SCA

SCA Annual Report 2005

Contents

SCA at a glance

Group

Personal Care

Market position

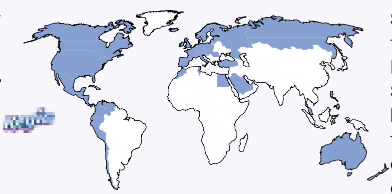
Products	Europe	North America	Worldwide
Incontinence products	1	3	1
Baby diapers	2	–	3
Feminine hygiene products	3	–	4

Sales in some 90 countries throughout the world. Products are sold both under SCA's brands and retailers' brands and are distributed via the retail trade and care institutions. Production is carried out at 19 plants in 16 countries.

Tissue

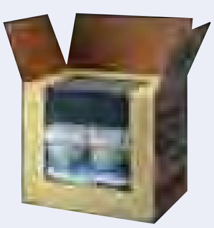
Market position

Products	Europe	North America	Worldwide
Consumer tissue	1	–	4
AFH tissue	1	3	3



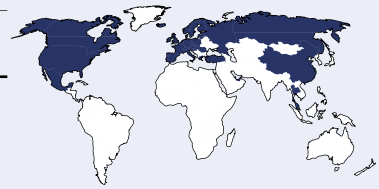
Sales in some 60 countries throughout the world. Products are sold both under SCA's brands and retailers' brands and distributed via the retail trade and corporate customers. Production is carried out at 39 plants in 20 countries.

Packaging



Market position

Products	Europe	North America	Worldwide
Corrugated packaging	2	–	–
Containerboard	2	–	–



Sales in some 50 countries in Europe, North America and Asia. Most of the packaging is used for food, consumer durables and industrial products. Production is carried out at more than 300 plants in about 30 countries.

Forest Products

Market position

Products	Europe
Publication papers	6
Pulp	–
Solid-wood products	6

Sales primarily in Europe, but also in North America and Japan. Publication papers sold to publishers and printing houses account for about half of sales. Other production comprises pulp, solid-wood products and timber to SCA's own mills.

Group total[1] SEK 96,385m	Group total[2] SEK 7,293m	Group total Capital employed SEK 95,341m	Group total SEK 7,471m	Group total 50,916 employees

Personal Care

Net sales 20%	Operating profit 34%	Net operating assets 8%	Operating cash flow 33%	Average number of employees 13%
SEK 19,351m	SEK 2,474m	SEK 8,749m	SEK 2,455m	6,644 employees

Tissue

Net sales 32%	Operating profit 22%	Net operating assets 34%	Operating cash flow 24%	Average number of employees 32%
				
SEK 30,701m	SEK 1,577m	SEK 35,529m	SEK 1,772m	16,009 employees

Packaging

Net sales 34%	Operating profit 24%	Net operating assets 28%	Operating cash flow 30%	Average number of employees 47%
				
SEK 32,359m	SEK 1,775m	SEK 29,661m	SEK 2,215m	24,104 employees

Forest Products

Net sales 17%	Operating profit 26%	Net operating assets 30%	Operating cash flow 21%	Average number of employees 8%
				
SEK 15,935m	SEK 1,886m	SEK 32,060m	SEK 1,595m	4,053 employees

1) The Group's net sales exclude intra-Group deliveries. Business areas' net sales, on the other hand, are reported including intra-Group deliveries. Total figures for the Group also include other operations not included in business areas.

2) Excluding items affecting comparability.

A global consumer goods and paper company

SCA is a global consumer goods and paper company that develops, produces and markets personal care products, tissue, packaging solutions, publication papers and solid-wood products. SCA creates value through knowledge of the needs of consumers and customers, regional presence and efficient production.

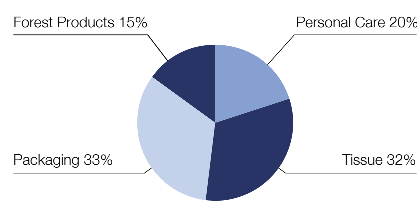
SCA conducts global operations with sales in some 90 countries and production in about 40. More than half of sales are consumer products within personal care, tissue and packaging solutions where the end-users are individuals and households. Every day, consumer products from SCA are used by hundreds of millions of consumers worldwide. SCA's products are mainly sold under own brands as well as via retailers' brands. SCA's best-known brands include TENA, Tork, Edet, Zewa, Libero and Libresse.

