with a partner with solid local knowledge, reduces the risk for SCA.

Prior to initiating operations, SCA conducts a feasibility study. Depending on how the business will be operated, varying methods are used in the feasibility study, including market studies, and a review of the legal requirements, including environmental legislation, due diligence of existing companies, and assessments of the business climate and common business practices in the market in question. A risk analysis of issues related to the environment and business ethics is also performed.

When the business is operational, SCA has often improved its knowledge of the market and can thus adapt the organisation. The recruitment of personnel with the appropriate values is crucial, as is maintaining contact with the market in question through communication. SCA's Group policies, including its Code of Conduct and Sustainability Policy, apply to all markets in which SCA conducts operations.

**Sales in emerging markets**




Emerging markets include the countries in Eastern Europe, Latin America and Asia (excluding Japan) and Africa.

## Movements in the market price for SCA's products

### Risk

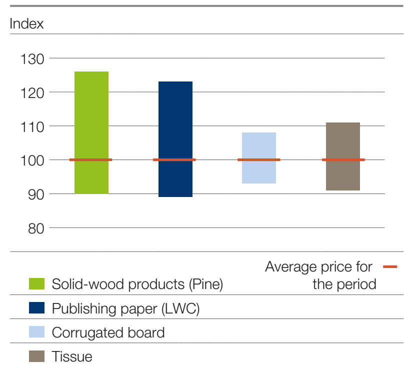
Movements in the market price of SCA's products could create large fluctuations in the profitability of the product in question when these movements are not related to changes in costs for SCA.

### Policy/Action

Several methods can be applied to address the risk that movements in market prices will create significant variations in profitability. A small share of contracts, mainly relating to corrugated board, has been indexed to correspond to the underlying cost scenario. Long-term contracts at fixed prices and price hedging only occur in exceptional cases. To reduce the impact of price movements on SCA, actions are taken to adapt the cost scenario to lower market prices, for example, by renegotiating purchasing agreements, implementing personnel and capacity reductions, and reviewing the business structure. In other cases, the product's content can be adapted to the new market price level.

Movements in the market price in a number of SCA's product segments are detailed in the figure below. The diagram specifies the average price per year (index 100) and movements around this value over the past ten years.

**Highest/lowest market prices (annual average) 2001–2010 per product**




## Risks at plants

### Risk

SCA has a large number of production facilities in some 40 countries and many of these conduct continuous production. Fires, machinery breakdowns and other types of harmful incidents could damage the plant in question and also cause delivery problems.

### Policy/Action

SCA's activities in this area are governed by its Risk Management Policy, which controls how SCA shall manage insurable risks. From this perspective, the aim of risk management is to protect employees, the environment, the company's assets and the business in an effective and cost-efficient manner, and to minimise SCA's risk management costs. This can be achieved by creating and retaining a balance between loss prevention and insurance cover.

The loss-prevention work is conducted in accordance with established guidelines that include inspections by risk engineers and benchmarking with other plants, without and outside SCA. Other important elements of loss-prevention activities include maintenance of plants, staff training, good orderliness, and documentation. Over a period of many years, approximately SEK 200m was invested annually in risk prevention at SCA. For example, new facilities are fitted with sprinkler systems as standard. The pace of investment has now eased slightly, since many potential investments have already been made.

All plants are insured to replacement cost and for the loss of contribution margin. Within the EU, insurance is carried out by one of the Group's own companies, with external reinsurance for major damages. Outside the EU, SCA cooperates with market-leading insurance companies.

## Risk

### Suppliers

SCA is dependent on a large number of suppliers. The loss of key suppliers could result in costs for SCA and problems in manufacturing. Suppliers could also cause problems for SCA through non-compliance with applicable legislation and regulations or by otherwise acting in an unethical manner.

### Cost of input goods

The market price of many of the input goods used in the manufacture of SCA's products fluctuates over time and this could influence SCA's earnings.

### Employee-related risks, legal risks and IT risks

**Employee-related risks**
SCA must have access to skilled and motivated employees and safeguard the availability of competent managers to achieve established strategic and operational objectives.

**Legal risks**
New legislation in various countries could negatively impact SCA. Legal processes can be prolonged and costly.

**IT risks**
SCA relies on IT systems in its day-to-day operations. Disruptions or faults in critical systems have a direct impact on production. Errors in the handling of financial systems can affect the company's reporting of results.

## Policy/Action

### Suppliers

To reduce this risk, SCA has supply contracts with several suppliers and continuously enters into agreements with various durations. The Group has a number of suppliers for essentially all important input goods. These contracts ensure deliveries of a significant proportion of input goods at the same time as the effects of sudden cost increases are limited. The Group also has more intensive cooperation with selected suppliers that covers the development of materials and processes.

SCA continuously assesses all key suppliers to ensure that they fully comply with the Group's requirements in all respects. The assessment may take the form of a questionnaire, an on-site visit or the use of independent auditors. For essentially all important input goods, SCA assesses the following factors at current and potential suppliers:

- Quality
- Product safety
- Impact on the environment, including the issue of the origin of the input goods
- Use of chemicals
- Compliance with SCA's Code of Conduct

### Cost of input goods

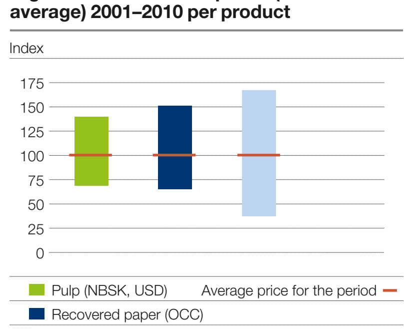
The risk of price movements related to input goods and the impact of these on earnings can be managed in several ways. SCA's structure means that a significant share of raw materials is produced within the Group and, consequently, price movements have a smaller impact on earnings. In 2010, 50% of SCA's wood raw material requirements were sourced from its own forests and 41% of its pulp requirements were satisfied by the Group's own pulp production. The Group's collection of recovered fibre accounted for 36% of the Group's needs.

Another method used to manage the price risk is by availing of financial hedges and long-term contracts. SCA is an energy-intensive company and hedges the energy price risk for electricity and natural gas. More detailed information on the energy price risk and management activities related to this is presented on page 48. Under normal circumstances, no other price risks related to input goods are hedged, although this could be carried out in exceptional cases.

A significant cost item comprises oil-based materials and other oil-related costs, such as transports. The oil-based materials are principally used in Personal Care and generally as packaging material. When possible, these and other costs are managed principally through compensation in the form of raised prices for SCA's products, by adjusting product specifications or through streamlining of the Group's own operation. The impact of price movements on input goods can be delayed through purchasing agreements.

SCA's relative costs for various key input goods are described on page 100. The price trend for a number of the input goods is outlined below.

**Highest/lowest market prices (annual average) 2001–2010 per product**




### Employee-related risks, legal risks and IT risks

**Employee-related risks**
SCA's strategic manpower planning secures access to people with the right expertise at the right time. Recruitment can take place both externally and internally, and internal recruitment and job rotation are facilitated by a "Job portal", where available positions are advertised both internally and externally. Salaries and other conditions are to be adapted to the market and linked to SCA's business priorities. An established succession planning programme protects operations. SCA endeavours to maintain good relationships with union organisations.

**Legal risks**
SCA monitors the development of legislation through its internal corporate legal staff and external advisors. Another important issue is the management of SCA's intangible assets (patents, trademarks, etc.), which is largely centralised. In the 100 or so countries in which SCA conducts operations, local legal issues and disputes are handled through an extensive network of local legal advisors.

**IT risks**
SCA has established a management system for information security, including quality assurance procedures that govern IT operations. Information security is monitored through continuous reviews. Standardised processes are in place for the implementation of new systems, changes to existing systems and daily operation. The majority of SCA's system landscape is based on well-proven products, such as SAP

## Energy price risk

### Risk

Energy price risk is the risk that increased energy prices could adversely impact SCA's operating profit. SCA is exposed to price movements of electricity and natural gas, but the price of other energy commodities also directly and indirectly impacts SCA's operating profit.

### Policy/Action

SCA centrally manages the energy price risk related to electricity and natural gas. According to SCA's policy, these price risks can be hedged for a period of up to 36 months. Energy price hedging is effected through financial instruments and fixed pricing in existing supply agreements.

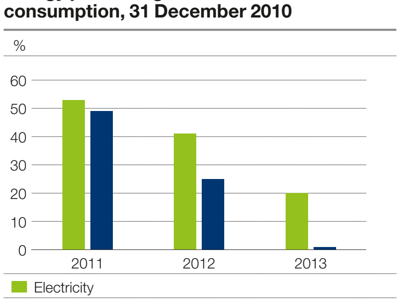
SCA safeguards the supply of electricity and natural gas through centrally negotiated supply agreements with well-established suppliers. The portfolio of supply agreements shall be effectively spread to minimise SCA's counterparty risk.

In 2010, SCA purchased about 7 TWh (7; 7) of electricity and about 9 TWh (9; 10) of natural gas.

The graph below displays SCA's price hedges in relation to forecast consumption of electricity and natural gas for the next three years. The graph includes financial hedges and hedging effected via supply agreements. Some of the Swedish electricity exposure is hedged for a longer period through supply agreements that mature in 2019.

For further information concerning financial price hedges, see Note 18 Derivatives on page 82.

**Energy price hedges in relation to forecast consumption, 31 December 2010**




## Currency risk | *Transaction exposure*

### Risk

Transaction exposure is the risk that exchange rate movements in export revenues and import expenses could negatively impact the Group's operating profit and the cost of non-current assets.

### Policy/Action

Transaction exposure, resulting from exports and imports, can be hedged for a period of up to 18 months. Contracted future payments for non-current assets in foreign currencies can be hedged up to the full cost.

The forecast net flow of currency against SEK amounts to SEK 10,430m (9,667; 10,764) on an annual basis. The forecast flows are expected to occur evenly over time. At year-end, a net flow against SEK corresponding to 4.2 months of the forecast flow for 2011 was hedged. The majority of hedges mature during the first and second quarters of 2011.

The table below presents the hedging of flows in 2011 and the forecast for these.

For further information relating to hedging of transaction exposure, see Note 18 Derivatives on page 82.

**Forecast and hedges relating to flows in 2011**

| Currency | Net flows SEKm | Currency inflows SEKm | Currency outflows SEKm | Hedged inflows % | Hedged outflows % |
|---|---|---|---|---|---|
| GBP | 2,467 | 4,030 | –1,563 | 20 | 14 |
| RUB | 1,236 | 1,257 | –21 | 8 | 0 |
| DKK | 1,216 | 1,380 | –164 | 36 | 1 |
| EUR | 1,156 | 15,278 | –14,122 | 21 | 10 |
| NOK | 1,093 | 1,232 | –139 | 19 | 0 |
| AUD | 904 | 1,121 | –217 | 49 | 69 |
| CHF | 872 | 959 | –87 | 5 | 0 |
| CAD | 803 | 1,253 | –450 | 8 | 14 |
| USD | –2,314 | 5,643 | –7,957 | 14 | 16 |
| Other | 2,997 | 6,951 | –3,954 | 14 | 15 |
| SEK | –10,430 | 7,242 | –17,672 | 16 | 29 |

## Currency risk | *Translation exposure*

### Risk

Translation exposure is the risk to which SCA is exposed when translating foreign subsidiaries' balance sheets and income statements to SEK.

### Policy/Action

The policy relating to translation exposure for foreign net assets is to hedge a sufficient proportion in relation to SEK so that the Group's debt/equity ratio is unaffected by exchange rate movements. Hedging takes place by financing a certain portion of capital employed in foreign currencies with loans and derivatives in corresponding currencies. The optimal degree of matching in connection with hedging depends on the current consolidated debt/equity ratio. Translation exposure in the income statements of foreign subsidiaries is not currency-hedged.

At 31 December 2010, capital employed in foreign currency amounted to SEK 67,086m (72,591; 80,631). Distribution by currency is shown in the table below. At year-end, capital employed was financed in the amount of SEK 22,141m (26,530; 32,324) in foreign currency, which is equivalent to a total matching ratio of 33% (37; 40).

For further information relating to hedging of translation exposure, see Note 18 Derivatives on page 82.

**Financing of capital employed**

| Currency | Capital employed SEKm | Net debt SEKm | Matching financing 2010 % | 2009 % |
|---|---|---|---|---|
| EUR | 31,381 | 8,961 | 29 | 32 |
| USD | 7,639 | 2,298 | 30 | 34 |
| GBP | 7,322 | 2,645 | 36 | 44 |
| MXN | 5,438 | 2,945 | 54 | 47 |
| AUD | 2,927 | 971 | 33 | 37 |
| RUB | 2,107 | 1,083 | 51 | 51 |
| DKK | 1,815 | 817 | 45 | 54 |
| NZD | 1,681 | 447 | 27 | 26 |
| PLN | 1,419 | 870 | 61 | 63 |
| COP | 1,284 | 432 | 34 | 37 |
| Other | 4,073 | 672 | 16 | 36 |
| **Total currency** | **67,086** | **22,141** | **33** | **37** |
| SEK | 35,141 | 12,265 | | |
| **Total** | **102,227** | **34,406** | | |

**Long-term currency sensitivity**

| Currency | Sales % | Expenses % | Operating profit[1] SEKm | Closing rate 31 Dec. 2010 | Average rate 2010 |
|---|---|---|---|---|---|
| EUR | 50 | 46 | 7,926 | 8.9962 | 9.5322 |
| USD | 12 | 16 | –2,911 | 6.7983 | 7.1839 |
| GBP | 8 | 5 | 4,163 | 10.5346 | 11.1040 |
| SEK | 7 | 16 | –7,787 | | |
| AUD | 3 | 1 | 1,465 | 6.9146 | 6.6083 |
| MXN | 2 | 2 | 787 | 0.5490 | 0.5693 |
| DKK | 2 | 1 | 1,043 | 1.2074 | 1.2803 |
| NOK | 1 | 0 | 1,236 | 1.1510 | 1.1907 |
| Other | 15 | 13 | 3,686 | | |
| **Total** | **100** | **100** | **9,608** | | |

[1] Operating profit, excluding items affecting comparability.

The table to the left presents a breakdown of the Group's net sales and operating expenses by currency, which provides an overview of the Group's long-term currency sensitivity. The largest exposures are denominated in EUR, USD, GBP and SEK. The imbalance between sales and expenses in SEK is because the Swedish operations have a high proportion of exports that are invoiced in foreign currencies.

Risk

## Credit risk

Credit risk refers to the risk of losses due to failure to meet payment obligations by SCA's counterparties in financial agreements or by customers.

Policy/Action

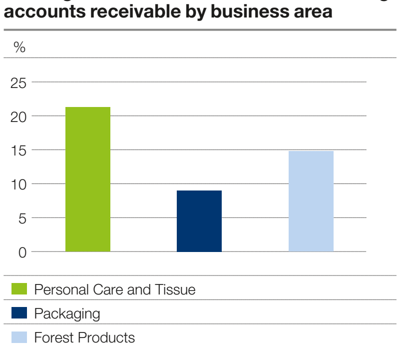
**Financial credit risk**
The objective is that counterparties must have a minimum credit rating of A- from Standard & Poor's or A3 from Moody's.

SCA endeavours to enter into agreements that allow net calculation of receivables and liabilities. Credit exposure in derivative instruments is set as the market value plus an additional amount based on credit risk factors that reflect the risk of increased exposure as a result of market movements.

At year-end, the total credit exposure was SEK 13,128m (16,103; 18,696). This exposure also includes credit risk for cash instruments in the amount of SEK 8,296m (11,927; 14,546) of which SEK 6,431m (6,779; 8,808) was attributable to leasing transactions (see Note 32 Contingent liabilities). Credit exposure in derivative instruments amounted to SEK 4,832m (4,176; 4,150) at 31 December 2010.

**Credit risk in accounts receivable**
Credit risk in accounts receivable is managed through credit checks of customers using credit rating companies. The credit limit is set and regularly monitored. Accounts receivable are recognised at the amount that is expected to be paid based on an individual assessment of each customer. The graph below shows the ten largest customers' share of outstanding accounts receivable by business area.

**Ten largest customers' share of outstanding accounts receivable by business area**




## Liquidity and refinancing risk

Liquidity and refinancing risk is the risk that SCA is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in raising new loans.

SCA shall maintain financial readiness in the form of a liquidity reserve consisting of cash and cash equivalents and unutilised credit facilities totalling at least 10% of the Group's forecasted annual sales. SCA limits its refinancing risk by having a good distribution for the maturity profile of its gross debt. The gross debt's average maturity should exceed three years. Surplus liquidity should primarily be used to amortise external liabilities. SCA's policy is to not agree to terms that entitle the lender to withdraw loans or adjust interest rates as a direct consequence of movements in SCA's financial key figures or credit rating.

SCA's financing is mainly secured by bank loans, bond issues and through issuance of commercial papers. The refinancing risk in short-term borrowing is limited through medium-term credit facilities from bank syndicates and individual banks with favourable credit-worthiness.

In 2010, SCA's net debt was reduced by SEK 6,024m, mainly as a result of the Group's positive cash flow, a lower pension liability and exchange rate effects. At year-end, the average maturity of gross debt was 2.9 years (2.6; 3.0). If short-term loans were replaced with drawings under long-term credit facilities, the maturity would amount to 3.7 years. Unutilised credit facilities amounted to SEK 28,393m at year-end. In addition, cash and cash equivalents totalled SEK 1,866m.

During the year, loans totalling approximately SEK 8,000m were refinanced. At year-end, SCA signed a new five-year syndicated credit facility of EUR 1,000m as refinancing of a syndicated credit facility of EUR 1,105m. This credit facility entered into effect in January 2011. Two bilateral credit facilities of SEK 6,000m were terminated in January 2011.

For further information, see Note 22 Current financial assets, cash and cash equivalents on page 83, and Note 25 Financial liabilities on page 86.

**Liquidity reserve**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Unutilised credit facilities | 28,393 | 33,400 | 20,684 |
| Cash and cash equivalents | 1,866 | 5,148 | 5,738 |
| **Total** | **30,259** | **38,548** | **26,422** |

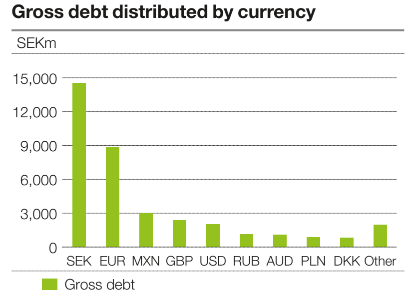
## Interest rate risk

Interest rate risk relates to the risk that movements in the interest rates could have a negative impact on SCA. SCA is affected by interest rate movements through its net financial income and expense.

SCA seeks to achieve a good spread of its interest due dates to avoid large volumes of renewals occurring at the same time. SCA's policy is to raise loans with floating rate, since it is SCA's understanding that this leads to lower interest expense over time. The interest rate risk and interest period are measured by currency and the average interest term shall be within the interval 3–15 months.

In 2010, SCA's net financial items decreased as a result of a lower average net debt and lower interest rates. SCA's largest funding currencies are denominated in SEK and EUR; see the graph below. To achieve the desired fixed interest period and currency balance, SCA uses financial derivatives. The average interest period for the gross debt, including derivatives, was 6.5 months (4.8; 4.6) at year-end. The average interest rate for the total outstanding net debt, including derivatives, amounted to 3.36% (2.89; 5.61) at year-end.

**Gross debt distributed by currency**



# Sustainable enterprise creates value

Sustainability is an integral part of SCA operations and the Group's strategy for growth and value creation. To further raise ambitions and develop sustainability activities, a new corporate staff unit for sustainability was established at Group level in 2010.

The sustainability strategy is an integral part of SCA's strategy and business plans and supports SCA's strategic areas of costs and cash flow, capital efficiency, innovation and growth. The sustainability strategy is based on three main emphases: Sustainable solutions (products and services), Sustainable operations and Sustainable stakeholder dialogue.

SCA's sustainability strategy is based on clearly stated targets, integration with business operations, a systematic approach, transparency and innovation.

The foundation of SCA's sustainability programmes comprises the four long-term targets described on pages 52 and 53. These targets concern areas identified by the Group as being of long-term importance to the operations: climate and energy (carbon dioxide), water, responsible use of wood raw material and compliance with the Code of Conduct.

The targets are integrated into the overall strategy and the business plans. This guarantees that the long-term ambitions are prioritised at both the Group and business group levels. The targets are transferred to the business operations with an obligation to deliver at all levels of management.

SCA works in line with the "if it is measured, it will get done" principle. This is achieved, for example, through the follow-up of the sustainability targets, a comprehensive resource management system (RMS), systematic supplier screening, Business Practice Reviews and Code of Conduct evaluations and the introduction of key performance indicators (KPI).

At SCA, openness and transparency have long been a matter of course and the company conducts continuous dialogue with various groups of stakeholders. An active, constructive stakeholder dialogue has a positive effect on how the business strategy is formulated and implemented, and contributes to SCA understanding the needs of the communities in which the company conducts operations.

Innovation is a fundamental part of SCA's strategy. Sustainability aspects and product safety are important factors for customers and consumers and, consequently, product development as well.

The various elements of the strategy interact and form a whole. Some of the most important effects of the sustainability activities are strengthened competitiveness, reduced costs, a lower level of risk, a stronger brand and SCA being more attractive to investors and prospective employees.

## About the Sustainability Report

SCA publishes a separate sustainability report each year. The Global Reporting Initiative (GRI) guidelines, level A+, are applied in the report and a detailed GRI index table can be viewed at www.sca.com. The Sustainability Report was reviewed in its entirety by PwC.

SCA's Sustainability Report is available in English and Swedish in a printed version and at www.sca.com. The Sustainability Report is also SCA's Communication on Progress, a document required of all Global Compact signatories.

The Sustainability Report and the Annual Report should be viewed as a single unit in which information may be provided in either report or, where appropriate, in both.

THE GLOBAL COMPACT
WE SUPPORT

Read more at www.sca.com or in SCA's Sustainability Report 2010.

# Economic responsibility

Sustainability programmes are of key importance to SCA's ability to attract customers, employees and investors. From an owner perspective, sustainability initiatives help to maximise the value of the company.

### Creating value for stakeholders

Through its business operations, SCA helps to generate economic development in society and economic development among its stakeholders – both directly and indirectly.

SCA provides its customers with products and it purchases materials and services from suppliers. Wages are paid to employees, who in turn contribute to society through taxes and purchasing power. Shareholders receive dividends and society receives income in the form of taxes. SCA's community involvement contributes positively to the local communities. SCA's operations in emerging markets help these regions to develop economically through the business relationships SCA has with local stakeholders, such as employees and local suppliers.

### Sustainable enterprise important to long-term competitiveness

In recent years, customer and consumer interest in sustainability has grown strongly. In contract negotiations, it is increasingly common for customers to both ask questions and set requirements, mainly in the area of the environment, but also in corporate social responsibility. Consequently, SCA's many years of sustainability work are a competitive advantage.

During the year, all of Libero's open diapers received the Nordic Eco-label and approximately 90 of Tork's European products were certified with the European EU Eco-label. Demand for environmentally certified forest products has grown sharply in recent years and in 2010, SCA's deliveries of FSC-certified publication papers grew by 35%. In Latin America and Asia, initiatives are under way to provide low-income consumers the opportunity to buy personal care products by adapting the offering to local conditions (see box below).

### Growing proportion of investors with sustainability requirements

An increasing number of investors judge SCA from a sustainability perspective. Major institutional investors often add environmental and social parameters to their risk analysis, while a number of sustainability funds have a strategy of only investing in companies that are among the best from an environmental, social and economic perspective.

In the most recent measurement (2009), it was estimated that 23% of SCA's shares are owned by investors who examine SCA from a sustainability perspective. This corresponds to an increase of 18% since 2004. The SCA share is a part of the investment portfolios of 87 European sustainability funds, which means that SCA belongs to the companies that are the most frequently occurring in these funds.

### SCA included in many sustainability indexes

SCA is assessed annually by several ranking institutes. Since 2001, SCA has been listed on FTSE4Good, an index measuring earnings and performance among companies that meet globally recognised norms for corporate responsibility. Carbon Disclosure Project, Global Challenges Index, Vigeo, Orange SeNSe Fund and OMX GES Nordic Sustainability Index are examples of other indexes and funds in which SCA is included. In 2010, interest from SRI (Socially Responsible Investment) players remained considerable.

**Cost distribution by stakeholder**

| | SEKm | % |
|---|---|---|
| Suppliers | 75,961 | 70 |
| Employee salaries | 15,654 | 15 |
| Remaining in the company* | 7,220 | 7 |
| Employee social security costs | 4,297 | 4 |
| Dividend to shareholders | 2,657 | 2 |
| Income taxes paid | 1,255 | 1 |
| Interest paid to creditors | 1,116 | 1 |

* Current expenditures, restructuring costs, strategic investments and acquisitions.

## *SCA simplifies everyday life with personal care products in emerging markets*

For several years, SCA has worked to make its products more accessible and improve everyday life for low-income earners. This is done, for instance, by selling packs containing fewer products in small, local stores (mom & pop stores) in countries like Mexico, Columbia and Costa Rica. In 2010, Hey Baby diapers were launched in the economy segment and Drypers diapers in single-packs were launched in Asia. In Russia, a pant diaper was launched in the economy segment to provide more consumers access to the product and grow the segment.

Globally, there are major opportunities to generate growth by targeting large groups of women in emerging markets that currently use feminine care products to a very limited extent or not at all.

SCA has initiated efforts aimed at improving everyday life for women with low incomes. The project aims to identify success factors to be able to establish a relevant offering to these consumers and, with it, significant and lasting sales.

SCA is currently conducting a pilot project in two countries – Nicaragua and Peru – where the significance of parameters such as quality, price, functionality, brand, consumer advice, distribution, availability and number of feminine care products per package are evaluated. SCA's ambition is to expand the concept to more countries.

# Environmental responsibility

SCA endeavours to minimise its environmental footprint to the greatest possible extent. The emphasis in the environmental work is on climate and energy, responsible use of wood raw material and water.

### Climate and energy

SCA is an energy intensive company and major investments are required to achieve the Group's carbon dioxide target (see below). SCA works systematically to replace coal and oil with natural gas and biofuel.

Another way to reduce emissions is to seek to identify alternative energy sources and, in partnership with Norwegian Statkraft, SCA is pursuing a wind power project that is expected to generate 2,400 GWh of electricity per year.

ESAVE is SCA's energy efficiency programme. Since its launch in 2003, more than 1,300 projects have been carried out, resulting in accumulated saving effects of 700 GWh of electricity and 1,400 GWh of heat on an annual basis. In financial terms, this corresponds to approximately SEK 600m in annual savings.

### Responsible use of wood raw material

SCA makes extensive efforts to verify its own forest management and that conducted by external suppliers. With its holding of 2.6 million hectares of forest, SCA is the largest private forest owner in Europe.

SCA's own forest holding is certified in accordance with the requirements of the Forest Stewardship Council (FSC), the most stringent international standard for forest management. SCA is one of the world's largest suppliers of FSC-certified products. All of the timber supplied to SCA's pulp and paper mills and sawmills is FSC certified or meets the FSC criteria for controlled wood.

SCA purchases large quantities of raw materials in the form of fresh fibre or raw materials that originate from fresh fibre, such as pulp and kraftliner. In order to ensure that no fresh fibre-based material originating from controversial sources is used in the Group's production, SCA evaluates its existing and potential suppliers.

The level of growth in SCA's forests exceeds the harvesting rate by 20%, which means that SCA's forests absorb a net amount of 2.6 million tonnes of carbon dioxide. This corresponds to the total amount of carbon emissions generated by all of the Group's production facilities.

### Systematic work to enhance water usage

SCA uses large volumes of water in the manufacture of pulp and paper. Accordingly, two water targets were introduced in 2005 (see next page). The water target was concluded in 2010 and work is under way to develop new targets for SCA's water management.

## SCA's four sustainability targets

### **1.** Carbon dioxide emissions shall be reduced by 20%

*SCA will reduce its carbon emissions from fossil fuels and from the purchase of electricity and heat, relative to the production level, by 20% by the year 2020, using 2005 as a reference year.*

**Results in 2010**

At year-end 2010, carbon emissions had declined by 4.2% relative to the production level.

### **2.** Responsible use of wood raw material

*SCA will employ methods that ensure that no wood fibre or fresh fibre-based material comes from controversial sources. The target also includes purchased fibre in the form of pulp and containerboard.*

**Results in 2010**

- All deliveries of pulp to SCA's facilities comply with the Group target.
- All of SCA's wood-consuming units are reviewed by independent auditors and meet the requirements of the Group target.
- SCA Packaging Europe has control of the origin of 85% of the fresh fibre used by the business group. The ambition is to fully comply with the Group target regarding the control of fresh fibre raw material by 2011.

# Social responsibility

SCA activities in the field of corporate social responsibility are an important part of corporate sustainability. Its work is based on the Code of Conduct, which provides the basis for SCA's approach to such issues as health and safety, employee relations, human rights, business ethics and community involvement.

**SCA's Code of Conduct**

SCA is committed to ensuring compliance with the Code of Conduct and policies in all its operations throughout the world. This is achieved through regular reviews and follow-up of non-compliance with the Code. In 2010, a total of eight cases of non-compliance with the Code of Conduct were reported.

Business Practice Reviews are used to monitor compliance with business ethics and are regularly carried out by the SCA internal audit unit.

Since 2005, SCA has conducted evaluations of the Code of Conduct, including human rights, at facilities in countries where an elevated risk is assessed to exist. In 2010, the process was updated for evaluations of the Code of Conduct and in December, an initial evaluation was conducted in Mexico according to the new guidelines.

**Supplier evaluation**

In 2010, a new global supplier standard was developed for SCA's hygiene business based on the previous supplier standard. Compliance with SCA's values and ethical principles is an important part of the standard. SCA sets high standards for socially responsible conditions in its own operations and sets corresponding requirements for suppliers and other business partners.

**Health and safety**

The provision of a safe working environment is paramount at SCA. Safety statistics fill an important function in the Group's health and safety activities and form the basis of risk analysis and continuous improvements.

**Safety statistics**

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Lost Time Accidents | 569 | 564 | 685 | 770 | 762 |
| Days Lost due to Accidents | 13,810 | 15,947 | 16,181 | 15,812 | 17,428 |
| Accident Severity Rate[1] | 24.3 | 28.3 | 23.7 | 20.5 | 22.3 |
| Incident Rate (incidents/100 employees) | 1.5 | 1.4 | 1.6 | 1.8 | 1.8 |
| Frequency Rate (incidents/million hours worked) | 8.3 | 7.3 | 8.5 | 9.5 | 9.8 |
| Fatalities | 1 | 2 | 0 | 3[2] | 1 |

[1] Days Lost due to Accidents divided by Lost Time Accidents.

[2] Two SCA employees and one contractor.

## **3.** Improved water usage

*SCA shall reduce the organic content of wastewater by 30% and water usage by 15% between 2005 and 2010.*

**Results in 2005–2010**

By year-end 2010, organic content of wastewater decreased by 35.4% compared with the reference year, which means that this part of the water target was exceeded. Specific water usage had decreased by 12.0%, which means that this part of the target was not fully achieved. Some of SCA's efforts to reduce water usage were undertaken at facilities in locations where the water supply is limited, meaning that usage was already relatively low in the reference year of 2005. This was one of the reasons why SCA did not fully achieve its target.

The Group's water target was concluded in 2010 and work is under way to develop new targets for SCA's water usage.

## **4.** Compliance with the Code of Conduct

*SCA's Code of Conduct is an integral element of daily operations.*

**Results in 2010**

- The process for Code of Conduct assessments, including human rights compliance, was updated. An initial assessment in line with the new guidelines was carried out in Mexico.
- Business Practice Reviews were conducted in Italy and Mexico.
- A new global supplier standard for the hygiene business was introduced.
- New Guidelines that explain and describe the implications of the Code of Conduct were developed.
- A new standard for information security was developed and implementation is scheduled for completion in 2011.
- A review of the management system for health and safety was carried out.
- A tool to gather and analyse all of SCA's community involvement projects was developed.