Industrial companies, the retail trade and media are major buyers of SCA's transport packaging and publication papers for newspapers and magazines. SCA's packaging solutions are mainly used for transport of food, industrial products and consumer durables. Customers include world-leading companies such as Hewlett Packard, Philips and Unilever. Publication papers are sold to newspaper and magazine publishers, among others, mainly in Europe.

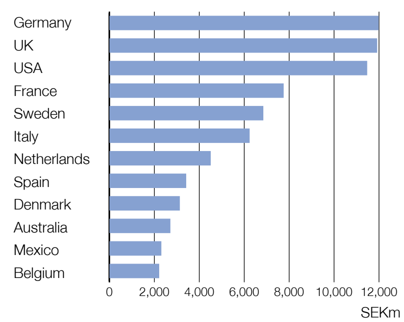
SCA's own timber supplies are a key part of the Group's raw material flow and contribute to a strong link between the different product segments.

Essential products for everyday life.

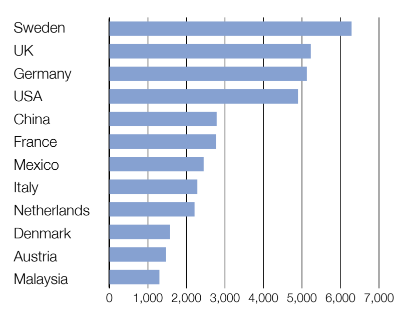
Net sales by business area (excl. intra-Group deliveries)



Group's largest markets



Average number of employees by country



Product launches

SCA focuses on product development and innovation in order to keep its market-leading positions. Every year sees upgrades and launches of new products within all business areas. A selection of products launched recently is shown below.

PERSONAL CARE

TENA Serenity Discreet Activewear
TENA Serenity Discreet Activewear was launched in North America in 2005. TENA Serenity Discreet Activewear is a disposable incontinence pant. The product provides maximum comfort and security.

TENA Flex
TENA Flex was relaunched worldwide in 2005. The improved incontinence product is now thinner, has better absorption and allows the skin to breathe.

Secure Fit – new product platform
The new product family ultra-thin pads designed to provide ultimate anti-leak security, and offers an improved shape and greater comfort. The product was launched in Mexico in 2005 and in Europe at the beginning of 2006.

New Libero Up & Go
The new generation of baby pant diapers was launched in Europe in 2005. The product is characterized by improved comfort and absorption.

TISSUE

Tork Dispenser Aluminium Range
This new product line brings modern design to the washroom. The products are aluminium and plastic dispensers which combine design with quality.

Zewa Deluxe 3ply toilet paper
Launched in 2005 in Eastern Europe where Zewa is a strong brand associated with innovation. Using a combination of new technology and recovered paper, SCA can now offer softer 3-ply toilet paper.

Zewa Softis Aloe Vera
The super soft handkerchief Zewa Softis Aloe Vera was introduced in 2005. With its active aloe vera ingredient it is extra gentle to the nose and gives support during the cold season.

Edet Lotion Toilet Paper
Edet Lotion is the first toilet paper with real lotion feel. The product was introduced on the Dutch market during 2005.

PACKAGING

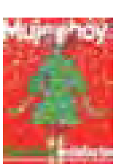
Temperature-controlled packaging solution
This packaging is capable of holding an inside temperature of between 2-8 degrees for 5 days with no external refrigeration. The packaging is designed principally for the pharmaceutical industry, for the shipment of vaccines and drugs, but also has potential applications for other industries.

PolyPallet™ Returnable Pallet Box System
PolyPallet™ is a pallet box system which packs flat for return journeys and storage. It consists of an expanded foam base pallet with corrugated sidewalls and a lid.

Ice-cream pack
Award-winning pack designed to transport ice-cream in-flight. It was specially developed to fit into the airline catering process and maintain the frozen chain. The pack can keep its temperature for 24 hours.