# Financial statements

## Contents

# Consolidated income statement

| | | 2010 | | 2009 | | 2008[3] | |
|---|---|---|---|---|---|---|---|
| **Group** | **Note** | **SEKm** | **EURm[1]** | **SEKm** | **EURm[1]** | **SEKm** | **EURm[1]** |
| Net sales | 5 | 109,142 | 11,450 | 110,857 | 10,466 | 110,449 | 11,532 |
| Cost of goods sold | 4 | –84,524 | –8,867 | –84,744 | –8,001 | –88,190 | –9,208 |
| **Gross profit** | | **24,618** | **2,583** | **26,113** | **2,465** | **22,259** | **2,324** |
| Sales, general and administration | 4 | –15,121 | –1,586 | –16,500 | –1,558 | –13,730 | –1,434 |
| Items affecting comparability | 4 | –931 | –98 | –1,458 | –137 | 0 | 0 |
| Share of profits of associates | | 111 | 12 | 35 | 3 | 25 | 3 |
| **Operating profit** | | **8,677** | **911** | **8,190** | **773** | **8,554** | **893** |
| Financial income | 8 | 64 | 7 | 158 | 15 | 246 | 26 |
| Financial expenses | 8 | –1,180 | –124 | –1,802 | –170 | –2,563 | –268 |
| **Profit before tax** | | **7,561** | **794** | **6,546** | **618** | **6,237** | **651** |
| Tax | 9 | –1,969 | –207 | –1,716 | –162 | –639 | –67 |
| **Net profit for the year** | | **5,592** | **587** | **4,830** | **456** | **5,598** | **584** |
| **Earnings attributable to:** | | | | | | | |
| Owners of the Parent | | 5,552 | 582 | 4,765 | 450 | 5,578 | 582 |
| Non-controlling interests | | 40 | 4 | 65 | 6 | 20 | 2 |

| **Earnings per share** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Earnings per share, SEK – owners of the Parent | | | |
| before dilution effects | 7.90 | 6.78 | 7.94 |
| after dilution effects | 7.90 | 6.78 | 7.94 |
| Dividend per share, SEK | 4.00[2] | 3.70 | 3.50 |
| **Earnings attributable to owners of the Parent** | **5,552** | **4,765** | **5,578** |
| Average number of shares before dilution, million | 702.3 | 702.3 | 702.2 |
| Warrants | 0.0 | 0.0 | 0.2 |
| **Average number of shares after dilution** | **702.3** | **702.3** | **702.4** |

# Consolidated statement of comprehensive income

| **SEKm** | **2010** | **2009** | **2008** |
|---|---|---|---|
| **Profit for the year** | **5,592** | **4,830** | **5,598** |
| **Other comprehensive income for the year** | | | |
| Actuarial gains/losses on defined-benefit pension plans | 523 | –949 | –3,322 |
| Available-for-sale financial assets: | | | |
| Gains/Losses from fair-value measurement recognised in equity | 328 | 331 | –599 |
| Transferred to profit or loss at sale | 8 | 0 | 0 |
| Cash flow hedges: | | | |
| Gains or losses from remeasurement of derivatives recognised in equity | 711 | –202 | –312 |
| Transferred to income statement for the period | –234 | 319 | 58 |
| Transferred to cost of hedged investments | 15 | –10 | –5 |
| Exchange differences on translating foreign operations | –8,633 | –2,750 | 2,885 |
| Gains/losses from hedges of net investments in foreign operations | 4,613 | 1,391 | 763 |
| Income tax relating to components of other comprehensive income | –292 | 192 | 1,013 |
| **Other comprehensive income for the year, net after tax** | **–2,961** | **–1,678** | **481** |
| **Total comprehensive income for the year** | **2,631** | **3,152** | **6,079** |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Parent | 2,699 | 3,164 | 5,921 |
| Non-controlling interests | –68 | –12 | 158 |

| **By business area** | Net sales | | | Operating profit[4] | | |
|---|---|---|---|---|---|---|
| **SEKm** | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** |
| Personal Care | 25,027 | 25,716 | 23,331 | 2,922 | 3,235 | 2,912 |
| Tissue | 39,870 | 41,425 | 38,380 | 3,041 | 3,946 | 2,375 |
| Packaging | 29,633 | 28,359 | 33,441 | 1,577 | 413 | 1,493 |
| Forest Products | 17,123 | 16,983 | 16,710 | 2,455 | 2,503 | 2,207 |
| Publication papers | 8,526 | 9,759 | 9,015 | –88 | 1,253 | 402 |
| Pulp, timber and solid-wood products | 8,597 | 7,224 | 7,695 | 2,543 | 1,250 | 1,805 |
| Other | 1,855 | 1,470 | 1,468 | –387 | –449 | –433 |
| Intra-Group deliveries | –4,366 | –3,096 | –2,881 | | | |
| **Total** | **109,142** | **110,857** | **110,449** | **9,608** | **9,648** | **8,554** |

1) Average exchange rate of 9.53 (10.59, 9.58) was applied in translation to EUR.

2) Board proposal.

3) In figures for 2008, reclassification took place between Cost of goods sold (gross profit) and Sales and administration expenses.

4) Excluding items affecting comparability.

# Consolidated statement of changes in equity

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Attributable to owners of the Parent** | | | |
| Opening balance, 1 January | 67,156 | 66,450 | 63,590 |
| Total comprehensive income for the year | 2,699 | 3,164 | 5,921 |
| Sale of treasury shares | – | – | 28 |
| Remeasurement effect in acquisition of non-controlling interest | –1 | – | – |
| Dividend | –2,599 | –2,458 | –3,089 |
| **Closing balance** | **67,255** | **67,156** | **66,450** |
| **Non-controlling interests** | | | |
| Opening balance, 1 January | 750 | 802 | 689 |
| Total comprehensive income for the year | –68 | –12 | 158 |
| Dividend | –58 | –40 | –39 |
| Change in Group composition | –58 | – | –6 |
| **Closing balance** | **566** | **750** | **802** |
| **Total equity, closing balance** | **67,821** | **67,906** | **67,252** |

For further information, see Note 24 Equity.

# Consolidated operating cash flow statement, supplementary disclosure

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| **Group** | **SEKm** | **EURm**[1] | **SEKm** | **EURm**[1] | **SEKm** | **EURm**[1] |
| Net sales | 109,142 | 11,450 | 110,857 | 10,466 | 110,449 | 11,532 |
| Operating expenses | –93,321 | –9,790 | –94,415 | –8,914 | –95,709 | –9,993 |
| **Operating surplus** | **15,821** | **1,660** | **16,442** | **1,552** | **14,740** | **1,539** |
| Adjustment for significant non-cash items | –724 | –76 | –709 | –67 | –871 | –91 |
| **Operating cash surplus** | **15,097** | **1,584** | **15,733** | **1,485** | **13,869** | **1,448** |
| Change in | | | | | | |
| Operating receivables | –3,197 | –335 | 1,556 | 147 | 798 | 83 |
| Inventories | –1,866 | –196 | 2,210 | 209 | –363 | –38 |
| Operating liabilities | 4,021 | 422 | –459 | –44 | –454 | –47 |
| **Change in working capital** | **–1,042** | **–109** | **3,307** | **312** | **–19** | **–2** |
| Current capital expenditures, net | –3,647 | –383 | –4,037 | –381 | –5,353 | –559 |
| Restructuring costs, etc. | –653 | –69 | –870 | –82 | –684 | –71 |
| **Operating cash flow** | **9,755** | **1,023** | **14,133** | **1,334** | **7,813** | **816** |
| Financial items | –1,116 | –117 | –1,644 | –155 | –2,317 | –242 |
| Income taxes paid | –1,255 | –131 | –1,003 | –94 | –1,702 | –178 |
| Other | 15 | 1 | 4 | 0 | 16 | 2 |
| **Cash flow from current operations** | **7,399** | **776** | **11,490** | **1,085** | **3,810** | **398** |
| **Strategic capital expenditures, restructuring costs and divestments** | | | | | | |
| Acquisitions | –493 | –52 | –51 | –5 | –1,764 | –184 |
| Strategic capital expenditures, non-current assets | –2,427 | –254 | –3,031 | –286 | –3,109 | –325 |
| **Total strategic capital expenditures** | **–2,920** | **–306** | **–3,082** | **–291** | **–4,873** | **–509** |
| Divestments | 1,297 | 136 | 75 | 7 | 1,140 | 119 |
| **Cash flow from strategic restructuring costs, capital expenditures and divestments** | **–1,623** | **–170** | **–3,007** | **–284** | **–3,733** | **–390** |
| **Cash flow before dividend** | **5,776** | **606** | **8,483** | **801** | **77** | **8** |
| Sale of treasury shares | – | – | – | – | 28 | 3 |
| Dividend to shareholders | –2,657 | –280 | –2,498 | –236 | –3,128 | –327 |
| **Net cash flow** | **3,119** | **326** | **5,985** | **565** | **–3,023** | **–316** |

**Net debt**

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | **SEKm** | **EURm**[1] | **SEKm** | **EURm**[1] | **SEKm** | **EURm**[1] |
| **Net debt, 1 January** | **–40,430** | **–3,916** | **–47,002** | **–4,298** | **–37,368** | **–3,948** |
| Net cash flow | 3,119 | 326 | 5,985 | 565 | –3,023 | –316 |
| Remeasurements to equity | 695 | 73 | –729 | –69 | –3,523 | –368 |
| Currency effects | 2,210 | –308 | 1,316 | –114 | –3,088 | 334 |
| **Net debt, 31 December** | **–34,406** | **–3,825** | **–40,430** | **–3,916** | **–47,002** | **–4,298** |

[1] Average exchange rate of 9.53 (10.59, 9.58) was applied in translation to EUR.

# Consolidated cash flow statement

| Group | 2010 SEKm | 2010 EURm* | 2009 SEKm | 2009 EURm* | 2008 SEKm | 2008 EURm* |
|---|---|---|---|---|---|---|
| **Operating activities** | | | | | | |
| Profit before tax | 7,561 | 793 | 6,546 | 618 | 6,237 | 651 |
| Adjustment for non-cash items[1)] | 5,751 | 603 | 6,431 | 607 | 4,812 | 502 |
| | **13,312** | **1,396** | **12,977** | **1,225** | **11,049** | **1,153** |
| Paid tax | –1,255 | –132 | –1,003 | –95 | –1,702 | –178 |
| **Cash flow from operating activities before changes in working capital** | **12,057** | **1,264** | **11,974** | **1,130** | **9,347** | **975** |
| **Cash flow from changes in working capital** | | | | | | |
| Change in inventories | –1,866 | –196 | 2,210 | 209 | –363 | –38 |
| Change in operating receivables | –3,197 | –335 | 1,556 | 147 | 798 | 83 |
| Change in operating liabilities | 4,021 | 422 | –459 | –43 | –454 | –47 |
| **Cash flow from operating activities** | **11,015** | **1,155** | **15,281** | **1,443** | **9,328** | **973** |
| **Investing activities** | | | | | | |
| Acquisition of operations[2)] | –458 | –48 | –45 | –4 | –1,763 | –184 |
| Sold operations[3)] | 1,205 | 126 | 71 | 7 | 1,129 | 118 |
| Investments in property, plant and equipment and intangible assets[4)] | –6,370 | –668 | –7,215 | –681 | –8,635 | –901 |
| Sale of property, plant and equipment | 303 | 32 | 150 | 14 | 210 | 22 |
| Loans granted to external parties | – | – | – | – | –1,171 | –122 |
| Repayment of loans from external parties | 934 | 98 | 672 | 63 | – | – |
| **Cash flow from investing activities** | **–4,386** | **–460** | **–6,367** | **–601** | **–10,230** | **–1,067** |
| **Financing activities** | | | | | | |
| Sale of treasury shares | – | – | – | – | 28 | 3 |
| Loans raised | – | – | – | – | 6,615 | 691 |
| Amortisation of debt | –7,179 | –753 | –6,966 | –658 | – | – |
| Dividend paid** | –2,657 | –279 | –2,498 | –236 | –3,128 | –327 |
| **Cash flow from financing activities** | **–9,836** | **–1,032** | **–9,464** | **–894** | **3,515** | **367** |
| **Cash flow for the year** | **–3,207** | **–337** | **–550** | **–52** | **2,613** | **273** |
| Cash and cash equivalents at the beginning of the year | 5,148 | 499 | 5,738 | 524 | 3,023 | 319 |
| Exchange differences in cash and cash equivalents | –75 | 45 | –40 | 27 | 102 | –68 |
| Cash and cash equivalents at the end of the year[5)] | **1,866** | **207** | **5,148** | **499** | **5,738** | **524** |

* Average exchange rate of 9.53 (10.59, 9.58) was applied in translation to EUR.

** Including dividend to non-controlling interests.

1)

| Adjustment for non-cash items, SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Depreciation and impairment of non-current assets | 6,442 | 7,428 | 6,211 |
| Fair-value measurement of forest assets | –629 | –668 | –720 |
| Unpaid relating to efficiency programme | 577 | 463 | – |
| Payments relating to efficiency programme already recognised | –482 | –499 | –616 |
| Other | –157 | –293 | –63 |
| **Total** | **5,751** | **6,431** | **4,812** |

2)

| Acquisition of operations, SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Non-current assets | 415 | 38 | 1,487 |
| Operating assets | 116 | 32 | 132 |
| Cash and cash equivalents | 3 | 1 | 1 |
| Provisions and other non-current liabilities | –112 | – | –123 |
| Net debt excl. cash and cash equivalents | –35 | –6 | –1 |
| Operating liabilities | –31 | –24 | –36 |
| **Fair value of net assets** | **356** | **41** | **1,460** |
| Goodwill | 83 | 37 | 297 |
| **Acquisition price** | **439** | **78** | **1,757** |
| Acquisition price | –439 | –78 | –1,757 |
| Unpaid purchase price related to acquisition | – | 32 | – |
| Settled debt pertaining to acquisitions in earlier years | –22 | 0 | –7 |
| Cash and cash equivalents in acquired companies | 3 | 1 | 1 |
| **Effect on Group's cash and cash equivalents, acquisition of operations** | **–458** | **–45** | **–1,763** |

3)

| Divested operations, SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Non-current assets | 1,262 | 80 | 1,019 |
| Operating assets | 853 | 27 | 867 |
| Cash and cash equivalents | 135 | 1 | 19 |
| Net debt excl. cash and cash equivalents | –92 | –4 | –11 |
| Provisions | –19 | – | –219 |
| Operating liabilities | –742 | –24 | –521 |
| Non-controlling interests | –58 | – | –6 |
| Gain/loss on sale | 1 | –8 | 0 |
| **Purchase price received** | **1,340** | **72** | **1,148** |
| Cash and cash equivalents in divested operations | –135 | –1 | –19 |
| **Effect on Group's cash and cash equivalents, Divested operations** | **1,205** | **71** | **1,129** |

4) **Investments in intangible assets and property, plant and equipment**

Investments in intangible assets, property, plant and equipment, and biological assets during the year totalled SEK 6,377m (7,218; 8,671) of which SEK 7m (3; 36) was financed through finance leases.

5)

| Cash and cash equivalents, SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash and bank balances | 1,291 | 1,570 | 1,462 |
| Short-term investments, maturity < 3 months | 575 | 3,578 | 4,276 |
| **Total** | **1,866** | **5,148** | **5,738** |

The Group's total liquidity reserve at year-end amounted to SEK 30,259m (38,548; 26,422), including unutilised lines of credit of SEK 28,393m (33,400; 20,684).

| Interest paid, SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Interest paid | –1,328 | –2,021 | –2,096 |
| Interest received | 43 | 89 | 170 |
| **Total** | **–1,285** | **–1,932** | **–1,926** |

# Correlation between consolidated cash flow statement and operating cash flow statement, supplementary disclosures

**Cash flow from operating activities**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash flow from operating activities | 11,015 | 15,281 | 9,328 |
| *Less* | | | |
| Strategic restructuring costs | – | 0 | 1 |
| *Add* | | | |
| Current capital expenditures | –3,647 | –4,037 | –5,353 |
| Accrued interest | 31 | 246 | –166 |
| **Cash flow from current operations as shown in the Consolidated operating cash flow statement** | **7,399** | **11,490** | **3,810** |

**Cash flow from investing activities**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash flow from investing activities | –4,386 | –6,367 | –10,230 |
| *Less* | | | |
| Current capital expenditures | 3,647 | 4,037 | 5,353 |
| Loans granted to external parties | – | – | 1,171 |
| Repayment of loans from external parties | –934 | –672 | – |
| *Add* | | | |
| Strategic restructuring costs | – | – | –1 |
| Net debt in acquired and divested operations | 57 | –2 | 10 |
| Investments financed by leasing | –7 | –3 | –36 |
| **Cash flow from strategic capital expenditures, restructuring costs and divestments according to the Consolidated operating cash flow statement** | **–1,623** | **–3,007** | **–3,733** |

**Cash flow for the year**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash flow for the year | –3,207 | –550 | 2,613 |
| *Less* | | | |
| Loans granted to external parties | – | – | 1,171 |
| Repayment of loans from external parties | –934 | –672 | – |
| Amortisation of debt | 7,179 | 6,966 | – |
| Loans raised | – | – | –6,615 |
| *Add* | | | |
| Net debt in acquired and divested operations | 57 | –2 | 10 |
| Accrued interest | 31 | 246 | –166 |
| Investments through finance leases | –7 | –3 | –36 |
| **Net cash flow according to Consolidated operating cash flow statement** | **3,119** | **5,985** | **–3,023** |

# Consolidated balance sheet

| | | 31 Dec. 2010 | | 31 Dec. 2009 | | 31 Dec. 2008 | |
|---|---|---|---|---|---|---|---|
| **Group** | **Note** | **SEKm** | **EURm**[1] | **SEKm** | **EURm**[1] | **SEKm** | **EURm**[1] |
| **ASSETS** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Goodwill | 10 | 17,688 | 1,966 | 19,147 | 1,855 | 19,374 | 1,772 |
| Other intangible assets | 10 | 3,270 | 363 | 3,404 | 330 | 3,786 | 346 |
| Buildings, land, machinery and equipment | 11 | 56,167 | 6,243 | 61,404 | 5,947 | 63,700 | 5,825 |
| Biological assets | 12 | 26,069 | 2,898 | 25,397 | 2,460 | 24,711 | 2,260 |
| Participations in associates | 13 | 1,021 | 113 | 979 | 95 | 983 | 90 |
| Shares and participations | 14 | 77 | 9 | 80 | 8 | 73 | 7 |
| Surplus in funded pension plans | 26 | 1,056 | 118 | 230 | 22 | 843 | 77 |
| Non-current financial assets | 17 | 2,198 | 244 | 1,832 | 177 | 1,656 | 151 |
| Deferred tax assets | 9 | 1,169 | 130 | 1,156 | 112 | 1,073 | 98 |
| Other non-current assets | | 194 | 21 | 178 | 17 | 166 | 15 |
| **Total non-current assets** | | **108,909** | **12,105** | **113,807** | **11,023** | **116,365** | **10,641** |
| **Current assets** | | | | | | | |
| Inventories | 19 | 12,511 | 1,391 | 11,459 | 1,110 | 13,958 | 1,276 |
| Trade receivables | 20 | 15,616 | 1,736 | 16,103 | 1,560 | 18,364 | 1,680 |
| Current tax assets | 9 | 547 | 61 | 332 | 32 | 682 | 62 |
| Other current receivables | 21 | 3,216 | 357 | 2,711 | 262 | 3,117 | 285 |
| Current financial assets | 22 | 220 | 24 | 194 | 19 | 642 | 59 |
| Non-current assets held for sale | 23 | 93 | 10 | 105 | 10 | 102 | 9 |
| Cash and cash equivalents | 22 | 1,866 | 207 | 5,148 | 499 | 5,738 | 524 |
| **Total current assets** | | **34,069** | **3,786** | **36,052** | **3,492** | **42,603** | **3,895** |
| **Total assets** | | **142,978** | **15,891** | **149,859** | **14,515** | **158,968** | **14,536** |
| **EQUITY AND LIABILITIES** | | | | | | | |
| **Equity** | 24 | | | | | | |
| *Owners of the Parent* | | | | | | | |
| Share capital | | 2,350 | 261 | 2,350 | 228 | 2,350 | 215 |
| Other capital provided | | 6,830 | 677 | 6,830 | 661 | 6,830 | 625 |
| Reserves | | –543 | –60 | 2,682 | 260 | 3,580 | 327 |
| Retained earnings | | 58,618 | 6,597 | 55,294 | 5,355 | 53,690 | 4,909 |
| | | **67,255** | **7,475** | **67,156** | **6,504** | **66,450** | **6,076** |
| Non-controlling interests | | 566 | 63 | 750 | 73 | 802 | 73 |
| **Total equity** | | **67,821** | **7,538** | **67,906** | **6,577** | **67,252** | **6,149** |
| **Non-current liabilities** | | | | | | | |
| Non-current financial liabilities | 25 | 23,459 | 2,608 | 30,343 | 2,939 | 38,859 | 3,553 |
| Provisions for pensions | 26 | 3,108 | 345 | 3,567 | 345 | 3,443 | 315 |
| Deferred tax liabilities | 9 | 10,800 | 1,201 | 9,784 | 948 | 9,849 | 901 |
| Other non-current provisions | 27 | 553 | 61 | 477 | 46 | 643 | 59 |
| Other non-current liabilities | 28 | 238 | 26 | 185 | 18 | 214 | 19 |
| **Total non-current liabilities** | | **38,158** | **4,241** | **44,356** | **4,296** | **53,008** | **4,847** |
| **Current liabilities** | | | | | | | |
| Current financial liabilities | 25 | 13,047 | 1,450 | 13,761 | 1,333 | 13,170 | 1,204 |
| Trade payables | | 13,574 | 1,509 | 12,364 | 1,198 | 14,186 | 1,297 |
| Current tax liabilities | 9 | 388 | 43 | 385 | 37 | 199 | 18 |
| Current provisions | 27 | 894 | 99 | 1,107 | 107 | 1,052 | 96 |
| Other current liabilities[2] | 29 | 9,096 | 1,011 | 9,980 | 967 | 10,101 | 925 |
| **Total current liabilities** | | **36,999** | **4,112** | **37,597** | **3,642** | **38,708** | **3,540** |
| **Total equity and liabilities** | | **142,978** | **15,891** | **149,859** | **14,515** | **158,968** | **14,536** |

Contingent liabilities and pledged assets, see Notes 32 and 33.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Capital employed | | 102,227 | 11,363 | 108,336 | 10,493 | 114,254 | 10,447 |
| Net debt | | 34,406 | 3,825 | 40,430 | 3,916 | 47,002 | 4,298 |

[1] Closing exchange rate of 9.00 (10.32; 10.94) was applied in translation to EUR.

[2] As of 2010, bills receivable are included in trade payables instead of in other current liabilities. Reclassification was conducted for the comparative years 2009 and 2008.

# Financial statements, Parent Company

**Income statement**

| SEKm | Note | 2010 | 2009 |
|---|---|---|---|
| Administrative expenses | | –477 | –446 |
| Other operating income | | 185 | 196 |
| Other operating expenses | | –179 | –187 |
| **Operating profit** | 34, 35, 36 | **–471** | **–437** |
| **Financial items** | 37 | | |
| Income from participations in Group companies | | 3,068 | 35,017 |
| Expenses from participations in other companies | | –2 | – |
| Interest income and similar profit items | | 912 | 360 |
| Interest expenses and similar charges | | –2,343 | –1,589 |
| **Total financial items** | | **1,635** | **33,788** |
| **Profit after financial items** | | **1,164** | **33,351** |
| Appropriations | 38 | –9 | –10 |
| Tax on profit for the year | 39 | 516 | 433 |
| **Profit for the year** | | **1,671** | **33,774** |

**Statement of comprehensive income**

| SEKm | 2010 | 2009 |
|---|---|---|
| **Profit for the year** | **1,671** | **33,774** |
| Other comprehensive income | – | – |
| **Total comprehensive income** | **1,671** | **33,774** |

**Cash flow statement**

| SEKm | 2010 | 2009 |
|---|---|---|
| **Operating activities** | | |
| Profit after financial items | 1,164 | 33,351 |
| Adjustment for non-cash items[1] | –598 | –30,466 |
| | **566** | **2,885** |
| Paid tax | 0 | 0 |
| **Cash flow from operating activities before changes in working capital** | **566** | **2,885** |
| **Cash flow from changes in working capital** | | |
| Change in operating receivables[2] | 932 | 368 |
| Change in operating liabilities[2] | –2,828 | –608 |
| **Cash flow from operating activities** | **–1,330** | **2,645** |
| **Investing activities** | | |
| Acquisition of subsidiaries[3] | – | –31,598 |
| Acquisition of non-current assets | –115 | –53 |
| Sale of property, plant and equipment | 10 | 5 |
| **Cash flow from investing activities** | **–105** | **–31,646** |
| **Financing activities** | | |
| Loans raised | 3,428 | 30,366 |
| Group contribution received/paid | 606 | 1,093 |
| Dividend paid | –2,599 | –2,458 |
| **Cash flow from financing activities** | **1,435** | **29,001** |
| **Cash flow for the year** | **0** | **0** |
| Cash and cash equivalents at the beginning of the year | 0 | 0 |
| Cash and cash equivalents at the end of the year[4] | 0 | 0 |

[1]

| Adjustment for non-cash items | 2010 | 2009 |
|---|---|---|
| Depreciation of non-current assets | 49 | 47 |
| Change in accrued items | –662 | –475 |
| Payments related to efficiency programme already recognised | – | –12 |
| Dividend income in the form of shares in a subsidiary company | – | –30,001 |
| Other | 15 | –25 |
| **Total** | **–598** | **–30,466** |

[2] Dealings of the Parent Company with the Swedish subsidiaries relating to tax are recognised as Change in operating receivables and operating liabilities, respectively.

[3] Capital contribution and subscription to a new share issue in a Group company.

[4] The company's current account is a subsidiary account and is recognised in the balance sheet as liabilities to subsidiaries.

**Supplementary disclosures**

| Interest and dividends paid and received | 2010 | 2009 |
|---|---|---|
| Dividends received | 3,068 | 5,016 |
| Interest paid | –1,631 | –1,840 |
| Interest received | 214 | 139 |
| **Total** | **1,651** | **3,315** |

**Balance sheet**

| SEKm | Note | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Capitalised expenditure for development programmes | | 1 | 1 |
| **Intangible assets** | 40 | **1** | **1** |
| Buildings and land | | 6,425 | 6,359 |
| Machinery and equipment | | 16 | 1 |
| **Tangible assets** | 41 | **6,441** | **6,360** |
| Shares | 42 | 124,005 | 124,005 |
| Receivables from subsidiaries | 43 | 471 | 269 |
| Other non-current receivables | | 128 | 130 |
| **Non-current financial assets** | | **124,604** | **124,404** |
| **Total fixed assets** | | **131,046** | **130,765** |
| **Current assets** | | | |
| Receivables from subsidiaries | 43 | 6,005 | 2,281 |
| Current tax assets | 39 | 18 | 18 |
| Other current receivables | 44 | 96 | 123 |
| Cash and bank balances | | 0 | 0 |
| **Total current assets** | | **6,119** | **2,422** |
| **Total assets** | | **137,165** | **133,187** |

| SEKm | Note | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|---|
| **EQUITY, PROVISIONS AND LIABILITIES** | | | |
| **Equity** | 45 | | |
| Share capital | | 2,350 | 2,350 |
| Revaluation reserve | | 1,363 | 1,363 |
| Statutory reserve | | 7,283 | 7,283 |
| **Total restricted equity** | | **10,996** | **10,996** |
| Retained earnings | | 37,088 | 5,085 |
| Profit for the year | | 1,671 | 33,774 |
| **Total unrestricted equity** | | **38,759** | **38,859** |
| **Total equity** | | **49,755** | **49,855** |
| **Untaxed reserves** | 38 | **156** | **147** |
| **Provisions** | | | |
| Provisions for pensions | 46 | 453 | 415 |
| Provisions for taxes | 39 | 596 | 213 |
| Other provisions | | 1 | – |
| **Total provisions** | | **1,050** | **628** |
| **Non-current liabilities** | | | |
| Non-current interest-bearing liabilities | 47 | 9,256 | 7,566 |
| Other non-current liabilities | | 0 | 0 |
| **Total non-current liabilities** | | **9,256** | **7,566** |
| **Current liabilities** | | | |
| Liabilities to subsidiaries | 43 | 76,743 | 74,802 |
| Trade payables | | 18 | 11 |
| Other current liabilities | 48 | 187 | 178 |
| **Total current liabilities** | | **76,948** | **74,991** |
| **Total equity, provisions and liabilities** | | **137,165** | **133,187** |
| Contingent liabilities | 49 | 26,441 | 43,930 |
| Pledged assets | 50 | 155 | 155 |

**Change in equity (Refer also to Note 45)**

| SEKm | Share capital | Revaluation reserve | Statutory reserve | Profit brought forward and profit for the year | Total equity |
|---|---|---|---|---|---|
| **Equity at 31 December 2008** | **2,350** | **1,363** | **7,283** | **7,241** | **18,237** |
| Group contributions | | | | 410 | 410 |
| Tax effect of Group contributions | | | | –108 | –108 |
| Total comprehensive income | | | | 33,774 | 33,774 |
| Dividend, SEK 3.50 per share | | | | –2,458 | –2,458 |
| **Equity at 31 December 2009** | **2,350** | **1,363** | **7,283** | **38,859** | **49,855** |
| Group contributions | | | | 1,123 | 1,123 |
| Tax effect of Group contributions | | | | –295 | –295 |
| Total comprehensive income | | | | 1,671 | 1,671 |
| Dividend, SEK 3.70 per share | | | | –2,599 | –2,599 |
| **Equity at 31 December 2010** | **2,350** | **1,363** | **7,283** | **38,759** | **49,755** |

# Notes

## NOTE 1 ACCOUNTING PRINCIPLES

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

### BASIS FOR PREPARATION

The SCA Group's financial statements are prepared in accordance with the Annual Accounts Act and International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS), as adopted within the EU, and the Swedish Financial Reporting Board, Recommendation RFR 1, Supplementary accounting principles for Groups.

The Parent Company's financial statements are prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2, Reporting by Legal Entities, and the Annual Accounts Act. The accounts for both the Group and the Parent Company pertain to the financial year that ended on 31 December 2010. SCA applies the historical cost method for measurement of assets and liabilities except for biological assets (standing timber), available-for-sale financial assets and financial assets and liabilities, including derivative instruments, measured at fair value through profit or loss. In the Parent Company, biological assets or the aforementioned financial assets and liabilities are not measured at fair value.

### INTRODUCTION OF NEW AND REVISED IAS/IFRS

**New standards and amendments (IAS/IFRS) and interpretations (IFRIC) that came into effect in 2010 and were adopted by the EU:**

IFRS 3 Business Combinations has been revised (effective 1 July 2009). The revision applies prospectively to new acquisitions in or after 2010. The purchase consideration and any contingent consideration for acquiring a business must be recognised at fair value on the date of acquisition. Transaction costs may no longer be included in cost, but must be expensed directly. In connection with step acquisitions when a controlling interest is achieved, any net assets purchased earlier in the acquired units are remeasured at fair value and the gain/loss from the remeasurement is recognised in profit or loss. The effects of the remeasurement upon payment of the liability related to a contingent consideration shall be recognised in profit for the period. Non-controlling interests in connection with acquisitions of less than 100% are determined on an acquisition-by acquisition basis, either as a proportional share of the fair value of identifiable net assets excluding goodwill according to previous rules (partial goodwill) or at fair value, which means that goodwill is also recognised on non-controlling interests (full goodwill). The Group applies these amendments to IFRS 3 to new acquisitions from 1 January 2010.

IAS 27 Consolidated and Separate Financial Statements has been revised (effective 1 July 2009). Losses attributable to non-controlling interests will be recognised even if this results in a negative balance for the interest. Transactions related to non-controlling interests in which a controlling influence is retained will be recognised as an equity transaction. If the controlling influence is lost upon divestment, the gain/loss is recognised in profit or loss; any residual holding in the divested business is then measured at fair value on the date of divestment and the effect is also recognised in profit or loss. The Group applies the amendments to IAS 27 from 1 January 2010.

In addition to the above changes, the following amendments of standards (IAS/IFRS) and new and amended interpretations (IFRIC) came into effect in 2010 and were adopted by the EU. None of these changes had a material impact on SCA's financial statements.

- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 12 Service Concession Arrangements
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 17 Distribution of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Improvements to IFRS (April 2009)

**New standards, amendments and interpretations adopted by the EU, but not yet effective and not applied in advance:**

IFRIC 14 The Limit on a Defined Benefit Asset, etc. (effective 1 January 2011). This interpretive statement was changed with regard to how voluntary advance payments to a pension plan for which there is a minimum funding requirement should be recognised. SCA will apply the new interpretation, but the assessment is that it will not have any material impact on SCA's financial statements.

In addition to the above changes, the following amendments of standards (IAS/IFRS) and new and amended interpretations (IFRIC) were adopted by the EU and will enter into effect in 2011. None of these changes are considered to have a material impact on SCA's financial statements:

- IFRS 1 First-time Adoption of IFRS
- IFRS 2 Share-based Payments
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

**New standards, amendments and interpretations published by IASB, but either not yet effective or not yet adopted by the EU:**

IFRS 9 Financial Instruments (effective 1 January 2013). The first of three stages of the new standard was presented as part of the reform that aims to entirely replace IAS 39 with a principle-based and less complex accounting standard. The first stage concerns recognition and measurement of financial assets and liabilities. According to the new standard, two categories of financial assets exist: 1) Financial assets measured at amortised cost and 2) Financial assets measured at fair value. A financial asset shall be measured at amortised cost only if both of the following conditions are met: 1) the instrument is handled in accordance with the company's business model on the basis of contractual cash flows and 2) the cash flows of the instrument are attributable to the payment of nominal amounts and interest. All other instruments will be measured at fair value where changes in fair value are, as the main principle, recognised in the profit or loss for the period. Gains and losses related to equity instruments shall be recognised either in profit or loss or other comprehensive income, provided the instrument is not held for sale. No recirculation to the income statement occurs on gains or losses recognised in comprehensive income. The assessment is that IFRS 9 will only have a marginal impact on SCA's financial statements.

IFRS 7 Financial Instruments: Disclosures (effective 1 July 2011) has been amended with regard to disclosure requirements for risk exposure and disclosures on continued involvement in financial assets that are transferred, but do not meet the requirements for derecognition from the balance sheet. SCA will apply the new disclosure requirements, but the current assessment is that they will not have any material impact on SCA's financial statements.

In addition to the above, the following amended standards (IAS/IFRS) and new and amended interpretations (IFRIC) have been published by IASB, but are either not yet effective or not yet adopted by the EU. None of these changes are considered to have a material impact on SCA's financial statements:

- IAS 12 Income Taxes (effective 1 January 2012)
- IFRS 1 First-time Adoption of IFRS
- Improvements to IFRS (May 2010)

### USE OF ASSESSMENTS

The preparation of financial statements in conformity with IFRS and generally accepted Swedish accounting principles requires assessments and assumptions to be made that affect recognised asset and liability items and income and expense items, respectively, as well as other information disclosed. The actual results may differ from these assessments.

### CONSOLIDATED ACCOUNTS

The consolidated accounts are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all Group companies in accordance with the definitions below. Group companies are consolidated from the date the Group exercises control or influence over the company according to the definitions provided under the respective category of Group company below. Divested Group companies are included in the consolidated accounts until the date the Group ceases to control or exercise influence over the companies. Intra-Group transactions have been eliminated.

**Parent Company:**

The Parent Company recognises all holdings in Group companies at cost after deduction for any accumulated impairment losses.

#### Subsidiaries

All companies in which the Group holds or controls more than 50% of the votes or where the Group alone, through agreement or in another manner, exercises control, are consolidated as subsidiaries. The consolidated financial statements are prepared in accordance with the purchase method. In business combinations, acquired assets and assumed liabilities are identified and classified, and measured at fair value on the date of acquisition (also known as an acquisition analysis). In step acquisitions when a controlling interest is achieved, any net assets acquired earlier in the acquired units are remeasured at fair value and the result of the remeasurement is recognised in profit or loss. The effects of the remeasurement upon payment of the liability related to a contingent consideration are recognised in profit for the period. If the controlling influence is lost upon divestment, the result is recognised in profit or loss; any residual holding in the divested business is then measured at fair value on the date of divestment and the effect is also recognised in profit or loss. Transaction costs in conjunction with acquisitions are not included in cost, but rather expensed directly.

#### Joint ventures

Joint ventures are defined as companies in which SCA together with other parties through an agreement, has shared control over operations. Joint ventures are recognised according to the proportional consolidation method. Measurement of acquired assets and liabilities is carried out in the same way as for subsidiaries.

#### Associates

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary or a joint venture. Normally, this means that the Group owns between 20% and 50% of the votes. Accounting for associates is carried out according to the equity method and they are initially measured at cost. Valuation of acquired assets and liabilities is performed in the same manner as for subsidiaries and the carrying amount for associates includes any goodwill and other Group adjustments.

The Group's share of profit after tax arising in the associate after the acquisition is recognised on one line in the consolidated income statement. Share in profits is calculated on the basis of SCA's share of equity in the respective associate.

#### Non-controlling interests

Non-controlling interests are recognised as a separate item in the Group's equity. Profit or loss and every component of other comprehensive income are attributable to the owners of the Parent and to non-controlling interests. Losses attributable to non-controlling interests are recognised even if this results in a negative balance for the interest. In connection with acquisitions of less than 100% when a controlling influence is achieved, non-controlling interests are determined either as a proportional share of the fair value of identifiable net assets excluding goodwill or at fair value. Subsequent acquisitions up to 100% and divestments of participations in a subsidiary that do not lead to a loss of controlling influence are recognised as an equity transaction.

### TRANSLATION OF FOREIGN CURRENCY

#### Functional currency and presentation currency

The companies in the Group prepare their financial statements in the currency used in the primary economic environment in which they operate. This is known as the functional currency. These reports provide the basis for the consolidated financial statements.

The consolidated financial statements are prepared in Swedish kronor (SEK), which is the Parent Company's functional currency and therefore the presentation currency.

#### Translation of foreign Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet,
- income and expenses for each income statement presented are translated at the average exchange rate for the respective year,
- all translation differences that arise are recognised as a separate item directly in consolidated equity under other comprehensive income.

Exchange differences arising on the financial instruments held to hedge these net assets are also taken directly to consolidated equity under other comprehensive income. When a foreign operation is divested, both translation differences and exchange differences in financial instruments held for the currency hedging of net assets in the income statement are recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments that arise on acquisition are treated as assets and liabilities of the operation and translated according to the same principles as the foreign operation. The financial statements of a subsidiary in a hyperinflationary country are adjusted for inflation using the price index for the country in question before these statements are included in the consolidated financial statements.

### TRANSACTIONS AND BALANCE SHEET ITEMS IN FOREIGN CURRENCY

Transactions in foreign currency are translated to a functional currency using the exchange rate prevailing on the transaction date. Monetary receivables and liabilities in foreign currency are remeasured at closing date rates at each balance sheet date. Exchange gains or losses that arise from such remeasurement and on payment of the transaction are recognised in profit or loss, except for – as stated in IAS 39 – approved hedging transactions relating to cash flows or net investments where the gain or loss is recognised in equity under other comprehensive income. Gains and losses on operating receivables and liabilities are recognised net and reported within operating profit. Gains and losses on borrowing and financial investments are recognised as other financial items. Change in the fair value of monetary securities issued in foreign currency and classified as available-for-sale financial assets is analysed and the change attributable to changed exchange rates is recognised in profit or loss, while other unrealised change is recognised in equity under other comprehensive income. Translation differences for non-monetary financial assets and liabilities valued at fair value through profit or loss are recognised as part of the fair value gain or loss. Translation differences for non-monetary financial assets, classified as available-for-sale assets are taken directly to equity under other comprehensive income. Non-monetary assets and liabilities recognised at historical cost are translated at the exchange rate prevailing on the transaction date.

### REVENUE RECOGNITION

Sales revenue, synonymous with net sales, comprises the fair value of the consideration received or receivable for sold goods and services within the Group's ordinary activities. Revenue is recognised when delivery to the customer has taken place according to the terms of the sale. Other income includes compensation for sales that are not included in the Group's ordinary activities and includes rental revenue, which is recognised in the period covered by the rental contract, royalties and similar items, which are recognised in accordance with the implied financial effect of the contract. Interest income is recognised in accordance with the effective interest method. Dividends received are recognised when the right to receive a dividend has been established.

### SEGMENT REPORTING

Operating segments are recognised in a manner that complies with the internal reporting submitted to the highest authority in the decision-making base. The highest authority in the decision-making base is the function that is responsible for allocating resources and assessing the result of the operating segments. At SCA, this function has been identified as the company's President, who is responsible for and manages the day-to-day administration of the Group in accordance with the Board's guidelines and terms of reference. The Executive Vice President and Corporate Senior Management support him in his work; see the section Responsibility and governance, Corporate governance on pages 36-37. SCA's four business areas, Personal Care, Tissue, Packaging and Forest Products, comprise the operating segments, whereby Forest Products is divided into two segments, Publication papers and Pulp, timber and solid-wood products.

### LEASING

Leases for non-current assets in which the Group essentially carries all the risks and rewards incidental to ownership of an asset are classified as finance leases. The leased asset is recognised as a non-current asset and a corresponding financial liability is recognised among interest-bearing liabilities. The initial value of both these items comprises the lower of the fair value of the assets or the present value of the minimum lease payments. Future lease payments are divided between amortisation of the liability and financial expenses, so that each reporting period is charged with an interest amount that corresponds to a fixed interest rate on the recognised liability for the respective period. The leased asset is depreciated according to the same principles that apply to other assets of the same nature. If it is uncertain whether the asset will be taken over at the end of the leasing period, the asset is depreciated over the lease term if this is shorter than the useful life that applies to other assets of the same nature. Leases for assets in which the risks and rewards incidental to ownership are essentially carried by the lessor are classified as operating leases. The lease payments are recognised as an expense on a straight-line basis over the lease term.

**Parent Company:**

The Parent Company reports all leases as operating leases.

### IMPAIRMENT LOSSES

Assets that have an indefinite useful life are not depreciated, but are annually tested for impairment. The value of depreciated assets is tested for impairment whenever there are indications that the carrying amount might not be recoverable. In cases in which the carrying amount of an asset exceeds its estimated recoverable amount, an impairment loss is recognised on the asset down to the recoverable amount. An impairment loss recognised earlier is reversed, if the reasons for the earlier impairment no longer exist. However, a reversal is not higher than the carrying amount would have been if an impairment loss had not been recognised in previous years. When testing for impairment of goodwill, the assets are grouped in cash-generating units and assessments are made on the basis of these units' future cash flows. Impairment losses on goodwill are never reversed.

### TAXES

The Group's tax expense comprises deferred tax and current tax on Group companies' recognised profits during the accounting period, adjustments relating to tax for prior periods as well as other changes in deferred taxes for the period. Interest items attributable to income tax and withholding taxes deducted at source on intra-Group transactions are also recognised as income tax. Deferred tax is calculated and recognised on all temporary differences between the tax base and the carrying amount. Deferred tax assets relating to deductible temporary differences, loss carryforwards and tax credits are recognised to the extent it is probable that deductions can be made against future profits.

Deferred tax is not recognised for non-deductible goodwill, or for temporary differences that arise on initial recognition of an asset or liability, and which are not attributable to a business combination and do not affect either recognised profit or taxable profit.

Deferred taxes are measured at their nominal amount and based on the tax rates enacted or substantively enacted on the balance sheet date. For items recognised in profit or loss, related tax effects are also recognised in profit or loss. For items recognised in equity under other comprehensive income, related tax effects are also recognised in equity under other comprehensive income. Deferred taxes relating to temporary differences attributable to investments in subsidiaries and participations in joint ventures are not recognised in SCA's consolidated financial statements since SCA AB, in all cases, can control the time of reversal of the temporary differences and it is not considered probable that such reversal will occur in the near future.

**Parent Company:**

Due to the links between accounting and taxation, the deferred tax liability on untaxed reserves in the Parent Company is recognised in the Parent Company's annual accounts as a component of untaxed reserves.

### INTANGIBLE ASSETS

#### Goodwill

The compensation transferred in a business combination is measured at fair value. If in connection with a business combination, the total of the transferred compensation, the value of non-controlling interests and the fair value of previous shares of equity in the acquired company in step acquisitions exceeds the value of the net assets in the acquired company calculated on the date of acquisition, the difference is recognised as consolidated goodwill. If the total of the transferred compensation, the value of non-controlling interests and the fair value of previous shares of equity in the acquired company in step acquisitions is less than the value of the net assets in the acquired company calculated on the date of acquisition, the difference is recognised directly in profit or loss. Acquisitions of non-controlling interests are measured on an acquisition-by-acquisition basis, either as a proportional share of the fair

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value of identifiable net assets excluding goodwill (partial goodwill) or at fair value, which means that goodwill is also recognised on non-controlling interests (full goodwill). Goodwill that arises in acquisitions of associates is included in the carrying amount of the associate. Goodwill is distributed to the cash-generating units within each operating segment that is expected to benefit from the business combination for which the goodwill arose. Goodwill is tested annually for any impairment requirement. Goodwill is recognised at cost reduced by accumulated impairment losses. Impairment losses on goodwill are not reversed. Net gains or losses from the sale of Group companies include the remaining carrying amount of the goodwill attributable to the divested unit.

### Trademarks

Trademarks are recognised at cost after any accumulated amortisation and accumulated impairments. Trademarks that are found to have an indefinite useful life are not amortised, but instead tested annually for impairment in the same manner as goodwill. Cash-generating units identified for these trademarks comprise the geographical market where the trademark exists. Trademarks with a limited useful life are amortised on a straight-line basis during their anticipated useful life, which varies between three and seven years.

### Research and development

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

### Emission allowances and costs for carbon dioxide emissions

Emission allowances relating to carbon dioxide emissions are recognised as an intangible asset and as deferred income (liability) when they are received. Allowances are received free of charge and measured and recognised at market value as of the date to which the allocation pertains. For allocated emission allowances, the recognised cost and provisions for emissions amount to the market value as of the date to which the allocation pertains. For purchased emission allowances, the recognised cost and provisions for emissions amount to the purchase price. During the year, the initial liability for emission allowances received is dissolved over profit or loss as income in pace with carbon dioxide emissions made. If the market price of emission allowances on the balance sheet date is less than recognised cost, any surplus emission allowances that are not required to cover emissions made are impaired to the market price applying on the balance sheet date. In conjunction with this, the remaining part of the deferred income is recognised as income by a corresponding amount and therefore no net effect occurs in profit or loss. The emission allowances are used as payment in the settlement with the state regarding liabilities for emissions. If the emission allowances received do not cover emissions made, SCA makes a provision for the deficit valued at the market value on the balance sheet date. Sales of surplus emission allowances are recognised as income on the settlement date.

### Other intangible assets

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

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at cost after deduction for accumulated depreciation and any accumulated impairment. Cost includes expenditure that can be directly attributed to the acquisition of the asset as well as transfer from equity of the gains and losses from approved cash flow hedges relating to purchases in foreign currency of property, plant and equipment. The cost of properties and production facilities included in major projects includes, unlike costs for other investments, expenditure for running-in and start-up. Expenditure for interest during the construction and assembly period is included in cost for qualifying investment projects. All expenditure for new investments in progress is capitalised. All other forms of repair and maintenance are recognised as expenses in the income statement in the period in which they are incurred. Land is regarded as having an indefinite useful life and is therefore not depreciated. Depreciation of other property, plant and equipment is performed on a straight-line basis down to the estimated residual value of the asset and during the anticipated useful life of the asset. Useful lives are assessed as:

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

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

**Parent Company:**
The Parent Company's property, plant and equipment, which are recognised in accordance with the Group's accounting principles, include standing timber, which in the Group is classified as a biological asset. No systematic depreciation or changes in value in conjunction with felling is carried out in the Parent Company. Collective revaluation of forest assets has occurred. The revaluation amount was placed in a revaluation reserve in equity.

## BIOLOGICAL ASSETS

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

**Parent Company:**
The Parent Company reports standing timber as property, plant and equipment at historical cost.

## FINANCIAL INSTRUMENTS

Financial instruments recognised in the balance sheet include cash and cash equivalents, securities, other financial receivables, trade receivables, trade payables, loans and derivatives.

### Recognition in and derecognition from the balance sheet

Purchases and sales of financial instruments are recognised in the financial statements on the trade date, with the exception of loan receivables, available-for-sale financial assets and other financial liabilities, all of which are recorded on the settlement date. Financial instruments are initially recognised at cost, which corresponds to the fair value of the instrument including transaction costs. Financial assets are derecognised from the balance sheet when the risk and the right to receive cash flows from the instrument have ceased or been transferred to another counterparty. Financial liabilities are derecognised from the balance sheet when SCA has met its commitments or they have been otherwise extinguished. SCA reports financial instruments with a remaining maturity of less than 12 months as current assets and liabilities and those that exceed 12 months as non-current assets and liabilities. The duration of utilised loans under syndicated lines of credit are recognised with the same duration as the line of credit. Recognition takes place on the basis of the categories specified below.

### Measurement

The fair value of financial instruments is calculated on the basis of prevailing market listings on the balance sheet date. For financial assets and listed securities, the actual prices on the balance sheet date are used. In the absence of market listings, SCA determines fair values with the aid of common valuation models, such as discounting of future cash flows to listed market rates for each duration. These calculated cash flows are established based on available market information. Impairment of financial assets takes place when there is objective proof of impairment, such as cessation of an active market or where it is probable that the debtors cannot meet their commitments. For disclosures in a note relating to non-current loans, current market interest rates and an estimate of SCA's risk premium are taken into account in fair value calculations. The fair value of short-term loans and investments is considered to correspond to the carrying amount, since a change in market interest rates does not have a significant effect on market value.

### Cash and cash equivalents

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

### Classification and subsequent recognition

Classification of financial instruments is determined on the original acquisition date, and the purpose of the transaction determines the choice of category. SCA classifies its financial instruments in the categories below.

*Financial assets measured at fair value through profit or loss*

Assets are classified in this category when the intention is to sell in the short term. Derivatives with a positive market value are classified in this category if they are not identified as hedges and meet the requirements for hedge accounting. Assets in this category are recognised continuously at fair value and changes in value are recognised in profit or loss. Only financial derivatives were classified in this category during the year.

*Held-to-maturity investments*

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

*Loans and trade receivables*

Loans and trade receivables are financial assets, which are not derivatives, with fixed or determinable payments, that are not quoted in an active market. Receivables arise when SCA provides money, goods or services directly to another party without any intention of conducting trading in the receivables. Assets in this category are measured at amortised cost less a potential provision for impairment. Trade receivables are recognised in the amount at which they are expected to be paid, based on an individual assessment of bad debts. Any impairment of trade receivables affects SCA's operating profit.

*Available-for-sale financial assets*

This category includes financial assets that are not derivatives and that are designated in this category at initial recognition or that have not been classified in any other category. Assets in this category are measured continuously at fair value. Changes in value are recognised in equity under other comprehensive income. A change attributable to exchange rate movements, however, is recognised in profit or loss. When the asset is sold, the cumulative gain or loss that was recognised in equity is recognised in profit or loss.

*Financial liabilities at fair value through profit or loss*

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

*Financial liabilities measured at amortised cost*

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

*Accounting for derivatives used for hedging purposes*

All derivatives are initially and continuously recognised at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognised as described below. In hedge accounting, the relationship between the hedge instrument and the hedged item is documented. Assessment of the effectiveness of the hedge is also documented, both when the transaction is initially executed and on an ongoing basis. Hedge effectiveness is the extent to which the hedging instrument offsets changes in value in a hedged item's fair value or cash flow.

### Cash flow hedges

Gains and losses on remeasurement of derivatives intended for cash flow hedging are recognised in equity under other comprehensive income and reversed to profit or loss at the rate at which the hedged cash flow affects profit or loss. Any ineffective part of the change in value is recognised directly in profit or loss. If a hedge relationship is interrupted and cash flow is still expected, the result is recognised in equity under other comprehensive income until the cash flow affects the result. If the hedge pertains to a balance sheet item, the result is transferred from equity to the asset or liability to which the hedge relates when the value of the asset or liability is determined for the first time. In cases in which the forecast cash flow that forms the basis of the hedging transaction is no longer assessed as probable, the cumulative gain or loss that is recognised in equity under other comprehensive income is transferred directly to profit or loss. Cash flow hedges relating to energy affect the energy costs, that is, cost of goods sold. Transaction exposure's cash flow hedges affect consolidated net sales and expenses. Cash flow hedges relating to interest expenses affect net financial items.

### Hedges of net investments in foreign operations

Gains and losses on remeasurement of derivates intended to hedge SCA's net investments in foreign operations are recognised in equity under other comprehensive income. The cumulative gain or loss in equity is recognised in profit or loss in the event of divestment of the foreign operation.

### Fair value hedges

The gain or loss from remeasurement of a derivative relating to fair value hedges is recognised in profit or loss with changes in fair value of the asset or liability exposed to the hedged risk. For SCA, this means that non-current loans that are subject to hedge accounting are discounted without a credit spread to market interest rates and meet inherent interest rate derivatives' discounted cash flows at the same rate. Since the entire change in value from the derivative is recognised directly in profit or loss, any ineffectiveness is recognised on an ongoing basis in profit or loss.

### Financial hedges

When SCA conducts hedges and the transactions do not meet requirements for hedge accounting according to IAS 39, changes in fair value of the hedging instrument are recognised directly in profit or loss.

## INVENTORIES

Inventories are recognised at the lower of cost and net realisable value on the balance sheet date. Cost is calculated using the first-in, first-out (FIFO) or weighted average cost formula. However, the cost of goods produced and segregated for specific projects is assigned by using specific identification of their individual costs. The cost of finished goods and work in progress includes raw materials, direct labour, other direct expenses and production-related overheads, based on a normal production level. Interest expenses are not included in measurement of inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and sale of the item. The holding of felling rights for standing timber is valued at contract prices, which on average do not exceed the lower of net realisable value and cost.

## NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) are classified as Non-current assets held for sale if their value, within one year, will be recovered through a sale and not through continued utilisation in operations. On the reclassification date, the assets and liabilities are measured at the lower of fair value minus selling costs and the carrying amount. Following reclassification, no depreciation is carried out on these assets.

**Parent Company:**

Non-current assets held for sale are not reclassified and depreciation does not cease. Instead, if such assets exist, the information is disclosed.

## EQUITY

Transaction costs directly relating to the issue of new shares or options are recognised, net after tax, in equity as a reduction in the issue proceeds. Expenditure for the purchase of SCA's treasury shares reduces retained earnings in equity in the Parent Company and the portion of consolidated equity that pertains to owners of the Parent. When these are sold, the sales proceeds are included in retained earnings in the equity pertaining to owners of the Parent.

## EMPLOYEE BENEFITS

### Pensions

There are many defined-contribution and defined-benefit pension plans within the Group, of which most of these have plan assets. The liability recognised in the balance sheet for defined-benefit pension plans is the present value of the obligation on the balance sheet date minus the fair value of the plan assets. Funded plans with net assets, that is, plans with assets exceeding obligations, are recognised as a financial asset. The defined-benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The obligation is valued at the present value of anticipated future cash flows using a discount rate that corresponds to the interest on first-class corporate bonds or, where these do not exist, government bonds issued in the currency in which the benefits will be paid and with a remaining maturity that is comparable to the actual pension liability. Actuarial gains and losses are recognised directly in equity under other comprehensive income in the period in which they arise. The total cost relating to defined-benefit plans is divided between per-

## NOTE 1 CONT.

sonnel costs and financial expenses. Financial expenses are calculated from the net value of each plan at the beginning of the year and the discount factor decided for each country. The Group's payments relating to defined-contribution plans are recognised as an expense during the period the employees carry out the service to which the payment relates. Prepaid contributions are only recognised as an asset to the extent the Group is entitled to a repayment or reduction of future payments. Past service costs are recognised directly in profit or loss unless changes in the pension plan are subject to employees remaining in service for a specific, stated period. In such cases, the cost is allocated on a straight-line basis over this period. A special payroll tax (corresponding to contributions) is calculated on the difference between the pension cost determined according to IAS 19 and the pension cost determined according to the rules applied in the legal entity. Payroll tax is recognised as an expense in profit or loss except with regard to actuarial gains and losses where the payroll tax, like the actuarial gains and losses, is recognised directly in equity under other comprehensive income.

**Parent Company:**

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

### Other post-retirement benefits

Some Group companies provide post-retirement healthcare benefits. The obligation and anticipated costs for these benefits has been calculated and recognised in a similar manner to that applying to defined-benefit pension plans.

### Severance pay

Severance pay is paid when the Group issues notice to an employee prior to the retirement date or when an employee voluntarily accepts retirement in exchange for such compensation. Severance pay is recognised as an expense when the Group has an obligation to compensate employees whose employment was terminated early.

### PROVISIONS

Provisions for dilapidations, restructuring or legal disputes are recognised when the Group has, or can be considered to have, an obligation as the result of events that have occurred and it is probable that payments will be required to fulfil the obligation. In addition, it must be possible to make a reliable estimate of the amount to be paid. The provision is valued at the present value of the anticipated future expenditure to settle the obligation. If the impact of time is material, discounting is applied with an interest rate before taxes. Increases in provisions due to time are recognised on an ongoing basis as an interest expense in profit or loss.

### GOVERNMENT GRANTS

Government grants are recognised at fair value when there is reasonable assurance the grants will be received and that the Group will comply with the conditions attached to them. Government grants related to acquisition of assets are recognised in the balance sheet by the grant reducing the carrying amount of the asset. Government grants received as compensation for costs are accrued and recognised in profit or loss during the same period as the costs. If the government grant or assistance is neither related to the acquisition of assets nor to compensation for costs, the grant is recognised as other income.

## NOTE 2 KEY ASSESSMENTS AND ASSUMPTIONS

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

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

### VALUATION OF BIOLOGICAL ASSETS

Since a market price or other comparable value does not exist for assets the size of SCA's, the biological assets, that is, standing forest, are measured at the value of anticipated future cash flows.

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

The consolidated value of biological assets at 31 December 2010 amounted to SEK 26,069m. For further information see Note 12.

### GOODWILL

Each year, the Group examines whether there is any impairment requirement relating to goodwill. Goodwill is divided among cash-generating units and these concur with the Group's operating segments.

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

The discount factors used in the present value calculation of the anticipated future cash flows is the current weighted average cost of capital (WACC) established within the Group for the markets in which the cash-generating units conduct operations. Impairment testing for the year did not indicate any impairment requirement. Goodwill for the Group at 31 December 2010 amounted to SEK 17,688m. For further information see Note 10.

### PENSIONS

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

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

The Group's net defined-benefit obligations and the fair value of plan assets amounted to SEK 2,051m at 31 December 2010. For further information see Note 26.

### TAXES

Deferred tax is calculated on temporary differences between the carrying amounts and the tax values of assets and liabilities. There are primarily two areas where assumptions and assessments affect recognised deferred tax. One is assumptions and assessments used to determine the carrying amounts of the different assets and liabilities. The other is assumptions and assessments related to future taxable profits, where future utilisation of deferred tax assets depends on this. As at 31 December 2010, SEK 1,169m was recognised as deferred tax assets based on such assumptions and assessments. Significant assessments and assumptions are also made regarding recognition of provisions and contingent liabilities relating to tax risks. For further information see Note 9.

# NOTE 3 ACQUISITIONS AND DIVESTMENTS

## ACQUISITIONS

Acquisitions made during the year totalled SEK 493m, including assumed net debt. The acquisitions mainly relate to:

| Company | Operations | Acquisition date | Acquisition price[1], SEKm | Goodwill, SEKm | Acquired % | Total holding after acquisition % |
|---|---|---|---|---|---|---|
| Copamex | Personal Care | October 2010 | 363 | 83 | 100 | 100 |
| Gällö Timber AB | Forest Products | June 2010 | 65 | 0 | 50 | 50 |

[1] Acquisition price pertains to purchase price excluding net debt.

The acquisitions above are reported in the Board of Directors' Report on page 11 under the section Acquisitions, investments and divestments. In addition to these acquisitions, a number of minor acquisitions were made in Italy, Sweden and the Philippines, totalling SEK 11m. All acquisitions were paid in cash. Acquisition costs of SEK 4m relating to acquisitions in 2010 are included in operating profit.

The fair value of acquired receivables amounts to SEK 23m, which concurs with the contractual gross amount for overdue receivables. Goodwill relates to acquisition of market shares, where an individual value for another asset could not be identified. No component of acquired goodwill in 2010 is expected to be deductible in income taxation. There are no plans to divest all or parts of any of the acquired operations.

### Effect on sales and earnings of acquisitions for the year

The acquisition of Copamex's baby diaper operations in Mexico and Central America increased SCA's net sales by SEK 120m in 2010 and operating profit by SEK 12m. If the Copamex operations had been consolidated as of 1 January 2010, the acquired operations' net sales would have amounted to approximately SEK 480m and operating profit would have been SEK 48m. The investment in Gällö Timber AB increased SCA's net sales by SEK 260m in 2010 and the operating profit by SEK 7m. If the Gällö Timber operations had been consolidated as of 1 January 2010, the acquired operations' net sales would have amounted to approximately SEK 500m and operating profit would have been SEK 17m.

### Acquired operations

The table below shows the fair value of acquired net assets recognised on the acquisition date, recognised goodwill and the effect on the Group's cash flow statements of all acquisitions. No major changes in the acquisition balances are expected to occur in 2011.

**Preliminary acquisition balance sheet**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Non-current assets | 415 | 38 | 1,487 |
| Operating assets | 116 | 32 | 132 |
| Cash and cash equivalents | 3 | 1 | 1 |
| Provisions and other non-current liabilities | –112 | – | –123 |
| Net debt excl. cash and cash equivalents | –35 | –6 | –1 |
| Operating liabilities | –31 | –24 | –36 |
| **Fair value of net assets** | **356** | **41** | **1,460** |
| Goodwill[1] | 83 | 37 | 297 |
| **Acquisition price** | **439** | **78** | **1,757** |
| Acquisition price | –439 | –78 | –1,757 |
| Unpaid purchase price related to acquisition | – | 32 | – |
| Settlement of liability for purchase price for acquisitions in earlier years | –22 | – | –7 |
| Cash and cash equivalents in acquired companies | 3 | 1 | 1 |
| **Impact on consolidated cash and cash equivalents, Business Combinations (Consolidated cash flow statement)** | **–458** | **–45** | **–1,763** |
| Acquired net debt excl. cash and cash equivalents | –35 | –6 | –1 |
| **Acquisition of operations incl. net debt assumed (Consolidated operating cash flow statement)** | **–493** | **–51** | **–1,764** |

[1] Specification of investment in goodwill;

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Investment in goodwill related to acquisitions | 83 | 42 | 352 |
| Recovery of previously paid purchase consideration | – | –5 | –55 |
| **Total** | **83** | **37** | **297** |

## ADJUSTMENT OF PRELIMINARY ACQUISITION BALANCE SHEETS 2010

In 2010, the following adjustments were made of preliminary acquisition balance sheets concerning the 2009 acquisition of Algodonera Aconcagua, Argentina, after final valuation of acquired assets and liabilities.

| SEKm | Algodonera Aconcagua, Argentina |
|---|---|
| Goodwill | –36 |
| Trademarks | 24 |
| Buildings, land, machinery and equipment | 16 |
| Deferred tax assets | –4 |
| **Total assets** | **0** |

## DIVESTMENTS

In April 2010, SCA divested its Asian packaging operations. The purchase price received was USD 200m. Sales in the Asian operations amounted to USD 250m in 2009 and there were approximately 4,200 employees at 15 plants in China, Singapore, Malaysia and Indonesia. In 2009, SCA divested its holding in the 50%-owned joint venture Godrej SCA Hygiene Ltd, India, and it divested the paper mill in Pratovecchio, Italy. In 2008, the corrugated board operations in the UK and Ireland were divested.

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Non-current assets | 1,262 | 80 | 1,019 |
| Operating assets | 853 | 27 | 867 |
| Cash and cash equivalents | 135 | 1 | 19 |
| Net debt excl. cash and cash equivalents | –92 | –4 | –11 |
| Provisions | –19 | – | –219 |
| Operating liabilities | –742 | –24 | –521 |
| Non-controlling interests | –58 | – | –6 |
| Gain/loss on sale | 1 | –8 | 0 |
| **Compensation received after divestment expenses** | **1,340** | **72** | **1,148** |
| Less cash and cash equivalents in sold companies | –135 | –1 | –19 |
| **Impact on consolidated cash and cash equivalents, Business Combinations (Consolidated cash flow statement)** | **1,205** | **71** | **1,129** |
| Divested net debt excl. cash and cash equivalents | 92 | 4 | 11 |
| **Divestment of operations incl. net debt transferred (Consolidated operating cash flow statement)** | **1,297** | **75** | **1,140** |

## NOTE 4 OPERATING EXPENSES BY TYPE OF COSTS

**Operating expenses by function**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cost of goods sold | –84,524 | –84,744 | –88,190 |
| Sales and administration expenses | –15,121 | –16,500 | –13,730 |
| Items affecting comparability | –931 | –1,458 | – |
| **Total** | **–100,576** | **–102,702** | **–101,920** |

See also page 100 for description of costs.

**Operating expenses by type of cost**

| SEKm | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Other income | | 2,336 | 2,553 | 2,707 |
| Change in net value of biological assets | 12 | 629 | 668 | 720 |
| Change in inventory of finished products and products in progress[1] | 19 | 63 | –1,431 | 147 |
| Raw materials and consumables | 19 | –37,250 | –33,621 | –40,138 |
| Personnel expenses[1] | 6 | –21,137 | –22,737 | –20,498 |
| Other operating expenses[1] | | –38,775 | –40,706 | –38,647 |
| Depreciation | 7 | –6,324 | –6,828 | –6,199 |
| Impairments[1] | 7 | –118 | –600 | –12 |
| **Total** | | **–100,576** | **–102,702** | **–101,920** |

1) Including items affecting comparability.

### Items affecting comparability

Items affecting comparability in 2010 and 2009 relate to restructuring costs of SEK 246m (1,458) in the Packaging business, SEK 622m (–) in the Personal Care business and SEK 63m (–) in the Forest Products business. These costs totalled SEK 931m (1,458), of which SEK 787m (741) relates to restructuring costs being paid, SEK 118m (600) relates to impairment of non-current assets and SEK 26m (117) pertains to impairment of working capital, mainly inventory. Restructuring costs comprise personnel costs in the amount of SEK 603m (499) and other operating expenses of SEK 184m (242).

### Other income

Other income includes income from activities or sales of goods and services outside SCA's normal core business. The income can be of a recurring or occasional nature. During 2010, sales of goods and services outside SCA's normal business operations amounted to SEK 1,629m, revenue from SCA's transport business amounted to SEK 545m, rental income amounted to SEK 43m and royalties amounted to SEK 22m. Income of a more occasional nature amounted to SEK 97m of which SEK 95m pertains to gains from the sale of non-current assets.

### Other operating expenses

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Transport expenses | –8,989 | –9,450 | –9,027 |
| Energy expenses[1] | –6,289 | –6,866 | –7,329 |
| Purchased finished goods for onward sale | –4,797 | –4,626 | –3,348 |
| Marketing costs | –4,052 | –4,227 | –3,375 |
| Repairs and maintenance | –3,211 | –3,361 | –3,306 |
| IT, telephony and lease of premises | –2,925 | –3,052 | –3,104 |
| Other operating expenses, production | –3,431 | –3,476 | –3,128 |
| Other operating expenses, distribution, sales and administration | –3,558 | –3,581 | –4,304 |
| Other | –1,523 | –2,067 | –1,726 |
| **Total** | **–38,775** | **–40,706** | **–38,647** |

1) After deduction for energy income in the amount of SEK 903m (1,059; 983).