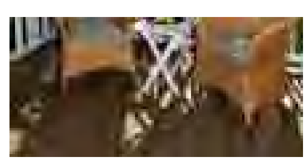
Spiral tray
A corrugated board tray with a spiral shape profiled to hold the base of odd-shaped tubs and jars. The tray is a retail ready packaging solution that can be displayed in the store.

FOREST PRODUCTS



GraphoPrestige
GraphoPrestige is an improved and high bright SC paper, bleached without chlorine chemicals (TCF), specially designed for magazines and commercial print. The quality offers a combination of excellent printability and good runnability.

Celeste Tissue
Celeste Tissue is a strong, totally chlorine-free (TCF) pulp used in tissue production for toilet and household towels. Celeste Tissue is FSC certified with unique environmental advantages.



Deck in a Box®
Deck in a Box® is a modular system in impregnated Nordic pine for building terraces, decks and patios.

GraphoLux
The high-bright coated paper GraphoLux was launched in 2005 in a heavier grammage, 70 g/m². There has been market demand for this which was well received at the launch, in Italy and other countries.

The year at a glance

Net sales totalled SEK 96,385m (89,967).

Net profit for the year was SEK 454m (5,192).

Earnings per share amounted to SEK 1.84 (22.12).

SCA's efficiency enhancement programmes provided savings of SEK 680m during the year.

SCA strengthened its product offering within all segments with new, innovative products.

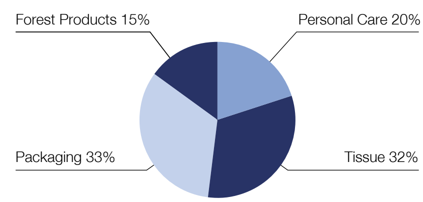
Proposed dividend is SEK 11.00 (10.50) per share.

Key figures

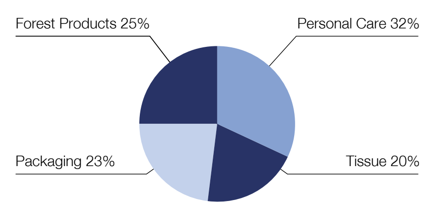
	2005		2004		2003	
	SEK	EUR[1]	SEK	EUR[1]	SEK	EUR[1]
Net sales, SEKm/EURm	96,385	10,398	89,967	9,867	85,338	9,368
Profit before tax, SEKm/EURm	433	47	6,585	721	6,967	765
Net profit for the year, SEKm	454		5,192		5,075	
Net profit for the year, SEKm/EURm[2]	4,435		5,233		4,719	
Earnings per share, SEK	1.84		22.12		21.84	
Earnings per share, SEK[2]	18.89		22.29		20.31	
Cash flow from current operations per share, SEK	18.67		24.35		34.98	
Dividend, SEK	11.00[3]		10.50		10.50	
Strategic investments, including acquisitions, SEKm/EURm	–2,514	–271	–11,738	–1,287	–7,757	–851
Shareholders' equity, SEKm/EURm	56,343	5,980	54,350	6,048	49,754	5,480
Return on equity, %	1		10		10	
Debt/equity ratio, multiple	0.70		0.63		0.44	
Average number of employees	50,916		49,919		44,191	

1) See pages 52 and 54 for exchange rates.
2) Excluding items affecting comparability.
3) Proposed dividend.

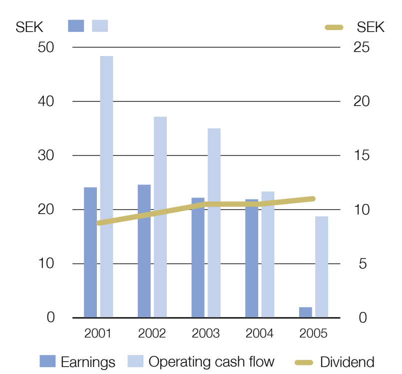
Net sales by business area (excl. intra-Group deliveries)



Operating profit by business area (excl. items affecting comparability and adjusted for central items)



Earnings, dividend and cash flow per share



Efficiency programmes strengthen our success factors

Under challenging market conditions, SCA performed relatively well in 2005. This shows the strength of SCA's long-term strategy for value creation. With our extensive efficiency programme we are strengthening our main success factors: consumer and customer focus, regional presence, and efficient production.