### Other disclosures

Exchange rate differences totalling SEK 232m (–23; 4) are included in operating profit. Government grants received reduced operating expenses by SEK 52m (63, 60). Costs for research and development amounted to SEK 713m (738; 612).

### Operating leases

Future payment obligations in the Group of minimum leasing fees for non-cancellable operating leases are distributed as follows:

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Within 1 year | 1,054 | 994 | 1,001 |
| Between 2 and 5 years | 2,490 | 2,402 | 2,220 |
| Later than 5 years | 1,389 | 1,528 | 1,534 |
| **Total** | **4,933** | **4,924** | **4,755** |

Cost for the year related to operating leasing of assets amounted to SEK 1,104m (1,007; 874). Leasing objects comprise a large number of items, including energy plants, warehouses, offices, other buildings, machinery and equipment, IT equipment, office fixtures and various transport vehicles. The assessment for a number of the objects is that, in reality, it is possible to terminate contracts early.

### Finance leases

Future payment obligations in the Group of minimum leasing fees for finance leases are distributed as follows:

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Within 1 year | 920 | 121 | 168 |
| Between 2 and 5 years | 112 | 1,213 | 1,415 |
| Later than 5 years | 54 | 48 | 70 |
| **Total** | **1,086** | **1,382** | **1,653** |
| Future financial expenses for financial leasing | –40 | –97 | –93 |
| **Present value of liabilities relating to finance leases** | **1,046** | **1,285** | **1,560** |

Total payments for finance leases during the year amounted to SEK 112m (170; 182). During the year, SEK 19m (44; 72) was recognised as an interest expense and SEK 93m (126; 110) as amortisation of debt. Depreciation of finance lease assets during the year amounted to SEK 89m (115; 105). The carrying amount of finance lease assets at year-end amounted to SEK 152m (179; 209) relating to buildings/land and SEK 873m (1,084; 1,257) relating to machinery.

For information about significant leasing contracts, refer to Note 32 Contingent liabilities. In addition to this, there is a leasing contract for a paper machine in Laakirchen that was terminated in advance in January 2011.

### Auditing expenses

Remuneration to auditors can be specified as follows:

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **PwC** | | | |
| Audit assignments | 71 | 73 | 67 |
| Auditing activities other than the audit assignment | 2 | – | – |
| Tax consultancy services | 8 | – | – |
| Other assignments | 10 | 15 | 19 |
| **Total PwC** | **91** | **88** | **86** |
| **Other auditors** | | | |
| Audit assignments | 2 | 3 | 4 |
| Tax consultancy services | 2 | – | – |
| Other assignments | 3 | 2 | 2 |
| **Total other auditors** | **7** | **5** | **6** |
| **Total** | **98** | **93** | **92** |

Auditing activities other than the audit assignment and tax consultancy services were included in other assignments in 2009 and 2008, but are recognised separately as of 2010.

Beginning in 2010, other assignments are mainly consultations in conjunction with acquisitions and divestments.

## NOTE 5 SEGMENT REPORTING

**Primary segments – operating segments**

| SEKm | Personal Care | Tissue | Packaging | Publication papers | Pulp, timber and solid-wood products | Other operations | Eliminations | Total Group |
|---|---|---|---|---|---|---|---|---|
| **2010 financial year** | | | | | | | | |
| **Revenues** | | | | | | | | |
| External sales | 24,729 | 39,672 | 28,443 | 8,179 | 7,316 | 803 | – | 109,142 |
| Internal sales | 298 | 198 | 1,190 | 347 | 1,281 | 1,052 | –4,366 | 0 |
| **Total revenues** | **25,027** | **39,870** | **29,633** | **8,526** | **8,597** | **1,855** | **–4,366** | **109,142** |
| **Result** | | | | | | | | |
| **Segment result** | **2,922** | **3,041** | **1,577** | **–88** | **2,543** | **–387** | **–** | **9,608** |
| Items affecting comparability | –622 | – | –246 | –63 | – | – | – | –931 |
| **Operating profit/loss** | **2,300** | **3,041** | **1,331** | **–151** | **2,543** | **–387** | **–** | **8,677** |
| Interest income | | | | | | | | 64 |
| Interest expenses | | | | | | | | –1,180 |
| Tax expense for the year | | | | | | | | –1,969 |
| **Net profit for the year** | | | | | | | | **5,592** |
| **Other disclosures** | | | | | | | | |
| Assets | 16,873 | 47,102 | 30,420 | 7,031 | 36,507 | 8,131 | –9,592 | 136,472 |
| Holdings in associates | – | 595 | 370 | 14 | 27 | 16 | – | 1,022 |
| Unallocated assets | | | | | | | | 5,484 |
| **Total assets** | **16,873** | **47,697** | **30,790** | **7,045** | **36,534** | **8,147** | **–9,592** | **142,978** |
| Investments | –1,884 | –2,558 | –1,322 | –312 | –749 | –45 | – | –6,870 |
| Depreciation | –1,189 | –2,265 | –1,399 | –797 | –577 | –97 | – | –6,324 |
| Impairment losses | | | | | | | | |
| Income and expenses, in addition to depreciation, not matched by payments | –28 | 23 | –40 | –4 | –601 | –73 | – | –723 |
| **2009 financial year** | | | | | | | | |
| **Revenues** | | | | | | | | |
| External sales | 25,513 | 41,220 | 27,825 | 9,526 | 6,171 | 602 | – | 110,857 |
| Internal sales | 203 | 205 | 534 | 233 | 1,053 | 868 | –3,096 | 0 |
| **Total** | **25,716** | **41,425** | **28,359** | **9,759** | **7,224** | **1,470** | **–3,096** | **110,857** |
| **Result** | | | | | | | | |
| **Segment result** | **3,235** | **3,946** | **413** | **1,253** | **1,250** | **–449** | **–** | **9,648** |
| Items affecting comparability | – | – | –1,458 | – | – | – | – | –1,458 |
| **Operating profit/loss** | **3,235** | **3,946** | **–1,045** | **1,253** | **1,250** | **–449** | **–** | **8,190** |
| Interest income | | | | | | | | 158 |
| Interest expenses | | | | | | | | –1,802 |
| Tax expense for the year | | | | | | | | –1,716 |
| **Profit for the year** | | | | | | | | **4,830** |
| **Other disclosures** | | | | | | | | |
| Assets | 16,856 | 49,363 | 34,183 | 8,243 | 34,747 | 5,082 | –6,588 | 141,886 |
| Holdings in associates | 8 | 552 | 373 | 18 | 19 | 9 | – | 979 |
| Unallocated assets | | | | | | | | 6,994 |
| **Total** | **16,864** | **49,915** | **34,556** | **8,261** | **34,766** | **5,091** | **–6,588** | **149,859** |
| Investments | –2,092 | –2,658 | –1,479 | –728 | –468 | –27 | – | –7,452 |
| Depreciation | –1,178 | –2,496 | –1,713 | –809 | –562 | –70 | – | –6,828 |
| Impairment losses | | | | | | | | |
| Income and expenses, in addition to depreciation, not matched by payments | –13 | 5 | –48 | –4 | –643 | –6 | – | –709 |

## NOTE 5 CONT.

| SEKm | Personal Care | Tissue | Packaging | Publication papers | Pulp, timber and solid-wood products | Other operations | Eliminations | Total Group |
|---|---|---|---|---|---|---|---|---|
| **2008 financial year** | | | | | | | | |
| **Revenues** | | | | | | | | |
| External sales | 23,033 | 38,379 | 32,766 | 9,005 | 6,130 | 1,136 | – | 110,449 |
| Internal sales | 298 | 1 | 675 | 10 | 1,565 | 332 | –2,881 | 0 |
| **Total** | **23,331** | **38,380** | **33,441** | **9,015** | **7,695** | **1,468** | **–2,881** | **110,449** |
| **Result** | | | | | | | | |
| **Segment result** | **2,912** | **2,375** | **1,493** | **402** | **1,805** | **–433** | **–** | **8,554** |
| Items affecting comparability | – | – | – | – | – | – | – | – |
| **Operating profit/loss** | **2,912** | **2,375** | **1,493** | **402** | **1,805** | **–433** | **–** | **8,554** |
| Interest income | | | | | | | | 246 |
| Interest expenses | | | | | | | | –2,563 |
| Tax expense for the year | | | | | | | | –639 |
| **Profit for the year** | | | | | | | | **5,598** |
| **Other disclosures** | | | | | | | | |
| Assets | 16,899 | 53,424 | 37,703 | 8,759 | 34,855 | 5,975 | –8,536 | 149,079 |
| Holdings in associates | 7 | 534 | 392 | 19 | 25 | 6 | – | 983 |
| Unallocated assets | | | | | | | | 8,906 |
| **Total** | **16,906** | **53,958** | **38,095** | **8,778** | **34,880** | **5,981** | **–8,536** | **158,968** |
| Investments | –1,688 | –4,894 | –2,453 | –731 | –737 | 67 | – | –10,436 |
| Depreciation | –1,006 | –2,194 | –1,642 | –764 | –530 | –63 | – | –6,199 |
| Impairment losses | –12 | – | – | – | – | – | – | –12 |
| Income and expenses, in addition to depreciation, not matched by payments | 12 | –109 | –71 | – | –613 | –90 | – | –871 |

### 1) Items affecting comparability

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | Ex-penses | Impair-ments | Ex-penses | Impair-ments | Ex-penses | Impair-ments |
| Personal Care | –527 | –95 | – | – | – | – |
| Tissue | – | – | – | – | – | – |
| Packaging | –223 | –23 | –858 | –600 | – | – |
| Publication papers | –63 | – | – | – | – | – |
| Pulp, timber and solid-wood products | – | – | – | – | – | – |
| Other | – | – | – | – | – | – |
| **Total** | **–813** | **–118** | **–858** | **–600** | **–** | **–** |
| **Net** | | **–931** | | **–1,458** | | **–** |

**Business Segments:** The Group is organised in five main product groups: personal care, tissue, packaging, publication papers, and pulp, timber and solid-wood products. These product groups are the primary segments. Tissue includes toilet paper, kitchen paper and paper handkerchiefs sold to the retail trade, as well as, toilet paper, hand-drying products, napkins and products for cleaning for industrial and office applications. These products are sold to corporate customers in the industrial sector, offices, hotels, restaurants and catering, healthcare and other institutions. Personal Care products comprise incontinence care products, baby diapers and feminine care products. Packaging comprises corrugated board as well as protective and specialty packaging. This business segment also includes containerboard, which is mainly delivered internally and contributes to the Group's raw material integration. Publication papers include newsprint and magazine paper. The pulp, timber and solid-wood products business segment also contributes to the Group's raw material integration, since the Group's pulp and timber are mainly delivered internally. In addition, the Group's pulp is mainly produced from timber from the Group's own forests, which also to a large extent supply the sawmills.

**Assets and liabilities:** The assets included in each business segment comprise all operating assets used in the business segment, primarily trade receivables, inventories and non-current assets after deduction for provisions. Most of the assets are directly attributable to each business segment. In addition, some assets that are common to two or more business segments are allocated among the business segments.

**Intra-Group deliveries:** Revenues, expenses and results for the various business segments were affected by intra-Group deliveries. Internal prices are market-based. Intra-Group deliveries are eliminated when preparing the consolidated financial statements.

# NOTE 6 PERSONNEL AND BOARD COSTS

**Personnel costs**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Salaries and remuneration | 15,654 | 16,596 | 15,142 |
| of which Group management | 107 | 104 | 63 |
| of which Board | 5 | 5 | 5 |
| Pension costs | 915 | 1,278 | 975 |
| of which defined-benefit pension plans | 162 | 518 | 189 |
| of which defined-contribution pension plans | 753 | 760 | 786 |
| Other social security costs | 3,382 | 3,596 | 3,098 |
| Other personnel costs | 1,186 | 1,267 | 1,283 |
| **Total**[1)] | **21,137** | **22,737** | **20,498** |

1) Total personnel costs include SEK 603m (499; -) attributable to costs for implemented efficiency-enhancement measures.

**Average number of employees**

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Average number of employees | 45,341 | 49,531 | 51,999 |
| of whom women | 26% | 27% | 29% |
| Number of countries | 61 | 61 | 60 |

Women comprised 14% (18) of the total number of Board members and senior executives.

**Breakdown of employees by age groups, %**

| 2010 | 21–30 yrs | 31–40 yrs | 41–50 yrs | 51–60 yrs |
|---|---|---|---|---|
| | 18 | 28 | 30 | 19 |

Less than 2% (2) of the employees are under the age of 20, and less than 3% (2) are over age 60. During 2010, SCA invested approximately SEK 147m (246; 153) or nearly SEK 3,200 (5,000; 3,400) per employee in skills-enhancement activities.

The added value per employee in 2010 amounted to SEK 633,000 (600,000; 534,000). The proportion of university graduates amounts to about 16% (15; 13).

In 2010, the Asian packaging operations were divested with approximately 4,200 employees, and in addition to this number, 4,269 (5,768) people left SCA while 4,262 (3,832) joined the Group. These figures include both voluntary retirement and the effects of rationalisation activities and retirements. In addition, a significant portion relates to summer jobs for students and seasonal work.

**Absence due to illness in Swedish companies**

| % | 2010 | 2009 | 2008 |
|---|---|---|---|
| Total absence due to illness of normal working hours | 3 | 3 | 4 |
| Men | 3 | 3 | 4 |
| Women | 4 | 4 | 5 |
| Of which, continuous absence due to illness of 60 days or more | 44 | 45 | 45 |

**Proportion of absence due to illness by age group, %**

| 2010 | –29 yrs | 30–49 yrs | 50– yrs |
|---|---|---|---|
| | 2 | 3 | 4 |

## FEES TO BOARD MEMBERS IN THE PARENT COMPANY DURING THE YEAR

Members of the Board elected by the AGM who are not employees in the company received the following remuneration in 2010 in accordance with the AGM resolution.

| SEK | Board fee | Audit Committee fee | Remuneration Committee fee | Total |
|---|---|---|---|---|
| Sverker Martin-Löf (Chairman) | 1,350,000 | 100,000 | 75,000 | 1,525,000 |
| Pär Boman | 450,000 | | | 450,000 |
| Rolf Börjesson | 450,000 | | 75,000 | 525,000 |
| Sören Gyll | 450,000 | 100,000 | | 550,000 |
| Jan Johansson | 0 | | | 0 |
| Leif Johansson | 450,000 | | 75,000 | 525,000 |
| Anders Nyrén | 450,000 | 125,000 | | 575,000 |
| Barbara Milian Thoralfsson | 450,000 | | | 450,000 |
| **Total** | **4,050,000** | **325,000** | **225,000** | **4,600,000** |

## REMUNERATION OF SENIOR EXECUTIVES

Senior executives refer to the President, who is also the CEO, the Executive Vice President, Business Group Presidents and the Central Staff Managers. For the composition of this group, see page 43.

### AGM guidelines for remuneration of senior executives

The 2010 Annual General Meeting adopted the following guidelines for remuneration of senior executives:

"Remuneration of the CEO and other senior managers will be a fixed amount, possible variable remuneration, additional benefits and pension. Other senior managers include the Executive Vice President, Business Group Managers or equivalent, and the Central Staff Managers. The total remuneration is to correspond to market practice and be competitive in the senior manager's field of profession. Fixed and variable remuneration are to be linked to the manager's responsibility and authority. For the CEO, as well as for other senior executives, the variable remuneration is to be limited and linked to the fixed remuneration. The variable remuneration is to be based on the outcome of predetermined objectives and, as far as possible, be linked to the increase of value of the SCA share, from which the shareholders benefit. Programmes for variable remuneration should be formulated so that the Board, if exceptional circumstances prevail, has the possibility to limit, or refrain from, payment of variable remuneration if such an action is considered reasonable and in compliance with the company's responsibility to shareholders, employees and other stakeholders.

In the event of termination of employment, the notice period should normally be two years should termination be initiated by the company, and one year, when initiated by the senior executive. Severance pay should not exist.

Pension benefits are to be either defined-benefit or defined-contribution plans, or a combination of both, and entitle the senior executive to pension from the age of 60, at the earliest. To earn the pension benefits, the period of employment must be long-term, at present 20 years. When resigning before the age providing entitlement to pension, the senior executive will receive a paid-up pension policy from the age of 60. Variable remuneration is not pensionable income. Matters of remuneration of the senior management are to be dealt with by the Remuneration Committee and, as regards the President, be resolved by the Board of Directors."

### Company's application of guidelines

The company applied the guidelines approved by the AGM in the following manner:

*Fixed salary*

The fixed salary shall be in proportion to the individual's position and the authority and responsibilities this entails. It is set individually at a level that, combined with other remuneration, is assessed as a market rate and competitive in the labour market in which the executive works.

*Variable remuneration*

Variable remuneration of the CEO, Executive Vice President and Business Group Presidents and equivalents is maximised to a total of 85% of the fixed salary. For one Business Group President, stationed in the US, the maximum outcome is 95%, while the corresponding limit for other senior executives is 75%.

The programme for variable remuneration is divided into a short and long-term portion.

The short-term portion (Short-term Incentive, or STI) for the CEO, Executive Vice President and Business Group Presidents and equivalents may amount to a maximum of 50% of fixed salary. For one Business Group President, stationed in the US, the maximum outcome is 60%, while the corresponding limit for other senior executives is 40%. The STI goals set for the Business Group Presidents are mainly based on operating cash flow, cost control, operating profit and growth for each business group, while the goal for the CEO and others reporting directly to him is based primarily on the Group's profit before tax and cash flow before dividends. Furthermore, a non-financial goal also applies accounting for 10–20% of the variable remuneration.

The long-term portion (Long-Term Incentive, or LTI) may amount to a maximum of 35% of the fixed salary, providing that the executive invests half of the net outcome in the company's share, and a maximum of 25% if such investment is not made. The established LTI goal is based on the performance of the company's B share, measured as the TSR (Total Shareholder Return) index, compared with a weighted index of competitors' shares performance (TSR) over a three-year period. The structure of the LTI was approved by the Board in 2003.

*Outcome, variable remuneration*

For the CEO, Executive Vice President and Central Staff Managers, STI resulted in 35–45% of fixed salary for 2010. STI resulted in variable remuneration corresponding to 25–50% of fixed salary for the Business Group Presidents. The LTI target was also achieved for 2008–2010, resulting in maximum outcome for the CEO and other senior executives.

## NOTE 6 CONT.

*Other benefits*

Other benefits pertain in some cases to a company car, housing and school fees.

*Pension*

For the CEO, who is entitled to retire at the age of 60, the pension agreement provides a retirement pension (excluding national pension benefits and previously earned paid-up policies) between the age of 60 and 65 of approximately 40% of final salary (excluding variable remuneration) and thereafter of approximately 20% of final salary (excluding variable remuneration) for life. Upon termination of employment prior to retirement age, a paid-up policy is received for pension payments from age 60. In addition, beneficiaries' pension amounts to approximately 50% of retirement pension in the case of death before the age of 65 and thereafter to 30% of the retirement pension (including previously earned paid-up policies).

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

Some senior executives in the Group have a pension plan, which is closed to new entrants, that is a defined-benefit pension plan, which grants the executive the right at the age of 65 to receive a pension (including national pension benefits) at up to 70% of the salary (excluding variable salary). However, they are entitled to retire at 60 with 70% of the final salary at retirement (excluding variable remuneration), between 60 and 65 and subsequently with 50% of the salary at retirement (excluding variable remuneration). Normally, full pension requires the executive to have been employed in the Group for 20 years. Upon termination of employment prior to reaching retirement age, a paid-up policy is received for pension payments from age 65 or 60, on condition that the executive, after reaching the age of 40, has been employed in the Group for at least three years. In addition, beneficiaries' pension amounts to about 50% of retirement pension.

Three senior executives have a defined-contribution pension plan (in addition to national pension benefits) into which the company pays 30–40% of the executives' basic salary, which is invested in funds or traditional insurance.

### Notice period and severance pay

The agreement with the CEO stipulates a period of notice of termination of two years if such notice is given by the company. The CEO has a corresponding right with a period of termination of one year. If notice is given by the company, the CEO is not obligated to serve during the notice period. The agreement does not contain any stipulations with regard to severance pay. Between the company and other senior executives, a period of notice of termination of one to two years normally applies, if such notice is given by the company. The executive has a corresponding right with a period of notice of termination of six months to one year. The executive is normally expected to be available to the company during the notice period. The agreements have no stipulations with regard to severance pay.

### Preparation and decision process for remuneration

During the year, the Remuneration Committee submitted recommendations to the Board regarding the principles for remuneration of senior executives. The recommendations encompassed the ratio between fixed and variable remuneration and the size of any salary increases. In addition, the Remuneration Committee proposed criteria for assessing variable remuneration and pension terms. The Board discussed the Remuneration Committee's proposal and decided on the basis of the Committee's recommendations. The remuneration of senior executives for the 2010 financial year was based on the Remuneration Committee's recommendation, and with regard to the CEO, decided by the Board. The executives concerned did not participate in remuneration matters pertaining to themselves. When it was deemed appropriate, the work of the Remuneration Committee was carried out with the support of external expertise. For information about the composition of the Remuneration Committee, see page 38.

### The Board's proposal for new guidelines

The Board has decided to propose to the 2011 Annual General Meeting the unchanged guidelines for determining salaries and other remuneration for senior executives. For 2011, the Company will apply the guidelines in a largely unchanged manner with regard to variable remuneration. However, the LTI will be capped at 50% of the fixed salary. In return, the senior executive must invest half of the variable LTI compensation, after tax withholdings, in SCA shares. The shares may then not be sold before the end of the third calendar year after entry into the relevant LTI programme.

With the salary situation prevailing in 2011 and an unchanged number of senior executives, the maximum outcome of variable remuneration could entail a cost for the Group, excluding social security costs, of approximately SEK 56m.

**Remuneration and other benefits during the year**

| SEK | Fixed salary | Variable remuneration | Other benefits | Other remuneration | Total | Pension costs |
|---|---|---|---|---|---|---|
| CEO Jan Johansson | 8,500,000 | 6,863,750 | 134,819 | – | 15,498,569 | 5,058,073 |
| Other senior executives (14 people) | 47,849,389 | 34,348,158 | 9,001,638 | – | 91,199,185 | 22,151,201 |
| **Total** | **56,349,389** | **41,211,908** | **9,136,457** | **–** | **106,697,754** | **27,209,274** |

**Comments to the table:**

- Variable remuneration covers the 2010 financial year but is paid in 2011.
- Pension costs pertain to the costs that affected profit for the year, excluding special payroll tax.

**Group by country**

| | Net sales | | | | Average number of employees | | | | Salaries | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | | | | | 2010 | 2009 |
| | SEKm | % | SEKm | % | 2010 | of whom women, % | 2009 | of whom women, % | SEKm | SEKm |
| **Sweden** | **8,001** | **7** | **7,051** | **6** | **6,552** | **26** | **6,614** | **26** | **2,703** | **2,746** |
| **EU excl. Sweden** | | | | | | | | | | |
| Germany | 15,066 | 14 | 15,661 | 14 | 6,139 | 18 | 6,272 | 18 | 2,823 | 3,133 |
| United Kingdom | 9,455 | 9 | 10,015 | 9 | 2,570 | 21 | 2,715 | 22 | 895 | 1,054 |
| France | 8,446 | 8 | 9,045 | 8 | 2,663 | 27 | 2,771 | 26 | 1,275 | 1,008 |
| Italy | 7,597 | 7 | 7,334 | 7 | 2,226 | 18 | 2,334 | 16 | 771 | 882 |
| Netherlands | 5,005 | 5 | 5,526 | 5 | 1,944 | 15 | 2,116 | 14 | 1,024 | 1,173 |
| Spain | 4,896 | 4 | 5,198 | 5 | 986 | 26 | 949 | 28 | 332 | 354 |
| Denmark | 2,851 | 3 | 3,239 | 3 | 937 | 28 | 1,152 | 26 | 498 | 673 |
| Belgium | 2,490 | 2 | 2,701 | 3 | 838 | 25 | 877 | 24 | 414 | 467 |
| Austria | 2,328 | 2 | 2,250 | 2 | 1,489 | 15 | 1,528 | 14 | 668 | 807 |
| Finland | 1,511 | 1 | 1,502 | 1 | 333 | 37 | 356 | 37 | 127 | 145 |
| Greece | 1,246 | 1 | 1,267 | 1 | 419 | 24 | 430 | 24 | 114 | 119 |
| Hungary | 1,232 | 1 | 1,135 | 1 | 759 | 37 | 828 | 37 | 87 | 90 |
| Poland | 1,189 | 1 | 1,226 | 1 | 840 | 27 | 803 | 27 | 107 | 97 |
| Czech Republic | 1,029 | 1 | 999 | 1 | 652 | 45 | 778 | 45 | 78 | 96 |
| Portugal | 498 | 0 | 617 | 1 | 37 | 51 | 37 | 59 | 13 | 15 |
| Romania | 352 | 0 | 395 | 0 | 122 | 36 | 103 | 39 | 15 | 8 |
| Ireland | 327 | 0 | 410 | 0 | 21 | 43 | 25 | 40 | 8 | 11 |
| Lithuania | 304 | 0 | 256 | 0 | 182 | 33 | 182 | 35 | 25 | 25 |
| Slovakia | 278 | 0 | 308 | 0 | 791 | 33 | 821 | 33 | 84 | 92 |
| Rest of EU | 661 | 1 | 658 | 1 | 90 | 33 | 90 | 36 | 11 | 17 |
| **Total EU excl. Sweden** | **66,761** | **61** | **69,742** | **63** | **24,038** | **23** | **25,167** | **22** | **9,369** | **10,266** |
| **Rest of Europe** | | | | | | | | | | |
| Russia | 2,664 | 2 | 2,348 | 2 | 1,491 | 44 | 1,129 | 46 | 219 | 206 |
| Norway | 1,908 | 2 | 1,800 | 2 | 243 | 44 | 244 | 41 | 120 | 127 |
| Switzerland | 1,752 | 2 | 1,690 | 1 | 238 | 36 | 235 | 33 | 130 | 122 |
| Ukraine | 273 | 0 | 247 | 0 | 61 | 46 | 56 | 38 | 9 | 11 |
| Other | 685 | 1 | 582 | 1 | 214 | 8 | 190 | 6 | 27 | 28 |
| **Total, Rest of Europe** | **7,282** | **7** | **6,667** | **6** | **2,247** | **40** | **1,854** | **39** | **505** | **494** |
| **Rest of world** | | | | | | | | | | |
| US | 9,018 | 8 | 9,222 | 8 | 2,591 | 26 | 2,672 | 42 | 1,460 | 1,502 |
| Australia | 3,241 | 3 | 2,992 | 3 | 726 | 25 | 764 | 26 | 461 | 411 |
| Mexico | 2,638 | 2 | 2,489 | 2 | 2,780 | 21 | 2,520 | 19 | 278 | 267 |
| Colombia | 1,504 | 1 | 1,320 | 1 | 1,300 | 29 | 1,249 | 30 | 18 | 7 |
| Japan | 1,267 | 1 | 1,393 | 2 | 57 | 72 | 56 | 70 | 30 | 30 |
| China | 1,203 | 1 | 2,012 | 2 | 957 | 41 | 4,344 | 40 | 118 | 200 |
| Canada | 1,130 | 1 | 1,093 | 1 | 286 | 39 | 253 | 31 | 138 | 128 |
| New Zealand | 945 | 1 | 888 | 1 | 573 | 20 | 622 | 23 | 246 | 229 |
| Malaysia | 913 | 1 | 965 | 1 | 1,240 | 52 | 1,339 | 46 | 128 | 116 |
| Chile | 463 | 1 | 429 | 0 | 239 | 8 | 281 | 0 | 24 | 31 |
| Ecuador | 368 | 0 | 364 | 0 | 480 | 33 | 429 | 32 | 25 | 23 |
| Morocco | 311 | 0 | 309 | 0 | – | – | – | – | – | – |
| Costa Rica | 305 | 0 | 295 | 0 | 87 | 34 | 168 | 29 | 20 | 24 |
| Indonesia | 296 | 0 | 406 | 0 | 18 | 33 | 74 | 28 | – | 2 |
| South Africa | 259 | 0 | 258 | 0 | 98 | 50 | 61 | 44 | 15 | 12 |
| Singapore | 211 | 0 | 267 | 0 | 68 | 49 | 202 | 40 | 21 | 30 |
| Other, Asia | 445 | 1 | 564 | 1 | – | – | – | – | – | – |
| Other | 2,581 | 4 | 2,131 | 3 | 1,004 | 43 | 862 | 43 | 95 | 78 |
| **Total, Rest of world** | **27,098** | **25** | **27,397** | **25** | **12,504** | **31** | **15,896** | **34** | **3,077** | **3,090** |
| **Group** | **109,142** | **100** | **110,857** | **100** | **45,341** | **26** | **49,531** | **27** | **15,654** | **16,596** |

## NOTE 7 DEPRECIATION AND IMPAIRMENT of property, plant and equipment, and intangible assets

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Depreciation** | | | |
| Buildings | 836 | 891 | 811 |
| Land | 109 | 114 | 93 |
| Machinery and equipment | 5,054 | 5,475 | 4,979 |
| **Sub-total** | **5,999** | **6,480** | **5,883** |
| Patents, trademarks and similar rights | 292 | 306 | 274 |
| Capitalised development costs | 33 | 42 | 42 |
| **Sub-total** | **325** | **348** | **316** |
| **Total** | **6,324** | **6,828** | **6,199** |
| **Impairment losses** | | | |
| Buildings | 94 | 163 | 2 |
| Land | 13 | 7 | 0 |
| Machinery and equipment | 11 | 406 | 10 |
| **Sub-total** | **118** | **576** | **12** |
| Capitalised development costs | 0 | 24 | 0 |
| **Sub-total** | **0** | **24** | **0** |
| **Total** | **118** | **600** | **12** |
| **Total** | | | |
| Buildings | 930 | 1,054 | 813 |
| Land | 122 | 121 | 93 |
| Machinery and equipment | 5,065 | 5,881 | 4,989 |
| **Sub-total** | **6,117** | **7,056** | **5,895** |
| Patents, trademarks and similar rights | 292 | 306 | 274 |
| Capitalised development costs | 33 | 66 | 42 |
| **Sub-total** | **325** | **372** | **316** |
| **Total depreciation and impairment** | **6,442** | **7,428** | **6,211** |

Depreciation is based on the costs and estimated useful lives of the assets outlined in the accounting principle section on page 64.

## NOTE 8 FINANCIAL INCOME AND EXPENSES

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Results from shares and participations in other companies** | | | |
| Dividend | 32 | 53 | 64 |
| Capital gains, impairment losses | –2 | 0 | 17 |
| **Interest income and similar profit/loss items** | | | |
| Interest income, investments | 27 | 89 | 165 |
| Other financial income | 7 | 16 | – |
| **Total financial income** | **64** | **158** | **246** |
| **Interest expenses and similar profit/loss items** | | | |
| Interest expenses, borrowing | –1,237 | –1,644 | –2,233 |
| Interest expenses, derivatives | 78 | –169 | –248 |
| Fair value hedges, unrealised | 8 | 32 | –35 |
| Other financial expenses | –29 | –21 | –47 |
| **Total financial expenses** | **–1,180** | **–1,802** | **–2,563** |
| **Total** | **–1,116** | **–1,644** | **–2,317** |

Other financial income and expenses include exchange gains of SEK 7m (gain 16; loss 23).

If interest rate levels had been 1 percentage point higher/lower, with unchanged fixed-interest terms and volumes in the net debt, interest expenses for the year would have been SEK 158m (243; 290) higher/lower. Sensitivity analysis calculations have been performed on the risk to which SCA was exposed at 31 December 2010 using assumptions on market movements that are regarded as reasonably possible in one year's time.

## NOTE 9 INCOME TAXES

**Tax expense**

| **SEKm** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Current tax expense | 1,038 | 1,532 | 1,262 |
| Deferred tax expense | 931 | 184 | –623 |
| **Tax expense** | **1,969** | **1,716** | **639** |

Tax expense amounted to 26.0% (26.2; 10.2) of the Group's profit before tax. The difference between reported tax expense and expected tax expense is explained below. The expected tax expense is calculated according to the current group structure and current profit levels in each country.

| | **2010** | | **2009** | | **2008** | |
|---|---|---|---|---|---|---|
| | **SEKm** | **%** | **SEKm** | **%** | **SEKm** | **%** |
| Tax expense | 1,969 | 26.0 | 1,716 | 26.2 | 639 | 10.2 |
| Expected tax expense | 1,908 | 25.2 | 1,801 | 27.5 | 1,724 | 27.7 |
| **Difference** | **61** | **0.8** | **–85** | **–1.3** | **–1,085** | **–17.5** |
| **The difference is explained by:** | | | | | | |
| Permanent effects [1] | | | | | | |
| Effects attributable to internal banking operations | – | – | – | – | –669 | –10.8 |
| Effects of other subsidiary financing | –135 | –1.7 | –175 | –2.7 | –171 | –2.7 |
| Other permanent effects[2] | 159 | 2.1 | 236 | 3.6 | 190 | 3.0 |
| Taxes related to prior periods[3] | 3 | 0.0 | –114 | –1.7 | –100 | –1.6 |
| Changes in unrecognised tax assets[4] | 34 | 0.4 | –8 | –0.1 | 131 | 2.1 |
| Changed tax rates[5] | – | – | –24 | –0.4 | –466 | –7.5 |
| **Total** | **61** | **0.8** | **–85** | **–1.3** | **–1,085** | **–17.5** |

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

2) The effects of the year include tax expenses of SEK 34m related to profit-taking within the Group. 2009 includes SEK 15m and 2008 includes SEK 46m in tax expenses for corresponding profit-taking.

3) During the year, the reversal of a provision for tax risks in a previous year decreased the tax expense by SEK -33m. The amount for 2009 mainly pertains to the right to future tax credits related to foreign withholding taxes. In 2008, SCA recognised tax income amounting to SEK 33m due to a favourable ruling in the European Court of Justice.

4) In 2009, deferred tax assets in Mexico were impaired by SEK 21m. In 2008, deferred tax assets in Mexico were impaired by SEK 65m.

5) The changed tax rates in 2009 relates to the revaluation of deferred taxes due to a corporate tax rate increase in Mexico. The change in tax rates in 2008 was attributable to the revaluation of deferred taxes due to the reduction of the corporate tax rate in Sweden.

### CURRENT TAX

**Current tax expense (+), tax income (–)**

| **SEKm** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Income tax for the year | 1,142 | 1,471 | 1,332 |
| Adjustments for prior years | –104 | 61 | –70 |
| **Current tax expense** | **1,038** | **1,532** | **1,262** |

**Current tax liability (+), tax income (–)**

The change during the year to the current tax liability is explained below:

| **SEKm** | **2010** | **2009** | **2008** |
|---|---|---|---|
| **Balance, 1 Jan.** | **53** | **–483** | **27** |
| Current tax expense | 1,038 | 1,532 | 1,262 |
| Paid tax | –1,255 | –1,003 | –1,702 |
| Other changes | –5 | –4 | –20 |
| Exchange differences | 10 | 11 | –50 |
| **Balance, 31 Dec.** | **–159** | **53** | **–483** |

Other changes relate to acquisitions and divestments in the amount of SEK –5m (–4; –20). The closing current tax liability comprises tax assets of SEK 547m (332; 682) and tax liabilities of SEK 388m (385; 199).

### DEFERRED TAX

**Deferred tax expense (+), tax income (–)**

| **SEKm** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Changes in temporary differences | 849 | 417 | –190 |
| Adjustments for prior years | 108 | –175 | –30 |
| Other changes | –26 | –58 | –403 |
| **Total** | **931** | **184** | **–623** |

Other changes include the effects of changed tax rates, which reduced the deferred tax expense by SEK 0m (–24; –466), revaluation of deferred tax assets, which increased deferred tax expense by SEK 0m (5; 63) and capitalisation of tax assets related to the right to future tax deductions of SEK –26m (–39; 0).

**Deferred tax liability (+), tax receivable (–)**

The change during the year to the deferred tax liability is explained below:

| **SEKm** | **Opening balance** | **Deferred tax expense** | **Other changes** | **Exchange differences** | **Closing balance** |
|---|---|---|---|---|---|
| Intangible assets | 221 | 75 | –3 | 45 | 338 |
| Land and buildings | 7,870 | 60 | 0 | –128 | 7,802 |
| Machinery and equipment | 5,198 | 159 | –9 | –379 | 4,969 |
| Financial assets | 33 | –114 | 86 | 16 | 21 |
| Current assets | –39 | –55 | 79 | 6 | –9 |
| Provisions for pensions | –608 | 159 | 109 | 27 | –313 |
| Other provisions | –128 | 133 | 14 | 12 | 31 |
| Liabilities | –437 | 58 | 69 | 0 | –310 |
| Tax credits and tax loss carry forwards | –3,468 | 397 | –21 | 148 | –2,944 |
| Other | –14 | 59 | –7 | 8 | 46 |
| **Total** | **8,628** | **931** | **317** | **–245** | **9,631** |

Other changes include deferred tax recognised directly in equity of according to IAS 19 of SEK 160m, IAS 39 of SEK 135m, effects of acquisitions and divestments SEK –39m and release of provisions for tax risks of SEK 61m. The closing deferred tax liability comprises tax assets of SEK 1,169m (1,156; 1,073) and tax liabilities of SEK 10,800m (9,784; 9,849).

### LOSS CARRYFORWARDS

Loss carry forwards for which no deferred tax assets were recognised amounted to SEK 1,898m (1,892; 1,404) at 31 December 2010. Of these, SEK 143m have an indefinite life. The remainder expire as follows:

| **Year** | **SEKm** |
|---|---|
| 2011 | 138 |
| 2012 | 102 |
| 2013 | 97 |
| 2014 | 75 |
| 2015 and later | 1,343 |
| **Total** | **1,755** |

During 2010, unrecognised loss carry forwards amounting to SEK 33m expired and SEK 613m was either utilised or capitalised. The tax value of unrecognised loss carry forwards amounted to SEK 551m.

### OTHER

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

## NOTE 10 INTANGIBLE FIXED ASSETS

| | Goodwill | | | Trademarks | | | Licences, patents and similar rights | | | Capitalised development costs | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **SEKm** | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** |
| Accumulated costs | 17,688 | 19,147 | 19,374 | 2,316 | 2,104 | 1,921 | 3,009 | 3,190 | 3,447 | 497 | 562 | 550 |
| Accumulated depreciation | – | – | – | –124 | –129 | –125 | –2,106 | –2,005 | –1,818 | –312 | –316 | –291 |
| Accumulated impairment | – | – | – | –200 | –201 | –202 | –9 | –15 | –18 | –21 | –28 | –5 |
| **Residual value according to plan** | **17,688** | **19,147** | **19,374** | **1,992** | **1,774** | **1,594** | **894** | **1,170** | **1,611** | **164** | **218** | **254** |
| **Value at 1 January** | **19,147** | **19,374** | **18,161** | **1,774** | **1,594** | **1,613** | **1,170** | **1,611** | **1,531** | **218** | **254** | **238** |
| Investments | 0 | – | – | 0 | – | – | 142 | 104 | 207 | 5 | 31 | 30 |
| Sales and disposals | 0 | – | – | 0 | – | – | –3 | –1 | – | –8 | 0 | – |
| Business combinations | 83 | 37 | 297 | 203 | – | – | 0 | 0 | 1 | 0 | – | – |
| Company divestments | –75 | –10 | – | 0 | – | – | –107 | – | – | –9 | – | – |
| Reclassifications[1)] | –36 | 30 | 31 | 24 | 209 | 2 | 17 | –206 | 2 | 2 | 4 | 8 |
| Depreciation for the year | – | – | – | –10 | –11 | –10 | –282 | –295 | –264 | –33 | –42 | –42 |
| Impairment for the year | – | – | – | 0 | – | – | 0 | 0 | – | 0 | –24 | – |
| Translation differences | –1,431 | –284 | 885 | 1 | –18 | –11 | –43 | –43 | 134 | –11 | –5 | 20 |
| **Value at 31 December** | **17,688** | **19,147** | **19,374** | **1,992** | **1,774** | **1,594** | **894** | **1,170** | **1,611** | **164** | **218** | **254** |

1) In 2010, intangible assets were changed due to reclassification to property, plant and equipment in the amount of SEK 7m.

### IMPAIRMENT TESTING

Goodwill is tested for impairment every year. Goodwill is distributed among operating segments as follows:

**Goodwill by operating segment**

| **SEKm** | **Average WACC 2010, %** | **2010** | **2009** | **2008** |
|---|---|---|---|---|
| Personal Care | 6.0 | 2,546 | 2,557 | 2,534 |
| Tissue | 6.3 | 8,232 | 8,746 | 8,749 |
| Packaging | 5.3 | 6,112 | 6,970 | 7,250 |
| Publication papers | 5.4 | 173 | 188 | 203 |
| Pulp, timber and solid-wood products | 5.4 | 29 | 30 | 30 |
| Other operations | 5.4 | 596 | 656 | 608 |
| **Total** | | **17,688** | **19,147** | **19,374** |

The recoverable amount for each cash-generating unit is determined based on a calculation of value in use. These calculations are based on the strategic plans adopted by Group management for the next ten years. Assumptions in strategic plans are based on current market prices and costs with an addition for real price reductions and cost inflation as well as assumed productivity development. Volume assumptions follow the Group's target of an average annual growth of 3 to 4%, depending on business segment and geographic market. Effects of expansion investments are excluded when goodwill is tested for impairment. Sustained growth of 2% has been used in the calculation. Anticipated future cash flows, according to strategic plans, form the basis of the calculation. Cash flows for the period beyond ten years are calculated by an operating surplus multiple being applied to estimated sustained cash flow. In a present value calculation of anticipated future cash flows, the current weighted cost of capital (WACC) decided for each area within the Group at that time is applied. Discounted cash flows are compared with the carrying amount of capital employed per cash-generating unit. Testing for impairment is carried out in the fourth quarter and testing for 2010 showed that there was no impairment need. The sensitivity analysis shows that reasonable changes to key parameters do not give rise to any impairment.

In addition to goodwill, there are acquired trademarks in the Group that are judged to have an indefinite useful life. The useful life is judged as indefinite when it relates to well-established trademarks within their respective markets which the Group intends to retain and further develop. The trademarks identified and measured relate to the 2010 acquisition of Personal Care in South America, the 2007 acquisition of the European tissue operations and the 2004 acquisitions in Mexico, Australia and Malaysia. The cost of the trademarks was established at the time of acquisition according to the so-called relief from royalty method. The need for impairment is tested every year. Testing is carried out during the fourth quarter and is performed for each trademark or group of trademarks. An evaluation is made of the royalty rate determined at the time of acquisition as well as assessed future sales development over ten years. A multiple is used for time beyond ten years. This is discounted with the current weighted cost of capital (WACC) for each market. Testing for 2010 showed no impairment need for trademarks. At year-end, the value of SCA's trademarks with an indefinite useful life amounted to SEK 1,977m (1,745; 1,553).

### EMISSION ALLOWANCES

The SCA Group participates in the European system for emission allowances. SCA receives a permit from each country in which operations requiring a permit are conducted, to emit a specific volume of carbon dioxide during a calendar year. At year-end 2010, surplus emission allowances not required to cover the provision for emissions were adjusted downward by SEK 1m to the current market price on the balance sheet date. In conjunction with this, the deferred income was also reversed by a corresponding amount so that the net cost for the revaluation is zero. Settlement with each government regarding 2010 emissions will take place in April 2011.

| **SEKm** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Accumulated costs | 222 | 253 | 349 |
| Accumulated revaluation of surplus | –2 | –11 | –22 |
| **Residual value according to plan** | **220** | **242** | **327** |
| **Value at 1 January** | **242** | **327** | **73** |
| Emission allowances received | 221 | 307 | 363 |
| Acquisitions | – | – | 15 |
| Sales | –3 | –72 | –89 |
| Reclassifications | 0 | 0 | 21 |
| Settlement with the government | –212 | –307 | –79 |
| Revaluation of surplus | –2 | –1 | –7 |
| Translation differences | –26 | –12 | 30 |
| **Value at 31 December** | **220** | **242** | **327** |

## NOTE 11 PROPERTY, PLANT AND EQUIPMENT

| | Buildings | | | Land | | | Machinery and equipment | | | Construction in progress | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **SEKm** | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** |
| Accumulated costs | 22,290 | 24,257 | 23,764 | 6,945 | 7,118 | 7,181 | 85,057 | 90,183 | 90,768 | 4,866 | 4,217 | 5,709 |
| Accumulated depreciation | –9,578 | –9,825 | –9,445 | –1,360 | –1,230 | –1,132 | –50,201 | –50,821 | –48,970 | – | – | – |
| Accumulated impairment | –496 | –423 | –402 | –52 | –46 | –81 | –1,304 | –2,026 | –3,692 | – | – | – |
| **Residual value according to plan** | **12,216** | **14,009** | **13,917** | **5,533** | **5,842** | **5,968** | **33,552** | **37,336** | **38,106** | **4,866** | **4,217** | **5,709** |
| **Value at 1 January** | **14,009** | **13,917** | **12,721** | **5,842** | **5,968** | **5,580** | **37,336** | **38,106** | **34,659** | **4,217** | **5,709** | **3,487** |
| Investments | 318 | 794 | 364 | 139 | 125 | 142 | 2,146 | 3,315 | 3,669 | 3,651 | 2,763 | 4,203 |
| Sales and disposals | –59 | –26 | –22 | –41 | –15 | –25 | –91 | –117 | –35 | –29 | –23 | –14 |
| Business combinations | 10 | 2 | 429 | 5 | 0 | 250 | 142 | 13 | 510 | 1 | 0 | 7 |
| Company divestments | –443 | 0 | –234 | 0 | 0 | –229 | –452 | –67 | –557 | –18 | –2 | –5 |
| Reclassifications[1)] | 535 | 888 | 278 | 146 | 34 | –10 | 2,087 | 3,089 | 1,919 | –2,766 | –4,054 | –2,242 |
| Depreciation for the year | –836 | –891 | –811 | –109 | –114 | –93 | –5,054 | –5,475 | –4,979 | 0 | 0 | 0 |
| Impairment for the year | –94 | –163 | –2 | –13 | –7 | 0 | –11 | –406 | –10 | 0 | 0 | 0 |
| Reversed impairment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Translation differences | –1,224 | –512 | 1,194 | –436 | –149 | 353 | –2,551 | –1,122 | 2,930 | –190 | –176 | 273 |
| **Value at 31 December** | **12,216** | **14,009** | **13,917** | **5,533** | **5,842** | **5,968** | **33,552** | **37,336** | **38,106** | **4,866** | **4,217** | **5,709** |

1) In 2010, property, plant and equipment was reduced due to reclassification to intangible assets of SEK 7m and increased due to reclassifications to deferred tax of SEK 9m.

During the year, SEK 8m (35; –) pertaining to interest during the construction period was capitalised in Buildings, SEK 1m (30; 18) was capitalised in Machinery and equipment and SEK 35m (66; 45) was capitalised in Construction in progress, at an average interest rate of 4% (11; 29). The high interest rate in 2008 was attributable to the high interest level in Russia, where most of the capitalised interest is recognised.

Government grants reduced investments for the year in buildings by SEK –m (5; –) and machinery and equipment by SEK 13m (30; 16).

### TAX ASSESSMENT VALUES

Tax assessment values relate to assets in Sweden.

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Buildings | 1,983 | 1,979 | 1,942 |
| Land | 19,289 | 19,308 | 19,278 |
| **Total** | **21,272** | **21,287** | **21,220** |

Carrying amount of buildings with tax assessment values in accordance with the above was SEK 1,450m (1,587; 1,436).

The tax assessment value for land includes forestland, which is divided up and recognised as biological assets, and land assets (see Note 12).

Carrying amount of biological assets and land was SEK 26,069m (25,397; 24,711) and SEK 1,878m (1,825; 1, 804), respectively.

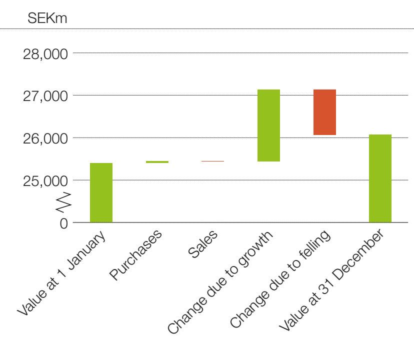
## NOTE 12 BIOLOGICAL ASSETS

SCA's forest assets are divided up and reported as biological assets, that is, standing forest, and land assets. Standing forest is recognised at fair value and amounted at 31 December 2010 to SEK 26,069m (25,397; 24,711). The total value of SCA's forest assets was SEK 26,983m (26,309; 25,622). The difference of SEK 914m (912; 911) comprises forestland reported under non-current assets Land.

**Standing timber**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Value at 1 January** | **25,397** | **24,711** | **23,905** |
| Purchases | 47 | 20 | 96 |
| Sales | –4 | –2 | –10 |
| Change due to growth | 1,692 | 1,601 | 1,718 |
| Change due to felling | –1,063 | –933 | –998 |
| **Value at 31 December** | **26,069** | **25,397** | **24,711** |
| Deferred tax related to standing timber | 6,856 | 6,679 | 6,499 |

**Value trend, standing timber 2010**




In the income statement, changes due to growth and felling are reported as a net value, SEK 629m (668; 720).

The annual valuation of standing timber was carried out during the fourth quarter of the year. The same valuation method used in 2008 and 2009 was applied in 2010. The valuation felling plan was based on forest tax assessments performed in 2006–2007. No change was made in the WACC in the 2010 valuation, which amounted to 6.25%, and the valuation in the fourth quarter did not result in any adjustment to the planned change in fair value of forest assets recognised on an ongoing basis during the year.

SCA's forest holdings comprise approximately 2.6 million hectares of forestland primarily in northern Sweden, of which approximately 2.0 million hectares is productive forestland. The forest portfolio amounts to 209 million cubic metres of forest ($m^3$fo) and is divided into pine 43%, spruce 39%, deciduous 13% and contorta 5%. Average growth amounts to approximately 3.9 $m^3$fo per hectare and year. Felling in 2010 amounted to approximately 4.7 million $m^3$sub. Approximately 50% of the holdings comprise forest less than 40 years old, while about 60% of timber volume is in forests that are more than 80 years old.

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Value/hectare productive forestland, SEK | 13,047 | 12,711 | 12,232 |
| Value timber supplies SEK/ $m^3$fo | 125 | 123 | 126 |

**Sensitivity analysis**

| | Change assumption | | Change in value before tax, SEKm | |
|---|---|---|---|---|
| WACC | + / – | 0.25% | + / – | 1,557 |
| Wood price, real [1] | + / – | 0.50% per year 2011–2020 | + / – | 2,018 |
| Felling, real cost | + / – | 0.50% per year 2011–2020 | + / – | 339 |
| Volume (felling and thinning) | + / – | 150,000 $m^3$sub 2012–2035 | + / – | 666 |

[1] Compared with price assumptions made in the valuation model.

**Forest area**

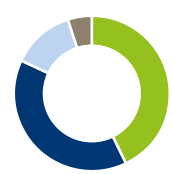
Proportion younger than 40 yrs, 50%

**Timber volume**

Proportion older than 80 yrs, 60%

**Forest portfolio**

- Pine, 43%
- Spruce, 39%
- Deciduous, 13%
- Contorta, 5%



## NOTE 13 HOLDINGS IN ASSOCIATES

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Value at 1 January** | **979** | **983** | **950** |
| Investments | 12 | 5 | 121 |
| Divestments | – | – | –12 |
| Net increase in associates for the year [1] | 96 | 17 | 11 |
| Reclassifications to joint ventures or subsidiaries | –4 | – | –134 |
| Other reclassifications | – | – | 1 |
| Impairment for the year | – | –1 | – |
| Translation differences | –62 | –25 | 46 |
| **Value at 31 December** | **1,021** | **979** | **983** |

1) Net increase for the year includes the Group's share of associates' profit after tax and any non-controlling interests as well as adjustment for dividends received during the year.

Investments in 2010 refer mainly to Scala Packaging in Italy.

Reclassifications in 2010 refer to Herrera Holdings, Inc. in the Philippines, which is now a wholly owned subsidiary.

The Group's holdings in major subsidiaries, joint ventures and associates are specified in Note 16.

The Group's total receivables from associates at 31 December 2010 amounted to SEK 35m (64; 76), of which SEK 2m (3; 4) is interest-bearing. The Group's total liability to associates at 31 December 2010 amounted to SEK 7m (5; 5) of which SEK 0m (0; 0) was interest-bearing.

## NOTE 14 SHARES AND PARTICIPATIONS

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Value at 1 January** | **80** | **73** | **68** |
| Investments | 0 | – | 6 |
| Increase through acquisition of subsidiaries | – | 14 | – |
| Divestments | –1 | –4 | –6 |
| Other reclassifications | – | –2 | –2 |
| Translation differences | –2 | –1 | 7 |
| **Value at 31 December** | **77** | **80** | **73** |

Shares and participations pertain to holdings in other companies that are not classified as subsidiaries, joint ventures or associates and assets which are also not classified as available-for-sale financial assets since the holding is of an operating nature. Carrying amounts concur with fair value.

The Group's holdings in major subsidiaries, joint ventures and associates are specified in Note 16.

## NOTE 15 JOINT VENTURES

Joint ventures, that is, companies that SCA owns together with other parties and in which the parties by agreement exercise joint control, are consolidated according to the proportional method.

Most of the joint ventures operate within the hygiene area, mainly in Latin America. One joint venture produces newsprint and has its operations in the UK. SCA's share of income statement and balance sheet items as well as the average number of employees in joint ventures that are part of the SCA Group, are set out below:

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Income statement** | | | |
| Net sales | 5,856 | 5,430 | 5,112 |
| Cost of goods sold | –4,713 | –4,220 | –4,182 |
| **Gross profit** | **1,143** | **1,210** | **930** |
| Sales, general and administration | –940 | –869 | –767 |
| **Operating profit** | **203** | **341** | **163** |
| Financial items | –39 | –82 | –78 |
| **Profit before tax** | **164** | **259** | **85** |
| Tax | –59 | –84 | –54 |
| **Net profit for the year** | **105** | **175** | **31** |
| Profit attributable to: | | | |
| Owners of the Parent | 105 | 175 | 31 |

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Balance sheet** | | | |
| Non-current assets | 2,968 | 3,004 | 2,807 |
| Current assets | 1,967 | 1,893 | 2,077 |
| **Total assets** | **4,935** | **4,897** | **4,884** |
| Equity | 2,824 | 2,841 | 2,653 |
| Non-current liabilities | 626 | 551 | 484 |
| Current liabilities | 1,485 | 1,505 | 1,747 |
| **Total equity and liabilities** | **4,935** | **4,897** | **4,884** |

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Average number of employees | 3,231 | 2,936 | 2,788 |
| of whom women, % | 27 | 26 | 25 |

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Capital employed | 3,033 | 3,353 | 3,319 |
| Net debt, incl. pension liability | 498 | 513 | 665 |

**Personnel costs**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Boards, Presidents and Vice Presidents | 25 | 16 | 18 |
| of which variable salary | 0 | 0 | 0 |
| Other employees | 260 | 328 | 302 |
| **Salaries and remuneration** | **285** | **344** | **320** |
| Pension costs | 12 | 11 | 7 |
| Other social security costs | 89 | 71 | 62 |
| **Total** | **386** | **426** | **389** |
| Social security costs | 101 | 82 | 69 |
| of which, pension costs | 12 | 11 | 7 |

**Average number of employees by country**

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | | Of whom women, % | | Of whom women, % | | Of whom women, % |
| Argentina | 121 | 63 | 27 | 52 | – | – |
| Chile | 239 | 8 | 241 | 8 | 244 | 8 |
| Colombia | 1,300 | 29 | 1,249 | 30 | 1,224 | 29 |
| Ecuador | 480 | 33 | 429 | 32 | 406 | 34 |
| United Kingdom | 172 | 13 | 170 | 13 | 184 | 15 |
| Tunisia | 338 | 13 | 328 | 11 | 313 | 11 |
| Turkey | 207 | 6 | 187 | 6 | 164 | 6 |
| Other countries | 374 | 60 | 305 | 55 | 253 | 36 |
| **Total** | **3,231** | **26** | **2,936** | **27** | **2,788** | **25** |

The Group's holdings in major subsidiaries, joint ventures and associates are specified in Note 16.

## NOTE 16 LIST OF MAJOR SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Group holdings of shares and participations in major companies at 31 December 2010.
The selection of subsidiaries and joint ventures includes companies with sales in excess of SEK 500m in 2010.

| Company name | Corporate registration number | Domicile | Share of capital % |
|---|---|---|---|
| **Subsidiaries** | | | |
| SCA Hygiene Products GmbH, Mannheim | HRB3248 | Mannheim | 100 |
| SCA Hygiene Products Nederland B.V. | 30135724 | Zeist | 100 |
| SCA Tissue North America LLC | 58-2494137 | Delaware | 100 |
| SCA Graphic Sundsvall AB | 556093-6733 | Sundsvall | 100 |
| SCA Skog AB | 556048-2852 | Sundsvall | 100 |
| SCA Hygiene Products UK Limited | 3226403 | Dunstable | 100 |
| SCA Hygiene Products AB | 556007-2356 | Gothenburg | 100 |
| SCA Hygiene Products (SASU) | 509395109 | Roissy | 100 |
| SCA Hygiene Products S.L., Spain | B28451383 | Tarragona | 100 |
| SCA Timber AB | 556047-8512 | Sundsvall | 100 |
| SCA Hygiene Products S.p.a | 03318780966 | Lucca | 100 |
| SCA Hygiene Products GmbH, Wiesbaden | HRB5301 | Wiesbaden | 100 |
| SCA Graphic Laakirchen AG | FN171841 h | Laakirchen | 100 |
| SCA Packaging Italia SpA | 6640640154 | Milan | 100 |
| SCA Packaging Stiftung & Co KG | HR A13495 | Nürnberg | 100 |
| SCA Consumidor Mexico, SA de CV | SCM931101 3S5 | Mexico City | 100 |
| SCA HP Supply (SASU) | 509599619 | Roissy | 100 |
| SCA Hygiene Products GmbH, Vienna | FN49537z | Vienna | 100 |
| SCA Hygiene Australasia Pty Ltd | 62004191324 | Box Hill | 100 |
| SCA Hygiene Products SA-NV, Belgium | 405 681 516 | Stembert | 100 |
| OOO SCA Hygiene Products Russia | 4704031845 | Moscow | 100 |
| SCA Personal Care, Inc | 23-3036384 | Delaware | 100 |
| SCA Packaging Benelux BV | 8046917 | Eerbeek | 100 |
| Uni-Charm Mölnlycke B.V. | 02330631 | Hoogezand | 40 |
| SCA Hygiene Products Inc | 421987 | Ontario | 100 |
| SCA Packaging Denmark A/S | DK21153702 | Risskov | 100 |
| SCA Packaging Containerboard Deutschland GmbH | HRB7360 | Aschaffenburg | 100 |
| SCA Packaging Munksund AB | 556237-4859 | Piteå | 100 |
| SCA Packaging Sweden AB | 556036-8507 | Värnamo | 100 |
| SCA Packaging Ltd | 53913 | Darlington | 100 |
| SCA Packaging Obbola AB | 556147-1003 | Umeå | 100 |
| SCA Hygiene Products GmbH Neuss | HRB 14343 | Neuss | 100 |
| SCA Hygiene Products A/S, Norway | 915620019 | Oslo | 100 |
| SCA Hygiene Products Sloviakia s.r.o | 36590941 | Gemerskâ Hôrka | 100 |
| SCA Hygiene Australasia Limited | 1470756 | Auckland | 100 |
| SCA Recycling UK Ltd | 214967 | Aylesford | 100 |
| SCA Emballage France SAS | B352398796 | Nanterre | 100 |
| SCA Hygiene Products Sp.z.o.o. | KRS 86815 | Olawa | 100 |
| SCA Recycling Deutschland GmbH | HR B 12280 | Raubling | 100 |
| SCA Hygiene Products AG | 020.3.917.992-8 | Zug | 99 |
| SCA Packaging Nicollet SAS | B766500011 | Neuilly sur Seine | 100 |
| SCA Hygiene Malaysia Sdn Bhd | 320704-U | Kuala Lumpur | 100 |
| Aylesford Newsprint Holdings Ltd | 2816412 | Aylesford | 100 |
| SCA Packaging Belgium NV | RPR 0436-442-095 | Gent | 100 |
| Sancella Pty Ltd | 55005442375 | Box Hill | 100 |
| SCA Hygiene Products A/S, Denmark | DK20638613 | Allerød | 100 |
| SCA Hygiene Marketing (M) Sdn Bhd | 313228-T | Kuala Lumpur | 100 |
| OY SCA Hygiene Products AB | FI01650275 | Helsinki | 100 |
| SCA Hygiene Products Kft | 01-09-71 6945 | Budapest | 100 |
| SCA Hygiene Products Manchester Ltd | 4119442 | Dunstable | 100 |
| SCA Packaging FULDA GmbH | HR B 93 | Fulda | 100 |
| SCA Packaging Hungary Kft | 01-09-868330 | Budapest | 100 |
| SCA Hygiene Products AE | EL094041786 | Nea Ionia (Athens) | 100 |
| Bunzl & Biach Ges.m.b.H | FN79555v | Vienna | 100 |
| SCA Timber Supply Ltd | 2541468 | Stoke-on-Trent | 100 |
| SCA Packaging Ceska Republica S.R.O | 44222882 | Jílové u Dêc̆ĭna | 100 |
| SCA Packaging Finland Oy | 8615544 | Helsinki | 100 |

| Company name | Corporate registration number | Domicile | Number of shares | Share of capital % | Carrying amount at year-end, SEKm |
|---|---|---|---|---|---|
| **Joint venture companies** | | | | | |
| Aylesford Newsprint Holdings Ltd | 2816412 | Aylesford | | 50 | |
| Productos Familia S.A., Colombia | 890.900.161-9 | Medellin | | 50 | |
| **Associates** | | | | | |
| Vinda Hong Kong | 92035 | Cayman Islands | 169,531,897 | 18 | 556 |
| Lantero Carton SA | A-81907701 | Madrid | 100 | 25 | 272 |
| GAE Smith | 1075198 | Leicester | 44,300 | 50 | 89 |
| Papyrus Altpapierservice Ges.m.b.H. | FN124517p | Vienna | 1 | 32 | 20 |
| Cartografica Galeotti SPA | 1333330464 | Lucca | 16,667 | 33 | 16 |
| IL Recycling AB | 556056-2687 | Stockholm | 28,000 | 33 | 16 |
| Uni4 Marketing AB | 556594-6984 | Stockholm | 1,800 | 36 | 12 |
| Belovo Paper Mill AD | BG822104867 | Belovo | 1 | 28 | 11 |
| Scala Packaging srl | 11034581006 | Rome | 1 | 48 | 8 |
| Södra Latvia SIA | 40003490902 | Skulte | 7,500 | 50 | 7 |
| Austria Papier Recycling GmbH | FN113626y | Vienna | 1 | 33 | 4 |
| Industrikraft i Sverige AB | 556761-5371 | Stockholm | 20,000 | 20 | 4 |
| Södra Esti | 10329729 | Harjumaa | 200 | 50 | 3 |
| Immobiliare Galeotti | 01955990467 | Lucca | 33 | 33 | 1 |
| Other | | | | | 2 |
| **Value at 31 December** | | | | | **1,021** |

## NOTE 17 NON-CURRENT FINANCIAL ASSETS

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Available-for-sale financial assets | 1,366 | 1,042 | 714 |
| Derivatives | 750 | 714 | 860 |
| Loan receivables, associates | 2 | 2 | 4 |
| Loan receivables, other | 80 | 74 | 78 |
| **Value at 31 December** | **2,198** | **1,832** | **1,656** |
| **Available-for-sale financial assets** | | | |
| **Value at 1 January** | **1,042** | **714** | **1,296** |
| Investments | 325 | 3 | 5 |
| Divestments | –324 | – | –2 |
| Remeasurement for the year taken to equity, net | 336 | 330 | –598 |
| Translation differences | –13 | –5 | 13 |
| **Value at 31 December** | **1,366** | **1,042** | **714** |

In addition to shares in AB Industrivärden, pension assets attributable to some pension obligations are classified as available-for-sale financial assets. These obligations are not included in the normal pension calculations, as set out in Note 26, Provisions for pensions.

**Available-for-sale financial assets, fair value**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Shares – AB Industrivärden | 1,262 | 929 | 603 |
| Pension assets not included in IAS19 calculation | 96 | 105 | 103 |
| Other | 8 | 8 | 8 |
| **Total** | **1,366** | **1,042** | **714** |

The holding in AB Industrivärden amounted to 10,525,655 shares (10,525,655; 10,525,655). No impairment provisions were made for available-for-sale financial assets in 2010, 2009 or 2008.

If the stock market had risen/fallen by 15%, all other variables being unchanged, and the Group's shareholdings changed in accordance with the stock market, equity would have increased/decreased by SEK 204m (155; 106). Sensitivity analysis calculations have been performed on the risk to which SCA was exposed at 31 December 2010 using assumptions on market movements that are regarded as reasonably possible in one year's time.

# NOTE 18 DERIVATIVES

## BALANCE SHEET

SCA uses financial derivatives to manage currency, interest rate and energy price risks.

The table below shows the derivatives that impacted the Group's balance sheet on 31 December 2010. For more information relating to derivatives in the balance sheet, see Note 31 Financial instruments by category.

**Outstanding derivatives**

| | | Of which | | | |
|---|---|---|---|---|---|
| SEKm | Total | Currency [1] | Interest rate | Energy | Share |
| **2010** | | | | | |
| Nominal | 43,098 | 25,051 | 16,053 | 1,994 | – |
| Asset | 1,462 | 532 | 676 | 254 | – |
| Liability | 553 | 314 | 173 | 66 | – |
| **2009** | | | | | |
| Nominal | 43,562 | 26,794 | 15,204 | 1,564 | – |
| Asset | 1,011 | 286 | 694 | 31 | – |
| Liability | 788 | 400 | 125 | 263 | – |
| **2008** | | | | | |
| Nominal | 43,784 | 22,236 | 20,256 | 1,250 | 42 |
| Asset | 1,572 | 659 | 878 | 35 | – |
| Liability | 1,214 | 624 | 206 | 353 | 31 |

[1] Nominal SEK 99,758m (98,688; 44,396) is outstanding before the right of set-off.

## INCOME STATEMENT

During the year, transaction exposure hedges had an impact on operating profit for the year of SEK 427m (98; negative: 116). At year-end, the net market value amounted to SEK 278m (117; negative: 77). Currency hedges increased the cost of non-current assets by SEK 26m (reduced: 10; reduced: 5). At year-end, the net market value amounted to negative SEK 40m (negative: 10; positive: 42).

In 2010, energy derivatives had a negative impact on operating profit for the year of SEK 98m (negative: 302; positive: 22). Energy derivatives have an outstanding market value of SEK 188m (negative: 232; negative: 318) at year-end.

Derivatives positively impacted net interest items in the amount of SEK 86m (negative: 137; negative: 283). The net market value on outstanding interest rate derivatives amounted to SEK 503m (569; 672) at year-end. For further information relating to net financial items, see Note 8 Financial income and expenses.

### Sensitivity analysis

Sensitivity analysis calculations have been performed on the financial instruments' risk to which SCA was exposed at 31 December 2010 using assumptions on market movements that are regarded as reasonably possible in one year's time.

If the Swedish krona had unilaterally weakened/strengthened by 5% against all currencies, outstanding financial hedges as well as trade payables and trade receivables would have increased/decreased profit for the year before tax by SEK 95m (226; 53).

Currency hedges relating to the cost of non-current assets, if the Swedish krona had unilaterally weakened/strengthened by 5%, would have increased/decreased equity by SEK 10m (0; 2).

If energy prices had increased/decreased by 20%, outstanding financial hedges relating to natural gas and electricity, all other things being equal, would have decreased/increased energy costs for the year by SEK 235m (110; 98). In addition to the earnings impact, equity would have increased/decreased by SEK 144m (157; 62). The total energy cost for the Group, however, would have been affected differently, if the price risk related to supply contracts was taken into account.

## OUTSTANDING DERIVATIVES WITH HEDGE ACCOUNTING

The table below presents outstanding derivatives with hedge accounting at 31 December 2010.

**Derivatives with hedge accounting [1]**

| | | Of which | | | | | |
|---|---|---|---|---|---|---|---|
| | | Cash flow | | | | | |
| | | Transaction exposure | | | | | |
| | Total | Export and import flows | Investments | Interest | Energy | Net investments in foreign entities [2] | Fair value of interest rate risk in financing |
| **2010** | | | | | | | |
| Asset | 2,390 | 210 | 19 | 32 | 219 | 1,266 | 644 |
| Liability | 290 | 11 | 34 | – | 59 | 56 | 130 |
| Hedge reserve after tax | 275 | 147 | –14 | 24 | 118 | | |
| **2009** | | | | | | | |
| Asset | 886 | 109 | 7 | – | 24 | 52 | 694 |
| Liability | 703 | 25 | 17 | – | 255 | 281 | 125 |
| Hedge reserve after tax | –89 | 61 | 11 | – | –161 | | |
| **2008** | | | | | | | |
| Asset | 1,668 | 56 | 43 | – | 10 | 747 | 812 |
| Liability | 587 | 34 | 1 | – | 325 | 33 | 194 |
| Hedge reserve after tax | –180 | 16 | 31 | – | –227 | | |

[1] Outstanding derivatives with hedge accounting are included in the table Outstanding derivatives.

[2] Pertains to derivatives before right of set-off.

### Hedging reserve in equity

Currency derivatives relating to hedging of transaction exposure mostly mature during the first half year of 2011. All derivatives in the hedging reserve at year-end 2010 will be realised before the end of 2011. With unchanged exchange rates, profit after tax will be affected positively by SEK 147m (61; 16). Currency derivatives relating to hedging of the cost of non-current assets have a maturity spread until the end of July 2012. With unchanged exchange rates, the cost of non-current assets will increase by SEK 14m (decline 11: decline 31) after tax.

Derivatives pertaining to hedging of interest expenses mature in December 2015. With unchanged interest rates, net financial items would be impacted positively by SEK 24m after tax.

The derivatives intended to hedge energy costs in the Group mostly mature during 2011 and 2012. A small part will be realised during 2013. With unchanged prices, the Group's profit after tax will be affected positively by SEK 118m (negative: 161; negative: 227).

### Hedging of net investments

In order to achieve the desired hedging level for foreign capital employed, SCA has hedged the net investments in a number of selected legal entities. In total, hedging positions affected equity in 2010 by SEK 4,613m (1,391; 763). This result is largely due to hedges of net investments in EUR. The total market value of outstanding hedging transactions at year-end was SEK 1,210m (negative: 229; positive: 714). In total at year-end, SCA hedged net investments outside Sweden amounting to SEK 32,684m. SCA's total foreign net investments at year-end amounted to SEK 76,596m.

**Hedging of net investments in foreign operations, SEKm**

| Currency | 2010 | 2009 | 2008 |
|---|---|---|---|
| EUR | 30,517 | 30,700 | –4,374 |
| GBP | 1,448 | 2,023 | 1,755 |
| USD | 1,325 | 1,015 | 705 |
| CAD | 204 | – | – |
| RUB | 181 | 444 | –37 |
| NZD | 181 | 179 | 156 |
| MXN | –147 | 206 | 588 |
| AUD | –1,179 | –1,095 | –912 |
| Other | 154 | 153 | 40 |
| **Total** | **32,684** | **33,625** | **–2,079** |

## NOTE 19 INVENTORIES

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Raw materials and consumables | 3,045 | 2,971 | 3,709 |
| Spare parts and supplies | 1,809 | 1,912 | 1,939 |
| Products in progress | 1,289 | 812 | 1,053 |
| Finished products | 5,303 | 5,095 | 6,268 |
| Felling rights | 1,047 | 650 | 964 |
| Advance payments to suppliers | 18 | 19 | 25 |
| **Total** | **12,511** | **11,459** | **13,958** |

## NOTE 20 TRADE RECEIVABLES

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Trade receivables, gross | 16,069 | 16,642 | 18,814 |
| Provision to reserves for doubtful receivables | –453 | –539 | –450 |
| **Carrying amount of trade receivables** | **15,616** | **16,103** | **18,364** |

**Analysis of credit risk exposure in trade receivables**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Trade receivables neither overdue nor impaired | 13,875 | 13,851 | 15,446 |
| Trade receivables overdue but not impaired | | | |
| < 30 days | 1,367 | 1,665 | 2,041 |
| 30–90 days | 265 | 408 | 524 |
| > 90 days | 109 | 179 | 353 |
| **Trade receivables overdue but not impaired** | **1,741** | **2,252** | **2,918** |
| **Carrying amount of trade receivables** | **15,616** | **16,103** | **18,364** |

In total, the Group has collateral mainly in the form of credit insurance taken out amounting to SEK 1,603m (1,755; 2,263). Of this amount, SEK 213m (220; 409) relates to the category Trade receivables overdue but not impaired.

**Provision to reserves for doubtful receivables**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Value at 1 January** | **–539** | **–450** | **–304** |
| Provision for possible loan losses | –67 | –261 | –200 |
| Confirmed losses | 47 | 73 | 54 |
| Increase due to acquisitions | – | – | –1 |
| Decrease due to divestments | 15 | 4 | 1 |
| Decrease due to reversal of reserve for possible loan losses | 42 | 74 | 33 |
| Translation differences | 49 | 21 | –33 |
| **Value at 31 December** | **–453** | **–539** | **–450** |

Total expense for the year for doubtful receivables amounted to SEK 43m (186; 166).

## NOTE 21 OTHER CURRENT RECEIVABLES

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Receivables from associates | 32 | 61 | 72 |
| Accrued financial income | 2 | 18 | 18 |
| Derivatives | 539 | 217 | 248 |
| Prepaid expenses and accrued income | 641 | 681 | 658 |
| Other current receivables | 2,002 | 1,734 | 2,121 |
| **Total** | **3,216** | **2,711** | **3,117** |

## NOTE 22 CURRENT FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

**Current financial assets**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Financial assets | 12 | 4 | 1 |
| Derivatives | 108 | 66 | 456 |
| Loan receivables, other | 100 | 124 | 185 |
| **Total** | **220** | **194** | **642** |

**Cash and cash equivalents**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash and bank balances | 1,291 | 1,570 | 1,462 |
| Short-term investments < 3 months | 575 | 3,578 | 4,276 |
| **Total** | **1,866** | **5,148** | **5,738** |

## NOTE 23 NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Land | 50 | 57 | 60 |
| Machinery and equipment | 43 | 48 | 42 |
| **Non-current assets held for sale** | **93** | **105** | **102** |

With regard to the reclassification, the assets were measured at the lower of the carrying amount and fair value less selling expenses, which did not entail any impairment losses in any of the years above.

## NOTE 24 EQUITY

| SEKm<br>2008 | Share capital | Other capital provided | Reserves[1] | Retained earnings | Equity attributable to SCA's shareholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Value at 1 January** | **2,350** | **6,830** | **842** | **53,568** | **63,590** | **689** | **64,279** |
| **Profit for the year recognised in the income statement** | | | | **5,578** | **5,578** | **20** | **5,598** |
| **Other comprehensive income** | | | | | | | |
| Actuarial gains and losses relating to defined-benefit pension plans [2] | | | | –3,335 | –3,335 | 13 | –3,322 |
| Available-for-sale financial assets: | | | | | | | |
| Result from measurement at fair value recognised in equity | | | –599 | | –599 | | –599 |
| Cash flow hedges: | | | | | | | |
| Result from remeasurement of derivatives recognised in equity | | | –312 | | –312 | | –312 |
| Transferred to income statement for the period | | | 58 | | 58 | | 58 |
| Transferred to cost of hedged investments | | | –5 | | –5 | | –5 |
| Translation differences in foreign operations | | | 2,757 | | 2,757 | 128 | 2,885 |
| Result from hedging of net investments in foreign operations | | | 763 | | 763 | | 763 |
| Tax on items recognised directly in/transferred from equity [4] | | | 76 | 940 | 1,016 | –3 | 1,013 |
| **Other comprehensive income, net after tax** | | | **2,738** | **–2,395** | **343** | **138** | **481** |
| **Total comprehensive income** | | | **2,738** | **3,183** | **5,921** | **158** | **6,079** |
| Change in Group composition | | | | | | –6 | –6 |
| Sale of treasury shares | | | | 28 | 28 | | 28 |
| Dividend, SEK 4.40 per share [3] | | | | –3,089 | –3,089 | –39 | –3,128 |
| **Value at 31 December 2008** | **2,350** | **6,830** | **3,580** | **53,690** | **66,450** | **802** | **67,252** |
| **2009** | | | | | | | |
| **Profit for the year recognised in the income statement** | | | | **4,765** | **4,765** | **65** | **4,830** |
| **Other comprehensive income** | | | | | | | |
| Actuarial gains and losses relating to defined-benefit pension plans [2] | | | | –911 | –911 | –38 | –949 |
| Available-for-sale financial assets: | | | | | | | |
| Result from measurement at fair value recognised in equity | | | 331 | | 331 | | 331 |
| Cash flow hedges: | | | | | | | |
| Result from remeasurement of derivatives recognised in equity | | | –202 | | –202 | | –202 |
| Transferred to income statement for the period | | | 319 | | 319 | | 319 |
| Transferred to cost of hedged investments | | | –10 | | –10 | | –10 |
| Translation differences in foreign operations | | | –2,701 | | –2,701 | –49 | –2,750 |
| Result from hedging of net investments in foreign operations | | | 1,391 | | 1,391 | | 1,391 |
| Tax on items recognised directly in/transferred from equity [4] | | | –26 | 208 | 182 | 10 | 192 |
| **Other comprehensive income, net after tax** | | | **–898** | **–703** | **–1,601** | **–77** | **–1,678** |
| **Total comprehensive income** | | | **–898** | **4,062** | **3,164** | **–12** | **3,152** |
| Dividend, SEK 3.50 per share [3] | | | | –2,458 | –2,458 | –40 | –2,498 |
| **Value at 31 December 2009** | **2,350** | **6,830** | **2,682** | **55,294** | **67,156** | **750** | **67,906** |
| **2010** | | | | | | | |
| **Profit for the year recognised in the income statement** | | | | **5,552** | **5,552** | **40** | **5,592** |
| **Other comprehensive income** | | | | | | | |
| Actuarial gains and losses relating to defined-benefit pension plans [2] | | | | 528 | 528 | –5 | 523 |
| Available-for-sale financial assets: | | | | | | | |
| Result from measurement at fair value recognised in equity | | | 328 | | 328 | | 328 |
| Transferred to income statement at sale | | | 8 | | 8 | | 8 |
| Cash flow hedges: | | | | | | | |
| Result from remeasurement of derivatives recognised in equity | | | 711 | | 711 | | 711 |
| Transferred to income statement for the period | | | –234 | | –234 | | –234 |
| Transferred to cost of hedged investments | | | 15 | | 15 | | 15 |
| Translation differences in foreign operations | | | –8,529 | | –8,529 | –104 | –8,633 |
| Result from hedging of net investments in foreign operations | | | 4,613 | | 4,613 | | 4,613 |
| Tax on items recognised directly in/transferred from equity [4] | | | –137 | –156 | –293 | 1 | –292 |
| **Other comprehensive income, net after tax** | | | **–3,225** | **372** | **–2,853** | **–108** | **–2,961** |
| **Total comprehensive income** | | | **–3,225** | **5,924** | **2,699** | **–68** | **2,631** |
| Change in Group composition | | | | | | –58 | –58 |
| Remeasurement effect upon acquisition of non-controlling interests | | | | –1 | –1 | | –1 |
| Dividend, SEK 3.70 per share [3] | | | | –2,599 | –2,599 | –58 | –2,657 |
| **Value at 31 December 2010** | **2,350** | **6,830** | **–543** | **58,618** | **67,255** | **566** | **67,821** |

[1] Revaluation reserve, Hedging reserve, Available-for-sale assets and Translation reserve are included in the Provisions line in the balance sheet, see specification on next page.

[2] Including payroll tax.

[3] Dividend SEK 3.70 (3.50; 4.40) per share pertains to Parent Company shareholders. For financial year 2010, the Board has decided to propose a divided of SEK 4.00 per share to the Annual General Meeting.

[4] For a specification of income tax attributable to components in other comprehensive income, refer to the next page.

For further information regarding equity, see Parent Company Note 45.

**Equity, specification of reserves**

| SEKm | Revaluation reserve[1] | | | Hedging reserve[2] | | | Available-for-sale assets | | | Translation reserve | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| **Value at 1 January** | **107** | **107** | **107** | **–89** | **–180** | **26** | **3** | **–327** | **270** | **2 661** | **3 980** | **439** |
| Available-for-sale financial assets: | | | | | | | | | | | | |
| Result from measurement at fair value recognised in equity | | | | | | | 328 | 331 | –599 | | | |
| Transferred to income statement at sale | | | | | | | 8 | | | | | |
| Cash flow hedges: | | | | | | | | | | | | |
| Result from remeasurement of derivatives recognised in equity | | | | 711 | –202 | –312 | | | | | | |
| Transferred to income statement for the period | | | | –234 | 319 | 58 | | | | | | |
| Transferred to cost of hedged investments | | | | 15 | –10 | –5 | | | | | | |
| Translation differences in foreign operations[3] | | | | 8 | 9 | –20 | | | –1 | –8,537 | –2,710 | 2,778 |
| Result from hedging of net investments in foreign operations | | | | | | | | | | 4,613 | 1,391 | 763 |
| Tax on items recognised directly in/transferred from equity | | | | –136 | –25 | 73 | –1 | –1 | 3 | | | |
| **Other comprehensive income for the year, net after tax** | **0** | **0** | **0** | **364** | **91** | **–206** | **335** | **330** | **–597** | **–3,924** | **–1,319** | **3,541** |
| **Value at 31 December** | **107** | **107** | **107** | **275** | **–89** | **–180** | **338** | **3** | **–327** | **–1,263** | **2,661** | **3,980** |

[1] Revaluation reserve includes effect on equity of step acquisitions.

[2] See also Note 18 for details of when profit or loss is expected to be recognised.

[3] Of which transfer to income statement of realised exchange gain relating to divested companies is included in the amount of SEK 87m (1; –).

**Specification of income tax attributable to components in other comprehensive income**

| SEKm | 2010 Before tax | 2010 Tax effect | 2010 After tax | 2009 Before tax | 2009 Tax effect | 2009 After tax | 2008 Before tax | 2008 Tax effect | 2008 After tax |
|---|---|---|---|---|---|---|---|---|---|
| Actuarial gains and losses relating to defined-benefit pension plans | 523 | –155 | 368 | –949 | 218 | –731 | –3,322 | 937 | –2,385 |
| Available-for-sale financial assets | 336 | –1 | 335 | 331 | –1 | 330 | –599 | 3 | –596 |
| Cash flow hedges | 492 | –136 | 356 | 107 | –25 | 82 | –259 | 73 | –186 |
| Translation differences in foreign operations | –8,633 | – | –8,633 | –2,750 | – | –2,750 | 2,885 | – | 2,885 |
| Result from hedging of net investments in foreign operations | 4,613 | – | 4,613 | 1,391 | – | 1,391 | 763 | – | 763 |
| **Other comprehensive income** | **–2,669** | **–292** | **–2,961** | **–1,870** | **192** | **–1,678** | **–532** | **1,013** | **481** |

At 31 December 2010, the debt/equity ratio amounted to 0.51, which is below SCA's long-term target of 0.7. The debt/equity ratio deviates from this target at times and, over the past ten-year period, has varied between 0.44 and 0.70. Change in liabilities and equity is described on page 15, Financial position. SCA has a credit rating for long-term debt of Baa1 from Moody's and BBB+ from Standard & Poor's. SCA's financial risk management is described in the Risk and risk management section on page 44. SCA's dividend policy and capital structure are described on page 8.

## NOTE 25 FINANCIAL LIABILITIES

At 31 December 2010, interest-bearing gross debt amounted to SEK 36,506m (44,104; 52,029). Distribution of financial liabilities is shown in the table below:

**Financial liabilities**

| | Carrying amount | | |
|---|---|---|---|
| **SEKm** | **2010** | **2009** | **2008** |
| **Current financial liabilities** | | | |
| Amortisation within one year | 399 | 646 | 569 |
| Bond issues | 5,966 | 2,000 | – |
| Derivatives | 204 | 307 | 378 |
| Loans with maturities of less than one year | 6,478 | 10,808 | 12,223 |
| **Total current financial liabilities [1]** | **13,047** | **13,761** | **13,170** |
| **Non-current financial liabilities** | | | |
| Bond issues | 7,258 | 12,805 | 15,752 |
| Derivatives | 173 | 125 | 194 |
| Other long-term loans with maturities > 1 year < 5 years | 10,233 | 13,266 | 12,650 |
| Other long-term loans with maturities > 5 years | 5,795 | 4,147 | 10,263 |
| **Total non-current financial liabilities** | **23,459** | **30,343** | **38,859** |
| **Total** | **36,506** | **44,104** | **52,029** |
| Fair value of financial liabilities | 36,418 | 43,919 | 51,867 |

[1] Fair value of short-term loans is estimated to be the same as the carrying amount.

### Borrowing

For issuing bonds in the European capital market, SCA has a Euro Medium Term Note (EMTN) programme with a programme size of EUR 3,000m (SEK 26,989m). As of 31 December 2010, a nominal EUR 1,801m (1,737; 1,066) was outstanding with a remaining maturity of 3.2 years (3.0; 2.8). SCA also utilises bond markets outside Europe and has issued a bond in the US for USD 450m (SEK 3,059m).

**Bond issues**

| **Issued** | **Maturity** | **Carrying amount, SEKm** | **Fair value, SEKm** |
|---|---|---|---|
| Notes EUR 663m | 2011 | 5,966 | 5,966 |
| Notes SEK 500m | 2014 | 500 | 541 |
| Notes SEK 500m | 2014 | 542 | 541 |
| Notes USD 450m | 2015 | 3,375 | 3,351 |
| Index Linked Interest Note SEK 300m | 2015 | 327 | 313 |
| Index Linked Interest Note SEK 500m | 2015 | 545 | 522 |
| Notes SEK 1,800m | 2016 | 1,769 | 1,870 |
| Floating Rate Note SEK 200m | 2016 | 200 | 195 |
| **Total** | | **13,224** | **13,299** |

SCA has a Swedish and a Belgian commercial paper programme that can be utilised for current borrowing.

**Commercial paper programme[1]**

| **Programme size** | **Issued SEKm** |
|---|---|
| Commercial paper SEK 15,000m | 4 181 |
| Commercial paper EUR 400m | 18 |
| **Total** | **4 199** |

[1] Included in Loans with maturities of less than one year in the Financial liabilities table.

To limit the refinancing risk and maintain a liquidity reserve, SCA has syndicated bank facilities. In addition, SCA has contracted bilateral credit facilities with banks.

**Credit facilities**

| | **Nominal** | **Maturity** | **Total SEKm** | **Utilised SEKm** | **Unutilised SEKm** |
|---|---|---|---|---|---|
| Syndicated credit facilities | EUR 35m | 2011 | 315 | – | 315 |
| | EUR 1,105m | 2012 | 9,941 | – | 9,941 |
| | EUR 1,000m | 2014 | 8,996 | – | 8,996 |
| Bilateral credit facilities | SEK 641m | 2011 | 641 | – | 641 |
| | SEK 3,000m | 2011 | 3,000 | – | 3,000 |
| | SEK 2,500m | 2013 | 2,500 | – | 2,500 |
| | SEK 3,000m | 2015 | 3,000 | – | 3,000 |
| **Total** | | | **28,393** | – | **28,393** |

The table below shows the maturity profile of the gross debt:

**Maturity profile of the gross debt**

| **SEKm** | **Total** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016+** |
|---|---|---|---|---|---|---|---|
| Commercial paper | 4,199 | 4,199 | – | – | – | – | – |
| Finance leases | 1,046 | 926[1] | 62 | 30 | 14 | 9 | 5 |
| Bond issues | 13,224 | 5,966 | – | – | 1,000 | 4,258 | 2,000 |
| Utilisation of credit facilities | – | – | – | – | – | – | – |
| Other loans | 18,169 | 2,088 | 1,612 | 3,988 | 472 | 5,081 | 4,928 |
| **Total [2]** | **36,638** | **13,179** | **1,674** | **4,018** | **1,486** | **9,348** | **6,933** |

[1] Includes leasing contract for a paper machine in Laakirchen, SEK 886m, which was terminated in January 2011.
[2] Gross debt includes accrued interest in the amount of SEK 132m.

After additions for net pension provisions and deductions for cash and cash equivalents, interest-bearing receivables and capital investment shares, the net debt was SEK 34,406m (40,430; 47,002).

## NOTE 26 PROVISIONS FOR PENSIONS

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

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Current service cost, excluding contributions by plan participants | 393 | 338 | 392 |
| Past service cost | –9 | 99 | –4 |
| Interest expense | 996 | 1,094 | 1,003 |
| Expected return on plan assets | –1,025 | –863 | –1,209 |
| **Pension costs before effects of curtailments and settlements** | **355** | **668** | **182** |
| Curtailments | –35 | –18 | –5 |
| Settlements | 0 | 1 | 0 |
| **Net pension costs after effects of curtailments and settlements** | **320** | **651** | **177** |

Of the pension costs for defined-benefit plans, SEK 158m (cost 133; income 12) is recognised as a financial expense, which is calculated on the net value of each plan at the beginning of the year.

Expected return on plan assets is determined on the basis of the assumption that the return on bonds will be the same as the interest on a 10-year government bond and that return on equities will reach the same interest with the addition of a risk premium. The interest decided for each country is weighted on the basis of how large a proportion comprises equities and bonds, respectively. At year-end, 60% (55; 51) of the total fair value of the plan assets was invested in equities, 38% (45; 49) comprised interest-bearing investments and 2% comprised property. The actual return on the plan assets in 2010 was SEK 2,533m (pos: 2,896; neg: 3,302).

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

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Provisions for pensions | 3,108 | 3,567 | 3,443 |
| Surplus in funded pension plans | –1,057 | –230 | –843 |
| **Provision for pensions, net value** | **2,051** | **3,337** | **2,600** |

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

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Defined-benefit obligations | 19,,953 | 20,332 | 17,108 |
| Fair value of plan assets | –17,889 | –16,921 | –14,419 |
| **Net value** | **2,064** | **3,411** | **2,689** |
| Unrecognised past service costs | –13 | –74 | –89 |
| **Provision for pensions, net value** | **2,051** | **3,337** | **2,600** |

Actuarial gains and losses for the year, reported in the Consolidated statement of comprehensive income, are positive and amount to SEK 362m (neg. 1,026; neg: 2,923). Including translation differences, the accumulated gains and losses recognised in this manner thus amount to SEK 740m (1,210; 225).

In addition to the effect of changes in actuarial assumptions, such as change of discount rate, etc., actuarial gains and losses arose as a result of deviation from initial assumptions based on experience. Experience-based deviations include unexpectedly high or low figures for employee turnover, early retirement, mortality or salary increases, as well as deviation from expected rate of return on plan assets. The percentage effect of such adjustments when it applies to defined-benefit obligations amounts to about 2% (2; 0). With regard to plan assets, the deviation is 8% (pos: 12; neg: 31), which means that the return on the plan assets was higher than expected in 2010.

In addition to what is recognised in the net value as plan assets for existing obligations, there are assets in two Swedish foundations amounting to SEK 886m (640; 368), which can be used for possible future undertakings for early retirement for certain categories of employees.

SCA has obligations for disability and family pensions for salaried employees in Sweden, secured through insurance with the insurance company Alecta. These benefits are reported as a defined-contribution plan, since the net after deduction for assets with the insurance provider is only a minor amount and since SCA did not have access to sufficient information to report this obligation as a defined-benefit plan. Premiums during the year for disability and family pension insurance with Alecta amounted to SEK 27m (25; 15).

The following table shows the net value of provisions for pensions divided between funded and unfunded pension plans. Funded plans include previously separately reported, partly funded plans. The funding level varies depending on the plan.

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Funded plans** | | | |
| Defined-benefit obligations | 18,057 | 18,091 | 15,084 |
| Fair value of plan assets | –17,889 | –16,921 | –14,419 |
| **Net value funded plans** | **168** | **1,170** | **665** |
| Unrecognised past service costs | –42 | –57 | –89 |
| **Provision for pensions, funded plans** | **126** | **1,113** | **576** |
| **Unfunded plans** | | | |
| Defined-benefit obligations | 1,896 | 2,241 | 2,024 |
| Unrecognised past service costs | 29 | –17 | 0 |
| **Provision for pensions, unfunded plans** | **1,925** | **2,224** | **2,024** |
| **Provision for pensions, net** | **2,051** | **3,337** | **2,600** |

As in the preceding year, no financial instruments issued by the company are included in the fair value of plan assets at 31 December 2010.

SCA's budgeted contributions for the defined-benefit obligations amount to approximately SEK 350m for 2011.

## NOTE 26 CONT.

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

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| **SEKm** | **Defined-benefit obligations** | **Plan assets** | **Defined-benefit obligations** | **Plan assets** | **Defined-benefit obligations** | **Plan assets** |
| **Opening balance** | **20,332** | **–16,921** | **17,108** | **–14,419** | **18,377** | **–18,448** |
| Current service cost | 451 | – | 431 | – | 486 | – |
| Interest expense | 996 | – | 1,094 | – | 1,003 | – |
| Expected return on plan assets | – | –1,025 | – | –863 | – | –1,209 |
| Past service cost | –63 | – | 64 | – | –5 | – |
| Acquisitions and disposals | 3 | – | –4 | – | 74 | – |
| Curtailments, settlements and transfers | –19 | – | 28 | –8 | 3 | – |
| Contributions by plan participants | – | –58 | – | –68 | – | –94 |
| Contributions by the employer | – | –988 | – | –872 | – | –739 |
| Benefits paid | –1,098 | 1,098 | –1,112 | 1,114 | –1,189 | 1,189 |
| Actuarial gains and losses | 1,146 | –1,508 | 3,095 | –2,069 | –1,588 | 4,511 |
| Translation effects | –1,795 | 1,513 | –372 | 264 | –53 | 371 |
| **Closing balance** | **19,953** | **–17,889** | **20,332** | **–16,921** | **17,108** | **–14,419** |
| of which: | | | | | | |
| Sweden | 2,584 | –2,710 | 2,817 | –2,202 | 2,582 | –1,634 |
| United Kingdom | 8,711 | –8,345 | 8,553 | –8,157 | 6,683 | –6,827 |
| Eurozone | 7,148 | –5,857 | 7,635 | –5,668 | 5,160 | –5,122 |

**Principal actuarial assumptions**

| | Sweden | United Kingdom | Eurozone |
|---|---|---|---|
| **2010** | | | |
| Discount rate | 5.03 | 5.63 | 4.69 |
| Expected salary increase rate | 3.25 | 4.00 | 3.25 |
| Expected inflation | 2.00 | 3.00 | 2.00 |
| Expected return on plan assets | 6.37 | 6.54–6.63 | 4.19–6.10 |
| **2009** | | | |
| Discount rate | 4.25 | 5.66 | 4.96 |
| Expected salary increase rate | 3.50 | 4.00 | 3.25 |
| Expected inflation | 2.00 | 2.80 | 2.00 |
| Expected return on plan assets | 5.93 | 7.20–7.41 | 4.45–5.73 |
| **2008** | | | |
| Discount rate | 4.25 | 6.71 | 6.28 |
| Expected salary increase rate | 3.50 | 4.05 | 3.25 |
| Expected inflation | 2.00 | 2.80 | 2.00 |
| Expected return on plan assets | 6.17 | 6.70–7.54 | 4.18–6.28 |

The actuarial assumptions comprise the most significant assumptions applied when calculating defined-benefit obligations at the balance sheet date. Expected return on plan assets is applied when calculating the subsequent year's pension cost.

Actuarial gains and losses arise as a result of deviations from actuarial and experience-based assumptions, as well as a different return than expected. These gains and losses are recognised directly in equity in the period in which they arise. A change in the discount rate of 0.25 percentage points affects the total value of obligations by approximately SEK 748m. Taking into account that 60% of plan assets are invested in equities, a 10% upturn/decline in the total shareholding would lead to a change in value of approximately SEK 1,073m.

## NOTE 27 OTHER PROVISIONS

| SEKm | Acquisitions and disposals | Efficiency programmes | Current operations | Tax risks | Environment | Legal disputes | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **Value at 1 January** | **1** | **827** | **6** | **258** | **261** | **32** | **199** | **1,584** |
| Provisions during the year | | 787 | 16 | 1 | 198 | 46 | | 1,048 |
| Provisions attributable to discontinued operations | | –7 | | | | | | –7 |
| Utilisation during the year | –1 | –718 | –7 | | –215 | –5 | –18 | –964 |
| Reclassifications | | 103 | | –10 | | | 2 | 95 |
| Dissolved during the year | | | –1 | | | –7 | –173 | –181 |
| Translation differences | | –92 | | –2 | –25 | –3 | –6 | –128 |
| **Value at 31 December** | **0** | **900** | **14** | **247** | **219** | **63** | **4** | **1,447** |
| Provisions comprise: | | | | | | | | |
| Short-term component | | | | | | | | 894 |
| Long-term component | | | | | | | | 553 |

Other provisions amount to SEK 1,447m (1,584; 1,695). During the year, new provisions were made totalling SEK 1,048m, of which SEK 197m relates to provisions for the restructuring programme initiated in 2009 within the packaging business aimed at adapting the operation's capacity and costs. SEK 527m pertains to provisions for restructuring programmes in the Personal Care business and SEK 63m for restructuring programmes in the Forest Products business, both of which were introduced in 2010. Of provisions for the year for Environment totalling SEK 198m, SEK 176m pertains to a liability for carbon dioxide emissions. Of the efficiency programmes' provisions, SEK 718m were paid out in 2010, SEK 569m are anticipated to be paid out in 2011, SEK 274m in 2012 and the remaining SEK 57m in 2013. Provisions for efficiency programmes were changed in 2010 due to reclassifications of SEK 103m from other operating liabilities.

## NOTE 28 OTHER NON-CURRENT LIABILITIES

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Derivatives | 7 | 75 | 92 |
| Other non-current liabilities | 231 | 110 | 122 |
| **Total** | **238** | **185** | **214** |

Of other non-current liabilities, SEK 136m (34; 46) falls due for payment later than within five years.

## NOTE 29 OTHER CURRENT LIABILITIES

**Other current liabilities**

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Liabilities to associates | 7 | 5 | 5 |
| Derivatives | 169 | 280 | 550 |
| Accrued expenses and prepaid income | 7,298 | 8,071 | 7,592 |
| Other operating liabilities | 1,622 | 1,624 | 1,954 |
| **Total** | **9,096** | **9,980** | **10,101** |

| **Accrued expenses and prepaid income** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Accrued social security costs | 397 | 535 | 449 |
| Accrued vacation pay liability | 813 | 939 | 892 |
| Other liabilities to personnel | 1,221 | 1,297 | 1,197 |
| Accrued financial expenses | 134 | 181 | 427 |
| Bonus and discounts to customers | 2,328 | 2,511 | 2,241 |
| Other items | 2,405 | 2,608 | 2,386 |
| **Total** | **7,298** | **8,071** | **7,592** |

As of 2010, bills receivable are included in trade payables instead of in other operating liabilities. The carrying amount of other operating liabilities for the comparative years 2009 and 2008 thus decreased by SEK 92m and SEK 30m, respectively, while other trade payables increased by the corresponding amounts.

## NOTE 30 LIQUIDITY RISK

The table below shows the Group's liquidity risk regarding financial liabilities (including interest payments), net settled derivatives that constitute financial liabilities and negative cash flows from gross settled derivatives.

**Liquidity risk**

| SEKm | Less than 1 year | Between 1 and 5 years | More than 5 years |
|---|---|---|---|
| **31 December 2010** | | | |
| Loans including interest | 13,531 | 18,927 | 7,313 |
| Net settled derivatives | –24 | 24 | –20 |
| Share swaps | – | – | – |
| Energy derivatives | 59 | 7 | – |
| Trade payables | 12,435 | 1,139 | – |
| **Total** | **26,001** | **20,097** | **7,293** |
| Gross settled derivatives[1] | 23,691 | 125 | – |
| **31 December 2009** | | | |
| Loans including interest | 14,238 | 24,452 | 8,565 |
| Net settled derivatives | –18 | –90 | 178 |
| Share swaps | – | – | – |
| Energy derivatives | 180 | 83 | – |
| Trade payables | 11,446 | 826 | – |
| **Total** | **25,846** | **25,271** | **8,743** |
| Gross settled derivatives[1] | 22,107 | 151 | – |
| **31 December 2008** | | | |
| Loans including interest | 14,600 | 30,337 | 15,043 |
| Net settled derivatives | 16 | 56 | 231 |
| Share swaps | 31 | – | – |
| Energy derivatives | 242 | 92 | – |
| Trade payables | 13,155 | 1,000 | – |
| **Total** | **28,044** | **31,485** | **15,274** |
| Gross settled derivatives[1] | 21,686 | 166 | – |

[1] The gross settled derivatives have, largely, corresponding positive cash flows and therefore in SCA's opinion do not constitute any real liquidity risk.

## NOTE 31 FINANCIAL INSTRUMENTS BY CATEGORY

The following categorisation has been conducted for financial instruments:

| SEKm | Carrying amount in the balance sheet | Of which: Loans and receivables | Financial liabilities measured at amortised cost | Measured at fair value through profit or loss | Derivatives used for hedge accounting | Available-for-sale financial assets |
|---|---|---|---|---|---|---|
| **31 December 2010** | | | | | | |
| Non-current financial assets | 2,198 | 82 | | 74 | 676 | 1,366 |
| Other non-current assets | 65 | – | | 1 | 64 | – |
| Trade receivables | 15,616 | 15,616 | | – | – | – |
| Other current receivables | 539 | – | | 144 | 395 | – |
| Current financial assets | 220 | 112 | | 96 | 12 | – |
| Cash and cash equivalents | 1,866 | 1,866 | | – | – | – |
| **Total assets** | **20,504** | **17,676** | | **315** | **1,147** | **1,366** |
| Non-current financial liabilities | 23,459 | | 16,198 | 7,092 | 169 | |
| Other non-current liabilities | 7 | | – | – | 7 | |
| Current financial liabilities | 13,047 | | 6,537 | 6,504 | 6 | |
| Trade payables[1] | 13,574 | | 13,574 | – | – | |
| Other current liabilities | 169 | | – | 58 | 111 | |
| **Total liabilities** | **50,256** | | **36,309** | **13,654** | **293** | |
| **31 December 2009** | | | | | | |
| Non-current financial assets | 1,832 | 77 | | 18 | 695 | 1,042 |
| Other non-current assets | 14 | – | | 1 | 13 | – |
| Trade receivables | 16,103 | 16,103 | | – | – | – |
| Other current receivables | 217 | – | | 89 | 128 | – |
| Current financial assets | 194 | 128 | | 55 | 11 | – |
| Cash and cash equivalents | 5,148 | 5,148 | | – | – | – |
| **Total assets** | **23,508** | **21,456** | | **163** | **847** | **1,042** |
| Non-current financial liabilities | 30,343 | | 16,925 | 13,293 | 125 | |
| Other non-current liabilities | 75 | | – | 1 | 74 | |
| Current financial liabilities | 13,761 | | 13,454 | 279 | 28 | |
| Trade payables[1] | 12,364 | | 12,364 | – | – | |
| Other current liabilities | 280 | | – | 57 | 223 | |
| **Total liabilities** | **56,823** | | **42,743** | **13,630** | **450** | |
| **31 December 2008** | | | | | | |
| Non-current financial assets | 1,656 | 82 | | 48 | 812 | 714 |
| Other non-current assets | 8 | – | | 1 | 7 | – |
| Trade receivables | 18,364 | 18,364 | | – | – | – |
| Other current receivables | 248 | – | | 146 | 102 | – |
| Current financial assets | 642 | 186 | | 451 | 5 | – |
| Cash and cash equivalents | 5,738 | 5,738 | | – | – | – |
| **Total assets** | **26,656** | **24,370** | | **646** | **926** | **714** |
| Non-current financial liabilities | 38,859 | | 24,086 | 14,579 | 194 | |
| Other non-current liabilities | 92 | | – | 2 | 90 | |
| Current financial liabilities | 13,170 | | 12,792 | 360 | 18 | |
| Trade payables[1] | 14,186 | | 14,186 | – | – | |
| Other current liabilities | 550 | | – | 280 | 270 | |
| **Total liabilities** | **66,857** | | **51,064** | **15,221** | **572** | |

[1] As of 2010, bills payable are included in trade payables instead of in other current liabilities. Reclassification was conducted for the comparative years 2009 and 2008.

**Distribution by level when measured at fair value**

| | Carrying amount 31 December 2010 | | | Of which fair value by Level | | |
|---|---|---|---|---|---|---|
| SEKm | Measured at fair value through profit or loss | Derivatives used for hedge accounting | Available-for-sale financial assets | 1 | 2 | 3 |
| **31 December 2010** | | | | | | |
| Derivatives | 315 | 1,147 | – | – | 1,462 | – |
| Non-current financial assets, excluding derivatives | – | – | 1,366 | 1,358 | 8 | – |
| **Total assets** | **315** | **1,147** | **1,366** | **1,358** | **1,470** | |
| Derivatives | 260 | 293 | – | – | 553 | – |
| **Total liabilities** | **260** | **293** | – | – | **553** | – |

| | Carrying amount 31 December 2009 | | | Of which fair value by Level | | |
|---|---|---|---|---|---|---|
| SEKm | Measured at fair value through profit or loss | Derivatives used for hedge accounting | Available-for-sale financial assets | 1 | 2 | 3 |
| **31 December 2009** | | | | | | |
| Derivatives | 163 | 847 | – | – | 1,010 | – |
| Non-current financial assets, excluding derivatives | – | – | 1,042 | 1,034 | 8 | – |
| **Total assets** | **163** | **847** | **1,042** | **1,034** | **1,018** | – |
| Derivatives | 337 | 450 | – | – | 787 | – |
| **Total liabilities** | **337** | **450** | – | – | **787** | – |

The table above specifies how financial instruments, excluding financial liabilities, were measured at fair value in accordance with the fair value hierarchy with the following three levels:
Level 1: Quoted prices on an active market for identical assets or liabilities, such as shares or bonds quoted on the stock exchange.
Level 2: Other observable inputs for the asset or liability than quoted prices included in Level 1, either directly (that is, price quotations) or indirectly (that is, obtained from price quotations), such as forward contracts or interest rate swaps.
Level 3: Inputs for the asset or liability not based on observable market data, but containing the assumptions and estimates of management, for example, unquoted shares.

## NOTE 32 CONTINGENT LIABILITIES

| SEKm | 2010 | 2009 | 2008 |
|---|---|---|---|
| Guarantees for | | | |
| employees | 3 | 3 | 6 |
| associates | 25 | 30 | 35 |
| customers and others | 42 | 40 | 38 |
| Tax disputes | 270 | 311 | 471 |
| Other contingent liabilities | 44 | 70 | 72 |
| **Total** | **384** | **454** | **622** |

Contingent liabilities for tax disputes mainly relate to claims for additional taxes in Spain. The claim by the Spanish tax authorities amounts to EUR 26,6m, including interest. The claim is related to restructuring measures that the sellers of a Spanish company carried out prior to SCA's acquisition of the company in 1997. SCA has provided a security for payment of the tax, but is challenging the claim and assesses that the claim will not be upheld in court. Consequently, no provision has been made in the closing accounts.

SCA entered into lease-out/lease-in transactions during 1996 with US banks as counterparties pertaining to the two LWC plants in Ortviken, Sweden. The terms of the contracts were originally 32 and 36 years. However, SCA has the opportunity to cancel the transactions in 2014 and 2015, respectively, without incurring any financial consequences. At the time the transactions were entered into, the net present value of the leasing amount which SCA has undertaken to pay amounted to about SEK 4bn or USD 611m. This amount, in accordance with the agreements, is partly deposited in accounts in banks with at least A rating, and partly in US securities with an AAA rating. SCA carries the credit risk against the depositary banks. 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 fulfil, or cannot fulfil the leasing contracts, SCA is liable to compensate the counterparties for financial losses, which may be incurred as a result. Compensation varies during the duration and can amount to a maximum of about 10% of the present value of the leasing amount. The agreements were composed and examined by legal experts in Sweden and the US and are considered to follow the standard practice for lease-out/ lease-in transactions.

During 2000, SCA also entered into a leasing transaction with US banks as counterparties pertaining to the Östrand pulp mill in Timrå, Sweden. The term of the transaction was originally 30 years. However, SCA has the opportunity to cancel the transactions in 2017 without incurring any financial consequences. At the time the transactions were entered into, the current value of the leasing amount that SCA has undertaken to pay amounted to about SEK 4bn or USD 442m. Of this amount, in accordance with the agreement, an amount corresponding to SEK 3.6bn was partly invested in accounts in banks, partly in US securities, which at the time of the agreement had an AA and AAA rating, respectively. In 2009, the leasing transaction with one of the US banks was terminated prematurely. The value of outstanding deposits and US securities subsequently amounted to SEK 1.67bn at 31 December 2010. SCA carries the credit risk against the depositary banks. 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. SCA also has an obligation to exchange the US securities if their rating falls below AA- or A, respectively. The rating of the original securities declined in 2008, which resulted in SCA exchanging these securities for bank-guaranteed securities. The counterparties have accepted that the deposited funds are applied for the leasing undertakings. The advance payments and deposits were netted during 2000 in the balance sheet. Should SCA as the result of extraordinary events (of a force majeure nature) elect not to fulfil, or cannot fulfil the leasing contracts, SCA is liable to compensate the counterparties for financial losses, which may be incurred as a result. Compensation varies during the duration and can amount to a maximum of about 10% of the present value of the leasing amount, which subsequent to the above-mentioned premature termination, amounts to USD 227m. The agreements, as in the 1996 transactions, were composed and examined by legal experts in Sweden and the US and are considered to follow the standard practice for this type of transaction.

In 2007, SCA entered into a sale and leaseback transaction with a European bank relating to the new soda recovery boiler at the liner plant in Obbola, Sweden. The original term of the contract is 25 years and SCA has a right to terminate the transaction in 2023 without any financial consequences. The present value of SCA's future rental amounts was SEK 671m, which was invested in a security with an AA rating issued by the counterparty and deposited in a Swedish bank assigned to handle rental payments during the term of the contract. Should the counterparty's rating fall below BBB-, SCA is entitled, without incurring any financial consequences, to terminate the transaction in advance. Should SCA as the result of extraordinary events (of a force majeure nature) elect not to fulfil, or cannot fulfil the leasing contract, SCA is liable to compensate the counterparty for any economic loss that may be incurred as a result. Compensation varies during the term and can amount to a maximum of 15% of the transaction amount. SCA has the use of the facility without operational restrictions. The lease and depositary arrangement were recognised net in SCA's balance sheet in 2007.

With regard to three vessels included in SCA's distribution system, SCA was previously obliged to enter a charter or purchase the vessels should SCA's counterparty be unable to fulfil its obligations to the vessels' owners. This obligation expired during the year.

In 2005, SCA signed an eight-year fixed-price agreement with a Swedish electricity supplier for electricity deliveries to the company's Swedish plants. The agreement covers approximately 45% of estimated consumption at these plants. SCA signed a ten-year fixed-price agreement with a Norwegian electricity supplier comprising electricity deliveries corresponding to approximately 17% of the estimated consumption. The agreement with the Norwegian supplier became effective in 2009.

## NOTE 33 PLEDGED ASSETS

| SEKm | Pledged assets related to financial liabilities | Other | Total 2010 | Total 2009 | Total 2008 |
|---|---|---|---|---|---|
| Real estate mortgages | 6 | – | 6 | 8 | 484 |
| Chattel mortgages | 11 | 20 | 31 | 31 | 26 |
| Other | – | 139 | 139 | 140 | 140 |
| **Total** | **17** | **159** | **176** | **179** | **650** |

Liabilities for which some of these assets were pledged as collateral amounted to SEK 0m (0; 1).

## NOTE 34 OPERATING PROFIT

**Operating profit by type of cost**

| SEKm | 2010 | 2009 |
|---|---|---|
| Other operating income | 185 | 196 |
| Other external costs | –179 | –177 |
| Personnel and Board costs | –293 | –264 |
| Depreciation | –49 | –47 |
| Other operating expenses | –135 | –145 |
| **Total** | **–471** | **–437** |

In 2010, Other external costs included an impairment loss on a receivable in the amount of SEK 5m (9). External costs also include consultancy fees, travel expenses, management costs, and so forth.

### AUDITING COSTS

Remuneration to auditors can be specified as follows:

| SEKm | 2010 | 2009 |
|---|---|---|
| **PwC** | | |
| Audit assignments | 8 | 8 |
| Tax consultancy services | 3 | 5 |
| Other assignments | 5 | 3 |
| **Total** | **16** | **16** |

### LEASING

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

| SEKm | 2010 | 2009 |
|---|---|---|
| Within 1 year | 31 | 31 |
| Between 2 and 5 years | 181 | 168 |
| Later than 5 years | 117 | 162 |
| **Total** | **329** | **361** |

Cost for the year for leasing of assets amounted to SEK 45m (50). Leased assets comprise means of transportation, premises and technical equipment. In reality, such contracts can be terminated early.

## NOTE 35 PERSONNEL AND BOARD COSTS

**Salaries and remuneration**

| SEKm | 2010 | 2009 |
|---|---|---|
| Board of Directors [1], President, Executive Vice Presidents and Senior Executives (4 (5)) | 44 | 50 |
| of which variable salary | 15 | 19 |
| Other employees | 110 | 105 |
| **Total** | **154** | **155** |

[1] Board fees decided by the Annual General Meeting amounted to SEK 4.6m (4.6). For further information, see Note 6.

**Social security costs**

| SEKm | 2010 | 2009 |
|---|---|---|
| Total social security costs | 131 | 96 |
| of which, pension costs[2] | 84 | 47 |

[2] Of the Parent Company's pension costs, SEK 32m (9) pertain to the Board, President, Executive Vice Presidents and senior executives. Former Presidents and Executive Vice Presidents and their survivors are also included. The company's outstanding pension obligations to these individuals amount to SEK 286m (300).

**Pension costs**

| SEKm | 2010 | 2009 |
|---|---|---|
| **Self-administered pension plans** | | |
| Costs excl. interest expense | 38 | –8 |
| Interest expense (recognised in personnel costs) | 15 | 18 |
| | **53** | **10** |
| **Retirement through insurance** | | |
| Insurance premiums | 18 | 21 |
| Other | –1 | 7 |
| | **70** | **38** |
| Policyholder tax | 0 | 1 |
| Special payroll tax on pension costs | 14 | 7 |
| Cost of credit insurance, etc. | 0 | 1 |
| **Pension costs for the year** | **84** | **47** |

Premiums during the year for disability and family pension insurance with Alecta amounted to SEK 4m (4). (See also Note 26 Pension Provisions, Page 87). Personnel costs also include other personnel costs in the amount of SEK 8m (13).

**Average number of employees**

| | 2010 | 2009 |
|---|---|---|
| Sweden | 100 | 105 |
| of whom women, % | 50 | 50 |

**Breakdown of employees by age groups, %**

| 2010 | 21–30 yrs | 31–40 yrs | 41–50 yrs | 51–60 yrs | 61– yrs |
|---|---|---|---|---|---|
| | 5 | 39 | 29 | 20 | 7 |

Of the total number of Board members and senior executives, 9% (9) and 21% (14), respectively, are women.

**Absence due to illness, %**

| | 2010 | 2009 |
|---|---|---|
| Total absence due to illness of normal working hours | 2 | 2 |
| Men | 0 | 1 |
| Women | 3 | 2 |
| Of which, continuous absence due to illness of 60 days or more | 67 | 40 |

**Breakdown of absence due to illness by age group, %**

| –29 yrs | 30–49 yrs | 50– yrs |
|---|---|---|
| 0 | 2 | 1 |

## NOTE 36 DEPRECIATION OF TANGIBLE AND INTANGIBLE ASSETS

| SEKm | 2010 | 2009 |
|---|---|---|
| Buildings | 5 | 5 |
| Land improvements | 43 | 40 |
| Machinery and equipment | 1 | 1 |
| **Sub-total** | **49** | **46** |
| Capitalised development costs | 0 | 1 |
| **Total** | **49** | **47** |

## NOTE 37 FINANCIAL ITEMS

| SEKm | 2010 | 2009 |
|---|---|---|
| **Income from participations in Group companies** | | |
| Dividends from subsidiaries | 3,068 | 35,017 |
| **Expenses from participations in other companies** | | |
| Capital gains | –2 | – |
| **Interest income and similar profit/loss items** | | |
| Interest income, external | 701 | 163 |
| Interest income, subsidiaries | 211 | 197 |
| **Interest expenses and similar profit/loss items** | | |
| Interest expenses, external | –258 | –226 |
| Interest expenses, subsidiaries | –2,085 | –1,363 |
| **Total** | **1,635** | **33,788** |

## NOTE 38 APPROPRIATIONS AND UNTAXED RESERVES

Of the Parent Company's untaxed reserves, SEK 156m (147) pertains to accumulated depreciation in excess of plan.

## NOTE 39 INCOME TAXES

**Tax on profit for the year**

| SEKm | 2010 | 2009 |
|---|---|---|
| Tax income (–) | –899 | –485 |
| Deferred tax expense (+) | 383 | 52 |
| **Total** | **–516** | **–433** |

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **Reconciliation** | **SEKm** | **%** | **SEKm** | **%** |
| Tax expense | –516 | –44.7 | –433 | –1.3 |
| Expected tax | 304 | 26.3 | 8,769 | 26.3 |
| **Difference** | **–820** | **–71.0** | **–9,202** | **–27.6** |
| **Difference is due to:** | | | | |
| Taxes related to prior periods | –11 | –1.0 | 7 | 0.0 |
| Non-taxable dividends from subsidiaries | –807 | –69.9 | –9,209 | –27.6 |
| Other non-taxable/non-deductible items | –2 | –0.1 | 0 | 0.0 |
| **Total** | **–820** | **–71.0** | **–9,202** | **–27.6** |

The Parent Company participates in the Group's tax pooling arrangement and pays the majority of the Group's total Swedish taxes. The recognised current tax income represents the portion of the Group's total Swedish taxes. Other Group companies that participate in the tax-pooling arrangement have tax expenses totalling SEK 899m (485). The Parent Company's liability to subsidiaries for taxes paid on their account is reported as a current liability to subsidiaries.

**Current tax income (–)**

| SEKm | 2010 | 2009 |
|---|---|---|
| Income tax for the period | –899 | –485 |
| Adjustments for prior periods | 0 | 0 |
| **Total** | **–899** | **–485** |

### CURRENT TAX LIABILITY (+), TAX ASSETS (–)

The change to the current tax liability during the period is explained below:

| SEKm | 2010 | 2009 |
|---|---|---|
| **Balance, 1 January** | **–18** | **–18** |
| Current tax income | –899 | –485 |
| Paid tax | 0 | 0 |
| Tax expense, other Group companies | 899 | 485 |
| **Value at 31 December** | **–18** | **–18** |

### DEFERRED TAX EXPENSE (+), TAX INCOME (–)

| SEKm | 2010 | 2009 |
|---|---|---|
| Changes in temporary differences | 394 | 45 |
| Adjustments for prior periods | –11 | 7 |
| **Deferred tax expense (+)** | **383** | **52** |

### PROVISIONS FOR TAX

The change to the provisions for tax is explained below:

| SEKm | Carrying amount, 1 January | Deferred tax expense | Carrying amount, 31 December |
|---|---|---|---|
| Land and buildings | 1,391 | 2 | 1,393 |
| Provisions for pensions | –100 | –13 | –113 |
| Tax loss carryforwards | –1,031 | 394 | –637 |
| Other | –47 | – | –47 |
| **Total** | **213** | **383** | **596** |

## NOTE 40 INTANGIBLE ASSETS

**Capitalised development costs**

| SEKm | 2010 | 2009 |
|---|---|---|
| Accumulated costs | 35 | 35 |
| Accumulated amortisation | –34 | –34 |
| **Residual value according to plan** | **1** | **1** |
| **Carrying amount, 1 January** | **1** | **2** |
| Investments | – | – |
| Amortisation for the year | 0 | –1 |
| **Carrying amount, 31 December** | **1** | **1** |

## NOTE 41 TANGIBLE ASSETS

| | Buildings | | Land | | Machinery and equipment | |
|---|---|---|---|---|---|---|
| **SEKm** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** |
| Accumulated cost | 151 | 151 | 1 925 | 1 811 | 22 | 16 |
| Accumulated depreciation | –83 | –78 | –647 | –604 | –6 | –15 |
| Accumulated write-ups | – | – | 5 079 | 5 079 | – | – |
| **Planned residual value** | **68** | **73** | **6 357** | **6 286** | **16** | **1** |
| **Carrying amount, 1 January** | **73** | **77** | **6 286** | **6 249** | **1** | **2** |
| Investments | 0 | 1 | 117 | 79 | 16 | 0 |
| Sales and disposals | – | 0 | –3 | –2 | 0 | 0 |
| Depreciation for the year | –5 | –5 | –43 | –40 | –1 | –1 |
| **Carrying amount, 31 December** | **68** | **73** | **6 357** | **6 286** | **16** | **1** |
| Tax assessment value | 43 | 38 | 15 408 | 15 422 | | |

Land includes forest land in the amount of SEK 5,847m (5,817).

## NOTE 42 SHARES

| SEKm | Subsidiaries 2010 | Subsidiaries 2009 | Other companies 2010 | Other companies 2009 |
|---|---|---|---|---|
| Accumulated costs | 123,994 | 123,994 | 11 | 11 |
| Accumulated write-ups | 140 | 140 | – | – |
| Accumulated impairment losses | –140 | –140 | 0 | 0 |
| **Planned residual value** | **123,994** | **123,994** | **11** | **11** |
| **Carrying amount, 1 January** | **123,994** | **62,395** | **11** | **11** |
| Investments | – | 31,598 | 324 | – |
| Increase through acquisition of subsidiaries | – | 30,001 | – | – |
| Divestments | – | 0 | –324 | – |
| **Carrying amount, 31 December** | **123,994** | **123,994** | **11** | **11** |

The increase in 2009 is attributable to a capital injection of SEK 30,000m, subscription to a new share issue in the amount of SEK 1,599m and the distribution of all shares in a subsidiary valued at net worth of SEK 30,001m. The 2010 events pertain to the purchase and sale of shares in AB Industrivärden.

**Parent Company's holdings of shares and participations in subsidiaries, 31 December 2010**

| Company name | Corp. Reg. No. | Domicile | No. of shares | Share of equity, % | Carrying amount, SEKm |
|---|---|---|---|---|---|
| **Swedish subsidiaries:** | | | | | |
| Fastighets- och Bostads-aktiebolaget FOBOF | 556047-8520 | Stockholm | 1,000 | 100 | 0 |
| SCA Försäkrings-aktiebolag | 516401-8540 | Stockholm | 140,000 | 100 | 14 |
| SCA Kraftfastigheter AB | 556449-7237 | Stockholm | 1,000 | 100 | 0 |
| SCA Research AB | 556146-6300 | Stockholm | 1,000 | 100 | 0 |
| SCA Hedging AB | 556666-8553 | Stockholm | 1,000 | 100 | 0 |
| **Foreign subsidiaries:** | | | | | |
| SCA Group Holding BV | 33181970 | Amsterdam | 246,347 | 100 | 89,598 |
| SCA Packaging Coordination Center NV | BTW BE 864.768.955 | Diegem | 1,079,999 | 100 | 985 |
| SCA Packaging Marketing NV | BTW BE 0421.120.154 | Diegem | 731,279 | 100 | 1,798 |
| SCA Capital NV | 0810.983.346 | Diegem | 999,999, | 100 | 30,001 |
| SCA UK Holdings Ltd | 03665635 | Dunstable | 1 | 0 | 0 |
| SCA Finanziaria S.p.A | 01307260461 | Milano | 15,579,200 | 75 | 1,598 |
| **Total carrying amount of subsidiaries** | | | | | **123,994** |

## NOTE 43 RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

| SEKm | 2010 | 2009 |
|---|---|---|
| **Non-current assets** | | |
| Interest-bearing receivables | 471 | 269 |
| **Total** | **471** | **269** |
| **Current assets** | | |
| Other receivables | 6,005 | 2,281 |
| **Total** | **6,005** | **2,281** |
| **Current liabilities** | | |
| Interest-bearing liabilities | 71,832 | 70,573 |
| Other liabilities | 4,911 | 4,229 |
| **Total** | **76,743** | **74,802** |

## NOTE 44 OTHER CURRENT RECEIVABLES

| SEKm | 2010 | 2009 |
|---|---|---|
| Prepaid expenses and accrued income | 10 | 15 |
| Other receivables | 86 | 108 |
| **Total** | **96** | **123** |

## NOTE 45 EQUITY

The change in equity is shown in the financial report relating to Equity presented on page 61. The share capital and number of shares have increased since 1993 with new issues, conversions and splits as set out below:

| Year | Event | No. of shares | Increase in share capital | Cash payment, SEKm |
|---|---|---|---|---|
| **1993** | **Number of shares, 1 January 1993** | **172,303,839** | | |
| 1993 | Conversion of debentures and new subscription through warrants 1 | 4,030,286 | 40.3 | 119.1 |
| | New issue 1:10, issue price SEK 80 | 17,633,412 | 176.3 | 1,410.7 |
| 1994 | Conversion of debentures | 16,285 | 0.2 | – |
| 1995 | Conversion of debentures | 3,416,113 | 34.2 | – |
| 1999 | New issue 1:6, issue price SEK 140 | 32,899,989 | 329.0 | 4,579.0 |
| 2000 | Conversion of debentures | 101,631 | 1.0 | 15.0 |
| 2001 | New issue, private placement | 1,800,000 | 18.0 | 18.0 |
| 2002 | New subscription through warrants IIB | 513 | 0 | 0.1 |
| 2003 | Conversion of debentures | 1,127,792 | 11.3 | 288.4 |
| | New subscription through warrants IIB | 1,697,683 | 17.0 | 434.5 |
| 2004 | Conversion of debentures | 9,155 | 0.1 | 1.1 |
| 2007 | Split 3:1 | 470,073,396 | – | – |
| **2010** | **Number of shares, 31 December 2010** | **705,110,094** | | |

**SCA's share capital, 31 December 2010**

| | Number of votes | Number of shares | Share capital, SEKm |
|---|---|---|---|
| A shares | 10 | 101,408,278 | 338 |
| B shares | 1 | 603,701,816 | 2,012 |
| **Total** | | **705,110,094** | **2,350** |

The quotient value of the Parent Company's shares amounts to SEK 3.33.

Treasury shares at the beginning and at the end of the year amounted to 2,767,605 shares. Shares were held as part of the employee stock option programmes that expired in 2008 and 2009.

## NOTE 46 PROVISIONS FOR PENSIONS

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

### PRI PENSIONS

Pension liabilities pertaining to PRI pensions have been secured through a common Swedish SCA pension fund. The market value of the Parent Company's portion of the foundation's assets at 31 December 2010 amounted to SEK 73m (56). In the past two years, no compensation has been received. The capital value of the pension obligations at 31 December 2010 amounted to SEK 83m (78). Pension payments of SEK 3m (2) were made during 2010. Since the value of the assets in 2010 is below that of the pension obligations in the amount of SEK 10m (22), this is recognised as a provision in the balance sheet. The provision is included below.

### OTHER PENSION OBLIGATIONS

Note 6 Personnel and Board costs in the Group's notes describes the other defined-benefit pension plans that the Parent Company offers. The table below shows the change between the years.

**Capital value of pension obligations relating to self-administered pension plans**

| SEKm | 2010 | 2009 |
|---|---|---|
| **Value at 1 January** | **415** | **419** |
| Costs excl. interest expense | 38 | –8 |
| Interest expense (recognised in personnel costs) | 15 | 18 |
| Payment of pensions | –15 | –14 |
| **Value at 31 December** | **453** | **415** |

External actuaries have carried out capital value calculations pursuant to the provisions of the Swedish Act on Safeguarding of Pension Obligations. The discount rate is 3.5% (4.2). The defined-benefit obligations are calculated based on salary levels valid on the respective balance sheet dates.

Next year's expected disbursements regarding defined-benefit pension plans amount to SEK 23m.

## NOTE 47 NON-CURRENT INTEREST-BEARING LIABILITIES

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| **SEKm** | **2010** | **2009** | **2010** | **2009** |
| Bond issues | 2,000 | – | 2,065 | – |
| Other non-current loans with a term > 1 year < 5 yrs | 3,628 | 5,363 | 3,583 | 5,689 |
| Other non-current loans with a term > 5 yrs | 3,628 | 2,203 | 3,701 | 2,004 |
| **Total** | **9,256** | **7,566** | **9,349** | **7,693,** |

**Bond issues**

| Issued | Maturity | Carrying amount, SEKm | Fair value, SEKm |
|---|---|---|---|
| Notes SEK 1,800m | 2016 | 1,800 | 1,870 |
| Floating Rate Note SEK 200m | 2016 | 200 | 195 |
| **Total** | | **2,000** | **2,065** |

## NOTE 48 OTHER CURRENT LIABILITIES

**Other current liabilities**

| SEKm | 2010 | 2009 |
|---|---|---|
| Accrued expenses and prepaid income | 181 | 167 |
| Current provisions | – | 2 |
| Other operating liabilities | 6 | 9 |
| **Total** | **187** | **178** |

**Accrued expenses and prepaid income**

| SEKm | 2010 | 2009 |
|---|---|---|
| Accrued interest expenses | 62 | 57 |
| Accrued social security costs | 19 | 21 |
| Accrued vacation pay liability | 9 | 9 |
| Other liabilities to personnel | 42 | 47 |
| Other items | 49 | 33 |
| **Total** | **181** | **167** |

## NOTE 49 CONTINGENT LIABILITIES

| SEKm | 2010 | 2009 |
|---|---|---|
| Guarantees for: | | |
| – subsidiaries | 26,422 | 43,913 |
| Other contingent liabilities | 19 | 17 |
| **Total** | **26,441** | **43,930** |

In addition, the Parent Company has signed subsidiary guarantees for 19 Dutch companies. The Parent Company guarantees all the companies' obligations as if they were its own debt.

The Parent Company has issued a guarantee in relation to the Group's UK pension plan in the event of the plan being dissolved or one of the companies covered by the plan becoming insolvent.

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

## NOTE 50 PLEDGED ASSETS

| SEKm | Liabilities to credit institutions | Other | Total 2010 | Total 2009 |
|---|---|---|---|---|
| Real estate mortgages | – | – | – | – |
| Chattel mortgages | – | 20 | 20 | 20 |
| Other | – | 135 | 135 | 135 |
| **Total** | **0** | **155** | **155** | **155** |

## NOTE 51 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting principles for financial instruments are applied for the items below.

The financial instruments in the Parent Company are classified as loans and receivables for assets, and other financial liabilities measured at amortised cost for liabilities. No other categories have been utilised over the past two years. These balance sheet items are not fully reconcilable since they may include items that are not financial instruments.

**Loans and receivables**

| SEKm | 2010 | 2009 |
|---|---|---|
| **Assets in the balance sheet** | | |
| *Financial fixed assets* | | |
| Interest-bearing receivables | 128 | 130 |
| Interest-bearing receivables from subsidiaries | 471 | 269 |
| *Current assets* | | |
| Receivables from subsidiaries | 119 | 112 |
| Other current receivables | 58 | 70 |
| Cash and bank balances | – | – |
| **Total** | **776** | **581** |

**Financial liabilities measured at amortised cost**

| SEKm | 2010 | 2009 |
|---|---|---|
| **Liabilities in the balance sheet** | | |
| *Non-current liabilities* | | |
| Interest-bearing liabilities | 9,256 | 7,566 |
| *Current liabilities* | | |
| Liabilities to subsidiaries | 72,051 | 70,792 |
| Trade payables | 17 | 11 |
| Other current liabilities | 62 | 57 |
| **Total** | **81,386** | **78,426** |

## NOTE 52 ADOPTION OF THE ANNUAL ACCOUNTS

The annual accounts are subject to adoption by SCA's Annual General Meeting and will be presented for approval at the Annual General Meeting on 7 April 2011.

# Proposed distribution of earnings

## Annual accounts 2010

| **Distribution of earnings, Parent Company** | |
|---|---|
| Distribution equity in the Parent Company: | |
| retained earnings | 37,088,244,090 |
| net profit for the year | 1,670,617,301 |
| **Total** | **38,758,861,391** |
| The Board of Directors and the President proposes: | |
| to be distributed to shareholders, a dividend of SEK 4.00 per share | 2,809,369,956[1)] |
| to be carried forward | 35,949,491,435 |
| **Total** | **38,758,861,391** |

Stockholm, 22 February 2011

The Board of Directors and President declare that the Annual Report has been prepared in accordance with generally accepted accounting principles, that the consolidated financial statements have been prepared in accordance with the international financial reporting standards referred to in European Parliament and Council of Europe Regulation (EC) No. 1606/2002 of 19 July 2002, on application of international financial reporting standards, that disclosures herein give a true and fair view of the Parent Company's and Group's financial position and results of operations, and that the statutory Board of Directors' Report provides a fair review of the Parent Company's and Group's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Sverker Martin-Löf
Chairman of the Board

Pär Boman
Board member

Rolf Börjesson
Board member

Sören Gyll
Board member

Leif Johansson
Board member

Lars Jonsson
Board member

Anders Nyrén
Board member

Örjan Svensson
Board member

Barbara Milian Thoralfsson
Board member

Thomas Wiklund
Board member

Jan Johansson
President and CEO

Our audit report was submitted on 22 February 2011
PricewaterhouseCoopers AB

Anders Lundin
Authorised Public Accountant

1) Based on the number of outstanding shares at 31 December 2010. The amount of the dividend may change if any treasury share transactions are executed before the record date, 12 April 2011.

# Audit report

## To the Annual Meeting of Shareholders in Svenska Cellulosa Aktiebolaget SCA (publ) Corporate identity number 556012-6293

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Svenska Cellulosa Aktiebolaget SCA (publ) for the year 2010. The company's annual accounts and the consolidated accounts are included in the printed version of this document on pages 10–96. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and application of International Financial Reporting Standards, IFRS, as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts 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 annual accounts and the consolidated accounts are free from material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting policies used and of their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. A Corporate Governance Report was prepared. The statutory Board of Directors' Report and the Corporate Governance Report are consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 22 February 2011

PricewaterhouseCoopers AB

Anders Lundin
Authorised Public Accountant
Auditor-in-charge

## Independent assurance report relating to Sustainability Report

Pages 50–53 of this document contain an extract of the Sustainability Report. A complete Sustainability Report has been prepared by the company, which contains our full assurance report. Based on our review, nothing has come to our attention that causes us to believe that the sustainability report has not, in all material respects, been prepared in accordance with the criteria stipulated in the full version of the assurance report.

Stockholm, 22 February 2011

PricewaterhouseCoopers AB

Anders Lundin
Authorised Public Accountant

Fredrik Ljungdahl
Expert member, FAR SRS

# Multi-year summary

| SEKm | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | | | | | | |
| Net sales | 109,142 | 110,857 | 110,449 | 105,913 | 101,439 | 96,385 | 89,967 | 85,338 | 88,046 | 82,380 |
| **Operating profit** | **8,677** | **8,190** | **8,554** | **10,147** | **8,505** | **1,928** | **7,669** | **7,757** | **9,101** | **9,492** |
| Personal Care | 2,922 | 3,235 | 2,912 | 2,960 | 2,799 | 2,474 | 2,429 | 2,403 | 2,588 | 2,080 |
| Tissue | 3,041 | 3,946 | 2,375 | 1,724 | 1,490 | 1,577 | 2,026 | 2,418 | 2,899 | 2,393 |
| Packaging | 1,577 | 413 | 1,493 | 2,651 | 2,072 | 1,775 | 2,604 | 2,482 | 3,065 | 3,286 |
| Forest Products | 2,455 | 2,503 | 2,207 | 2,870 | 2,475 | 1,886 | 1,777 | 1,559 | 1,986 | 2,976 |
| Other operations [1] | –1,318 | –1,907 | –433 | –58 | –331 | –5,784 | –1,167 | 25 | –300 | –233 |
| Goodwill amortisation | – | – | – | – | – | – | – | –1,130 | –1,137 | –1,010 |
| Financial income | 64 | 158 | 246 | 193 | 179 | 156 | 453 | 544 | 409 | 380 |
| Financial expenses | –1,180 | –1,802 | –2,563 | –2,103 | –1,851 | –1,651 | –1,537 | –1,334 | –1,432 | –1,782 |
| **Profit before tax** | **7,561** | **6,546** | **6,237** | **8,237** | **6,833** | **433** | **6,585** | **6,967** | **8,078** | **8,090** |
| Tax | –1,969 | –1,716 | –639 | –1,076 | –1,366 | 21 | –1,393 | –1,861 | –2,341 | –2,444 |
| Non-controlling interests | – | – | – | – | – | – | – | –31 | –44 | –59 |
| **Profit for the year** | **5,592** | **4,830** | **5,598** | **7,161** | **5,467** | **454** | **5,192** | **5,075** | **5,693** | **5,587** |
| **BALANCE SHEET** | | | | | | | | | | |
| Non-current assets (excl. financial receivables) | 105,655 | 111,745 | 113,866 | 104,150 | 95,994 | 101,840 | 96,162 | 77,885 | 75,462 | 76,967 |
| Receivables and inventories | 31,890 | 30,605 | 36,121 | 33,793 | 29,907 | 29,356 | 25,681 | 22,880 | 24,765 | 23,338 |
| Non-current assets held for sale | 93 | 105 | 102 | 55 | 2,665 | 68 | – | – | – | – |
| Financial receivables | 3,254 | 2,062 | 2,499 | 3,663 | 2,970 | 2,035 | 682 | 4,146 | 6,151 | 3,888 |
| Short-term investments | 220 | 194 | 642 | 366 | 409 | 237 | 128 | 749 | 306 | 406 |
| Cash and bank balances | 1,866 | 5,148 | 5,738 | 3,023 | 1,599 | 1,684 | 3,498 | 1,696 | 2,520 | 2,189 |
| **Total assets** | **142,978** | **149,859** | **158,968** | **145,050** | **133,544** | **135,220** | **126,151** | **107,356** | **109,204** | **106,788** |
| Equity | 67,255 | 67,156 | 66,450 | 63,590 | 58,299 | 56,343 | 54,350 | 49,754 | 47,983 | 45,983 |
| Non-controlling interests | 566 | 750 | 802 | 689 | 664 | 767 | 768 | 751 | 687 | 736 |
| Provisions | 13,908 | 13,351 | 13,292 | 14,199 | 14,240 | 17,035 | 16,962 | 13,620 | 14,773 | 14,870 |
| Interest-bearing debt | 37,297 | 44,766 | 52,886 | 42,323 | 38,601 | 39,036 | 35,021 | 25,429 | 27,498 | 27,746 |
| Operating and other non-interest bearing liabilities | 23,952 | 23,836 | 25,538 | 24,249 | 21,740 | 22,039 | 19,050 | 17,802 | 18,263 | 17,453 |
| **Total liabilities and equity** | **142,978** | **149,859** | **158,968** | **145,050** | **133,544** | **135,220** | **126,151** | **107,356** | **109,204** | **106,788** |
| Capital employed [2] | 105,333 | 112,264 | 105,955 | 96,368 | 96,192 | 95,341 | 87,208 | 71,687 | 71,863 | 67,878 |
| Net debt, incl. pension liabilities | –34,406 | –40,430 | –47,002 | –37,368 | –36,399 | –39,826 | –34,745 | –22,306 | –23,899 | –23,861 |
| **CASH FLOW STATEMENT** | | | | | | | | | | |
| Operating cash flow | 9,755 | 14,133 | 7,813 | 8,127 | 6,304 | 7,471 | 8,837 | 10,102 | 12,421 | 14,206 |
| Cash flow from current operations | 7,399 | 11,490 | 3,810 | 4,508 | 2,772 | 4,362 | 5,688 | 8,134 | 8,620 | 11,249 |
| Cash flow before dividend | 5,776 | 8,483 | 77 | 1,473 | 1,538 | 1,768 | –6,276 | 901 | –855 | –4,254 |
| Current capital expenditures | –3,647 | –4,037 | –5,353 | –5,165 | –5,672 | –4,859 | –4,270 | –3,902 | –3,523 | –3,479 |
| Strategic capital expenditures | –2,427 | –3,031 | –3,109 | –1,342 | –935 | –2,086 | –2,398 | –2,949 | –2,823 | –1,469 |
| Acquisitions | –493 | –51 | –1,764 | –4,545 | –323 | –428 | –9,340 | –4,808 | –6,483 | –13,286 |
| **KEY RATIOS** [3] | | | | | | | | | | |
| Equity/assets ratio, % | 47 | 45 | 42 | 44 | 44 | 42 | 44 | 47 | 45 | 44 |
| Interest coverage, multiple | 7.8 | 5.0 | 3.7 | 5.3 | 5.1 | 1.3 | 7.1 | 9.8 | 8.9 | 6.8 |
| Debt payment capacity incl. pension liabilities, % | 35 | 31 | 26 | 35 | 29 | 27 | 35 | 54 | 47 | 51 |
| Debt/equity ratio, incl. pension liabilities, multiple | 0.51 | 0.60 | 0.70 | 0.58 | 0.62 | 0.70 | 0.63 | 0.44 | 0.49 | 0.51 |
| Return on capital employed, % | 8 | 7 | 8 | 11 | 9 | 2 | 9 | 11 | 13 | 14 |
| Return on capital employed, excluding items affecting comparability, % | 9 | 9 | 8 | 10 | 9 | 8 | 10 | 10 | 13 | 14 |
| Return on equity, % | 8 | 7 | 9 | 12 | 9 | 1 | 10 | 10 | 12 | 13 |
| Operating margin, % | 8 | 7 | 8 | 10 | 8 | 2 | 9 | 9 | 10 | 12 |
| Operating margin, excluding items affecting comparability, % | 9 | 9 | 8 | 9 | 8 | 8 | 9 | 9 | 10 | 12 |
| Net margin, % | 5 | 4 | 5 | 7 | 6 | 0 | 6 | 6 | 6 | 7 |
| Capital turnover rate, multiple | 1.04 | 0.99 | 1.04 | 1.10 | 1.05 | 1.01 | 1.03 | 1.19 | 1.23 | 1.21 |
| Operating cash flow per share, SEK | 10.53 | 16.36 | 5.42 | 6.42 | 3.95 | 6.22 | 8.12 | 11.66 | 12.37 | 16.13 |
| Earnings per share, SEK | 7.90 | 6.78 | 7.94 | 10.16 | 7.75 | 0.61 | 7.37 | 7.28 | 8.18 | 8.02 |
| Dividend per share, SEK | 4.00[4] | 3.70 | 3.50 | 4.40 | 4.00 | 3.67 | 3.50 | 3.50 | 3.20 | 2.92 |

1) 2010, 2009, 2007, 2005 and 2004 include items affecting comparability of SEK –931m, SEK –1,458m, SEK 300m, SEK –5,365m and SEK –770m, respectively.
2) Calculation of average capital employed based on five measurements.
3) Key ratios are defined on page 102.
4) Board proposal.

# Comments to the multi-year summary

## Income statement

*Sales*

In 2001, sales rose by slightly more than 20% as a result of the acquisitions of Georgia-Pacific Tissue and Tuscarora in North America. During the period 2002–2004, SCA continued to grow by acquiring companies, which contributed to a further increase in sales of 17% up to the end of 2005. In 2006, the Group launched more new products than ever before and as a result of the growth in volume, SCA's net sales exceeded SEK 100bn for the first time. In 2008, sales increased by 4% compared with the previous year and amounted to slightly more than SEK 110bn. Sales in Personal Care and Tissue rose, while Packaging and Forest Products declined. In 2009, sales continued to rise slightly, mainly in Personal Care and Tissue, while Packaging reported a decline. Sales declined somewhat in 2010, mainly due to negative exchange rate effects and the divestment of the Asian packaging operations. During the ten-year period, the Group's sales increased by about 5% annually (CAGR).

## Operating profit

Profit rose by 54% for Hygiene Products in 2001, which is partly attributable to the acquisition of Georgia-Pacific Tissue. Packaging and Forest Products also continued to perform well in 2001 and, as a result, a new record-high operating profit, adjusted for nonrecurring effects, could be reported. The increase for Personal Care products and Tissue continued in 2002. The increase, which was 24% for Personal Care products, can be attributed to volume growth and lower raw material and production costs. The improvement for Tissue amounted to 21% and is explained by the acquisition of CartoInvest as well as lower raw material and production costs. The operating profit in 2002 for Packaging and Forest Products declined as a result of lower prices.

Personal Care did not reach the 2002 profit level again until 2006. This business area had been under pressure from rising raw material costs and intense competition, although growth was favourable in both established and new markets. Earnings improved further in 2007. In 2008, operating profit was stable, while it increased 11% in 2009 as a result of an improved product mix, higher prices and lower raw material costs. Earning declined in 2010. Higher volumes and lower costs failed to compensate for higher costs of raw materials, marketing activities and currency effects.

In the Tissue business area, earnings from acquisitions did not compensated for lower prices, higher raw material and energy costs and the negative effects of currency movements. This resulted in a gradual decline in operating profit for a number of years starting in 2002. In 2007, this negative trend was reversed and operating profit increased once again. With effect from the fourth quarter of 2007, the acquisition of Procter & Gamble's European tissue unit is included in SCA's Tissue operations, which had a positive impact on earnings. In 2008, earnings increased mainly as a result of acquisitions and higher prices and volumes, which were offset by higher costs for raw materials. To date, 2009 was the strongest year for Tissue. Prices rose at the same time as raw material prices declined. SCA invested in emerging markets, including Russia, which also contributed to the positive earnings trend. In 2010, earnings declined for Tissue compared with the previous year due to a sharp increase in raw material costs.

Packaging's operating profit declined in 2002 and 2003 from the record year of 2001, but improved again in 2004, before price reductions caused lower profit levels in 2005. In 2006, prices improved gradually, first for containerboard, which led to increases in the price of corrugated board, and thus an improvement in profits. Packaging also implemented successive price increases in 2007. SCA sold its North American packaging operations in the first quarter of 2007. However, operating profit declined sharply in 2008 due to the financial crisis and the ensuing recession. Production cutbacks in liner operations and lower demand for corrugated board caused a deterioration in earnings. The recession continued in 2009 and the result from Packaging declined 72% compared with 2008. However, savings from the restructuring programme initiated during the year, combined with lower prices for raw materials, contributed positively. The restructuring programme begun in 2009 was concluded in 2010 and a total of 16 corrugated board plants and the mill for containerboard in the UK were closed. In total, a personnel reduction of approximately 2,100 positions was carried out. By year-end 2010, the entire projected annual savings of slightly more than SEK 1bn had been achieved on an annual basis. Earnings rose sharply in 2010 compared with the previous year.

For Forest Products, earnings declined after the record 2001 year as a result of lower prices and negative exchange rate movements. Earnings subsequently improved at a gradual pace and the business area reported its second highest profit to date in 2007. The earnings improvement was mainly an effect of higher prices. Deliveries of publishing papers and solid-wood products were stable in 2008, but earnings contracted due to increased costs for raw materials, energy and timber. In 2009, earnings improved, primarily for publishing paper, where higher prices and lower raw material costs made a positive contribution. In 2010, earnings declined by 2%, with currency effects having a significant negative impact. In the publishing papers operations, raw material costs rose at the same time as prices for SCA's products dropped, which also had a negative impact on earnings. Productivity improvements and implemented price increases in pulp and solid-wood products had a positive effect on earnings.

## Cash flow statement

A total of SEK 64bn has been invested in expansion during the reported ten-year period, of which SEK 42bn is attributable to company acquisitions. Maintenance investments amounted to SEK 44bn and have remained at a steady level of around 4% in relation to sales.

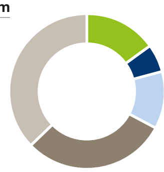
## Key ratios

During the reporting period, the Group's dividend rose from SEK 2.92 to the proposed SEK 4.00, corresponding to an annual increase of approximately 4.5%. The proposed dividend of SEK 4.00 per share corresponds to an increase of 8% compared with the preceding year.

# Description of costs

## SCA Group

**Total operating expenses[1]: SEK 99,645m**



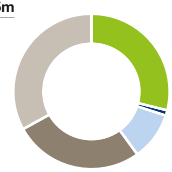
- Sales and administration expenses[2], 15%
- Energy, 6%
- Transport and distribution expenses, 12%
- Other costs of goods sold[3], 30%
- Raw materials and consumables, 37%

| Of which | |
|---|---|
| Pulp | 8% |
| Paper | 5% |
| Recovered paper | 7% |
| Timber/chips | 3% |
| Super absorbents | 2% |
| Non-woven | 1% |
| Other[4] | 11% |
| **Total Raw materials and consumables** | **37%** |

[1] Excluding items affecting comparability.
[2] Sales and administration expenses include costs for marketing (4 percentage points).
[3] The two largest items of Other costs of goods sold comprise personnel (12 percentage points) and depreciation (6 percentage points).
[4] The item Other in Raw materials and consumables includes costs for chemicals, packaging material and plastic material.

## Personal Care

**Total operating expenses[1]: SEK 22,105m**

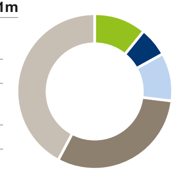


- Sales and administration expenses[2], 29%
- Energy, 1%
- Transport and distribution expenses, 10%
- Other costs of goods sold[3], 27%
- Raw materials and consumables, 33%

| Of which | |
|---|---|
| Pulp | 10% |
| Super absorbents | 8% |
| Non-woven | 6% |
| Other | 9% |
| **Total Raw materials and consumables** | **33%** |

## Packaging

**Total operating expenses[1]: SEK 28,071m**

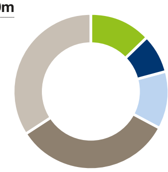


- Sales and administration expenses[2], 11%
- Energy, 6%
- Transport and distribution expenses, 10%
- Other costs of goods sold[3], 31%
- Raw materials and consumables, 42%

| Of which | |
|---|---|
| Pulp | 20% |
| Recovered paper | 9% |
| Other | 13% |
| **Total Raw materials and consumables** | **42%** |

## Tissue

**Total operating expenses[1]: SEK 36,910m**

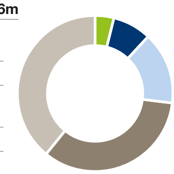


- Sales and administration expenses[2], 13%
- Energy, 8%
- Transport and distribution expenses, 12%
- Other costs of goods sold[3], 33%
- Raw materials and consumables, 34%

| Of which | |
|---|---|
| Paper | 16% |
| Recovered paper | 8% |
| Other | 10% |
| **Total Raw materials and consumables** | **34%** |

## Forest Products

**Total operating expenses[1]: SEK 14,676m**

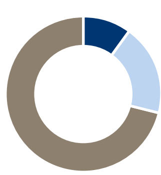


- Sales and administration expenses[2], 4%
- Energy, 8%
- Transport and distribution expenses, 15%
- Other costs of goods sold[3], 34%
- Raw materials and consumables, 39%

| Of which | |
|---|---|
| Timber/chips | 20% |
| Other | 19% |
| **Total Raw materials and consumables** | **39%** |

# Raw materials, energy and transport activities 2010

## Timber/chips

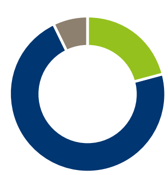


- Personal Care, 0%
- Tissue, 10%
- Packaging, 19%
- Forest Products, 71%

**Total of 9.5 million cubic metres**

of which, 50% from own forest and 50% purchased externally

## Market pulp

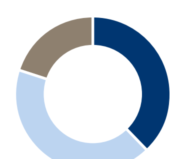


- Personal Care, 21%
- Tissue, 72%
- Packaging, 0%
- Forest Products, 7%

**Total of 1.8 million tonnes**

of which, 41% from own pulp mills and 59% purchased externally

## Recovered paper



- Personal Care, 0%
- Tissue, 38%
- Packaging, 42%
- Forest Products, 20%

**Total of 4.4 million tonnes**

of which, 36% from own collection and 64% purchased externally

## Energy

- Electricity, 24%
- Fossil fuels, 43%
- Biofuels, 33%

**Total of 28 TWh**

## Transport activities

- By sea, 70%
- Other means of transport, 30%

**Total of 34.5 billion tonne kilometres**

# Production capacity (Capacity is stated in thousands of tonnes, unless otherwise indicated, and per year)

## Tissue

| Mill | Country | Capacity |
|---|---|---|
| Box Hill | Australia | 53 |
| Stembert | Belgium | 75 |
| Santiago | Chile | 61 |
| Bogota | Colombia | 35 |
| Medellin | Colombia | 39 |
| Lasso | Equador | 24 |
| Le Theil | France | 62 |
| Orleans | France | 35 |
| Altopascio | Italy | 25 |
| Collodi | Italy | 42 |
| Lucca | Italy | 140 |
| Ecatepec | Mexico | 69 |
| Monterrey | Mexico | 57 |
| Uruapan | Mexico | 36 |
| Sahagun | Mexico | 60 |
| Suameer [2] | Netherlands | 8 |
| Kawerau | New Zealand | 61 |
| Drammen | Norway | 22 |
| Sovetsk | Russia | 30 |
| Svetogorsk | Russia | 43 |
| La Riba | Spain | 26 |
| Mediona | Spain | 45 |
| Valls | Spain | 120 |
| Jönköping | Sweden | 21 |
| Lilla Edet | Sweden | 100 |
| Chesterfield | United Kingdom | 31 |
| Manchester | United Kingdom | 50 |
| Oakenholt | United Kingdom | 68 |
| Prudhoe | United Kingdom | 87 |
| Mainz-Kostheim | Germany | 106 |
| Mannheim | Germany | 266 |
| Neuss | Germany | 105 |
| Witzenhausen | Germany | 30 |
| Barton | US | 180 |
| Flagstaff | US | 53 |
| Menasha | US | 211 |
| South Glens Falls | US | 75 |
| Ortmann | Austria | 124 |
| **Total** | | **2,675** |

## Packaging

| Production plant | Country | Corrugated board | Kraftliner | Testliner/fluting |
|---|---|---|---|---|
| **Corrugated board** | Belgium | 96 | | |
| | Denmark | 110 | | |
| | Estonia | 30 | | |
| | Finland | 40 | | |
| | France | 193 | | |
| | Greece | 75 | | |
| | Italy | 490 | | |
| | Lithuania | 35 | | |
| | Netherlands | 174 | | |
| | Poland | 40 | | |
| | Romania | 22 | | |
| | Russia | 60 | | |
| | Switzerland | 30 | | |
| | Spain | 187 | | |
| | United Kingdom | 30 | | |
| | Sweden | 110 | | |
| | Czech Republic | 38 | | |
| | Turkey | 140 | | |
| | Germany | 408 | | |
| | Hungary | 52 | | |
| | Austria | 43 | | |
| **Containerboard** | | | | |
| Lucca | Italy | | | 420 |
| De Hoop | Netherlands | | | 360 |
| Munksund | Sweden | | 365 | |
| Obbola | Sweden | | 310 | 125 |
| Aschaffenburg | Germany | | | 380 |
| Witzenhausen | Germany | | | 330 |
| **Total** | | **2,403** | **675** | **1,615** |

The total number of facilities amounts to about 170.

## Personal Care

| Production plant | Country |
|---|---|
| Annaba [1] | Algeria |
| Buenos Aires [1] | Argentina |
| Springvale | Australia |
| Santiago [1] | Chile |
| Cali [1] | Colombia |
| Rio Negro [1] | Colombia |
| Santa Domingo [1] | Dominican Republic |
| Cairo [1] | Egypt |
| Quito [1] | Equador |
| Linselles | France |
| Amman [1] | Jordan |
| Drummondville | Canada |
| Shah Alam | Malaysia |
| Ecatepec | Mexico |
| Guadalajara | Mexico |
| Gennep | Netherlands |
| Hoogezand | Netherlands |
| Te Rapa | New Zealand |
| Olawa | Poland |
| Veniov | Russia |
| Jeddah [1] | Saudi Arabia |
| Gemerská Hôrka | Slovakia |
| Kliprivier [1] | South Africa |
| Mölnlycke | Sweden |
| Falkenberg | Sweden |
| Ksibet el Mediouni [1] | Tunisia |
| Bowling Green | US |

## Forest Products

| Mill | Country | Newsprint | SC and LWC paper | Market pulp | CTMP pulp | Total pulp and paper | Solid-wood products 1,000 m$^3$ |
|---|---|---|---|---|---|---|---|
| Aylesford | United Kingdom | 410 | | | | 410 | |
| Ortviken | Sweden | 390 | 490 | | | 880 | |
| Östrand | Sweden | | | 430 | 90 | 520 | |
| Munksund | Sweden | | | | | | 420 |
| Bollsta | Sweden | | | | | | 450 |
| Tunadal | Sweden | | | | | | 360 |
| Rundvik | Sweden | | | | | | 250 |
| Vilhelmina | Sweden | | | | | | 120 |
| Holmsund | Sweden | | | | | | 100 |
| Gällö Timber [1] | Sweden | | | | | | 400 |
| Laakirchen | Austria | | 520 | | | 520 | |
| **Total** | | **800** | **1,010** | **430** | **90** | **2,330** | **2,100** |

[1] Joint venture companies.
[2] Non-woven production.

# Definitions and key ratios[1]

## Capital definitions

**Capital employed** The Group's and business area's capital employed is calculated as an average of the balance sheet's total assets, excluding interest-bearing assets and pension assets, less total liabilities, excluding interest-bearing liabilities and pension liabilities.

**Equity** The equity reported in the consolidated balance sheet consists of taxed equity increased by the equity portion of the Group's untaxed reserves and non-controlling interests. (Deferred tax liability in untaxed reserves has been calculated at a 26.3% rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden).

**Net debt** The sum of consolidated interest-bearing liabilities, including pension liabilities and accrued interest less cash and cash equivalents and interest-bearing current and non-current receivables and capital investment shares.

## Financial measurements

**Equity/assets ratio** Equity expressed as a percentage of total assets.

**Debt/equity ratio** Expressed as net debt in relation to equity.

**Interest coverage ratio** Calculated according to the net method where operating profit is divided by financial items.

**Cash earnings** Calculated as profit before tax, with a reversal of depreciation and impairment of property, plant and equipment and intangible assets, share of profits of associates, and nonrecurring items, reduced by tax payments.

**Debt payment capacity** Expressed as cash earnings in relation to average net debt.

**Operating surplus** Expressed as operating profit before depreciation/impairment of property, plant and equipment and intangible assets and share of profits of associates.

**Operating cash flow** The sum of operating cash surplus and change in working capital, with deductions for current capital expenditures in property, plant and equipment and restructuring costs.

**Cash flow from current operations** Operating cash flow less net financial items and tax payments and taking into account other financial cash flow.

**Strategic investments** Strategic investments increase the company's future cash flow through acquisitions of companies, capital expenditures to expand facilities, or new technologies that boost SCA's competitiveness.

**Current capital expenditure** Investments to maintain competitiveness, such as maintenance, rationalisation and replacement measures or investments of an environmental nature.

## Margins, etc.

**Operating surplus margin** Operating surplus as a percentage of net sales for the year.

**Operating margin** Operating profit as a percentage of net sales for the year.

**Net margin** Profit for the year as a percentage of net sales for the year.

**Capital turnover** Net sales for the year divided by average capital employed.

## Profitability ratios

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

**Return on equity** Return on equity is calculated for the Group as profit for the year as a percentage of average equity.

## Other measurements

**Value added per employee** Operating profit plus salaries, wages and payroll expenses divided by the average number of employees.

[1] Calculations of key ratios are mainly based on guidelines issued by the Swedish Society of Financial Analysts. Averages are calculated based on five metrics.

# Glossary

**AFH (Away-From-Home)** Tissue sold to bulk consumers such as restaurants, hospitals, hotels, offices and industrial premises.

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

**Consumer packaging** Packaging sold together with its contents to the end-consumer.

**Consumer tissue** Includes toilet and kitchen paper, facials and paper handkerchiefs.

**Containerboard** The collective name for liner and fluting.

**Converting plant** Produces finished packaging from corrugated board sheets supplied by a corrugated board plant or an integrated packaging plant.

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

**Corrugated board plant** Produces corrugated board that is then converted into finished packaging.

**CTMP (Chemical thermo mechanical pulp)** A high-yield pulp produced through the mechanical defibration in a refiner of preheated, chemically pretreated softwood.

**Dispenser** A device to dispense tissue or soap in public places.

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

**FSC – Forest Stewardship Council** an international organisation working to ensure responsible forest management. FSC has developed principles for responsible forestry that can be applied for certifying forest management and that facilitate FSC labelling of wood products from FSC-certified forests.

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

**LWC paper** Light Weight Coated paper is a coated paper with a high mechanical pulp content. Used for high-quality magazines and advertising materials with demanding colour-printing requirements.

**Market pulp** Pulp that is dried and sold on the open market.

**Mechanical pulp** Debarked wood that is ground or chipped for mechanical refining to separate the fibres to form pulp.

**$M^3$fo Forest cubic metre** Volume of timber including tops and bark, but excluding branches. Used to describe the forest portfolio of standing forest. Growth is also specified in forest cubic metres.

**$M^3$s or $m^3$sub** Solid cubic metre under bark. Specifies the volume of timber excluding bark and tops. Used in felling and the timber trade.

**Newsprint** Paper for newspapers produced from mechanical pulp based on fresh wood fibre or recovered fibre.

**Personal care products** Here defined as incontinence care products, baby diapers and feminine care products.

**Point-of-sale packaging** Is used both to protect the goods and to promote the product in the store.

**Productive forest land** Land with a productive capacity that exceeds one cubic metre of forest per hectare annually.

**Protective packaging** Packaging that comprises material that protects the contents from vibrations, knocks or temperature fluctuations. The material ranges from foam plastics to corrugated board.

**Recovered fibre** Fibre based on recycled paper.

**SC paper** Supercalendered publication paper with a high-gloss surface and with a high content of mechanical and/or recycled pulp. Mainly used for catalogues, magazines and advertising materials.

**Solid-wood products** Wood sawn into various dimensions/ sizes: planks, joists, etc.

**Super absorbents** Collective name of a number of synthetic absorbent materials based on polymers. Important material in personal care products such as diapers and pads.

**TCF pulp** Pulp that is bleached without using chlorine in any form.

**Transport packaging** Mainly used when transporting goods from production to customer. The most commonly used material is corrugated board.

**Wood fibre** Wood fibre from felled trees (fresh wood fibre).

# Annual General Meeting and Nomination Committee

The Annual General Meeting of Svenska Cellulosa Aktiebolaget SCA will be held on Thursday, 7 April 2011, at 3:00 p.m. in Stockholm Waterfront Congress Centre, Nils Ericsons Plan 4, Stockholm. Registration for the Annual General Meeting begins at 1:30 p.m.

**Notification**

Shareholders who wish to attend the meeting must:

- be listed in the shareholders' register maintained by Euroclear Sweden AB (formerly VPC AB) as of Friday, 1 April 2011, and
- register to attend the Annual General Meeting not later than 1 April 2011.

Shareholders may register to attend in the following ways:

- by telephone: +46 8 402 90 59, on weekdays between 8 a.m. and 5 p.m.
- via the company website: www.sca.com
- by mail to Svenska Cellulosa Aktiebolaget SCA, Corporate Legal Affairs, P.O. Box 200, SE-101 23 Stockholm, Sweden.

To attend the Annual General Meeting, shareholders with custodian-registered shares must have such shares registered in their own names. Temporary registration of ownership, so-called voting rights registration, should be requested well in advance of Friday, 1 April 2011, from the bank or fund manager holding the shares.

Name, personal identity number/Corporate Registration Number, address, telephone number, and the names of any accompanying persons should be stated when registering to attend. Shareholders represented by proxy should submit a proxy in the original to the company prior to the Annual General Meeting. Proxy forms are available upon request and on the company website www.sca.com. Anyone representing a legal entity must present a copy of the registration certificate, not older than one year, or equivalent authorisation document listing the authorised signatories.

**Dividend**

The Board of Directors proposes that a dividend of SEK 4.00 per share be paid and that the record date for the dividend shall be Tuesday, 12 April 2011. Payment through Euroclear Sweden AB is estimated to take place on Friday, 15 April 2011.

**Nomination Committee**

- Carl-Olof By, AB Industrivärden, Chairman of the Nomination Committee
- Håkan Sandberg, Handelsbanken Pension Foundation, among others
- Pontus Bergekrans, SEB Funds
- Torbjörn Callvik, Skandia Liv
- Bo Selling, Alecta
- Sverker Martin-Löf, Chairman of the Board of SCA

The Nomination Committee's tasks include preparing the proposal for the election of members of the Board of Directors.

Detailed information concerning the Annual General Meeting can be found on the company website: www.sca.com

## Financial information 2011–2012

| | |
|---|---|
| **Interim report** (1 Jan–31 Mar 2011) | 29 April 2011 |
| **Interim report** (1 Jan–30 Jun 2011) | 21 July 2011 |
| **Interim report** (1 Jan–30 Sep 2011) | 25 October 2011 |
| **Year-end report** for 2011 | 26 January 2012 |
| **Annual Report** for 2011 | March 2012 |

Annual reports, year-end reports and interim reports are published in Swedish and English (in the event of differences between the English translation and the Swedish original, the Swedish text shall prevail) and can be downloaded from SCA's website www.sca.com

Annual Reports can also be ordered from:
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