2005 was a very testing period and the decline in our industry in recent years can now be classified among the deepest for a very long time. Despite this, the Group showed growth of 7%, of which acquisitions accounted for 4. Adjusted for items affecting comparability, profit after financial items reached SEK 5,798m. Second-half earnings improved by 16% compared with the first half. This means that SCA is once again approaching the level where the company provides shareholder value.

Value creation within SCA is based on the company's industrial development and change processes in pace with market demands. Prerequisites for this are a long-term and strategic attitude to investment that is shared by management and the company's principal owners.

Strengths

SCA has shown a persistent strength, built up over many years. Our strengths are:

- Stable demand for our products in the mature markets and rising demand in the growth economies.
- Our continuous development and renewal of our products with improved functionality for increasingly demanding consumer and customer needs. At the same time, we create added-value by offering a progressively higher service, in close cooperation with customers.
- We have, within the framework of our global operations, attractive market positions, driven by consumer and customer preferences. Our production and distribution are placed in effective regional structures with good competitiveness.
- Our Group structure provides economies of scale as a result of extensive raw material integration with the forest products operations.

Challenging trends

These strengths have been severely tested in recent years when a number of trends changed conditions for the industry. In packaging, the good years around the turn of the millennium, with high profitability and major expansion, were followed by overcapacity and price wars. We have battled with excess supplies of containerboard with negative effects on pricing and profitability. Growth in the packaging market has been slowed by the weak European economy and by some customer segments transferring their production to low-cost countries.

In tissue, the overcapacity remained during 2005, while restructuring within the European retail industry continued with increasingly intense price competition.

Our response to this development included an cost-cutting programme that was launched in the fourth quarter of 2004. The second major step towards reduced costs was launched in August 2005.

These measures add up to the largest efficiency programme ever initiated by the Group. We are phasing out production capacity corresponding to a net total of 350,000 tonnes of containerboard and 100,000 tonnes of tissue. More than 20 facilities will be closed. A total of more than 5,000 employees are affected. When these measures are fully implemented by the start of 2008, the two programmes will reduce annual costs by more than SEK 2.7bn.

Future investments

The programmes also include significant investments designed to strengthen our customer offerings. We are increasing the rate of development and launch of new products. We are modernizing production systems and strengthening productivity and quality. Here are some examples.

In consumer tissue, we started a new machine and new converting lines in Spain during the year. Towards the end of the year we decided on a second machine in Spain, to allow growth in pace with the leading Spanish retailers.

In AFH tissue, we are advancing our positions through a new market strategy and improved distribution systems.

In Personal Care, we are transferring production to modern facilities in

Eastern Europe. All European production of feminine hygiene products will be concentrated to Slovakia. A hub for the Eastern European market will be set up in a new factory in Poland, for production of baby diapers and incontinence products.

In packaging, we have a good volume base and critical mass within traditional corrugated board transport packaging. In the future there are major growth opportunities in our focus on complete packaging solutions in close partnership with customers.

Product development and launches

Acquisitions continue to be a key part of our expansion strategy, and sometimes the only possible way to achieve a market build-up. Our current focus, however, is on profitable organic growth, primarily through active product development. This applies in particular to the growth area personal care, where product launches in 2005 included a totally new baby pant diaper. In the US, we introduced a new incontinence product during the year in a pants model with advanced functionality and design within one of the fasting growing market segments. In feminine hygiene products, we are laying the foundations for a totally new production and brand platform with successive launches in all our markets.

Our forest products operations had a good year with rising demand, increased capacity utilization and an incipient price rise towards year-end. Efficiency enhancements and product development contributed to improved profitability. New product grades are being launched within SC papers and improved newsprint.

Challenges and opportunities

While we saw signs of improvement at the end of 2005, some problems in the market remain. Restructuring within the retail sector continues. Furthermore, there is still some overcapacity within containerboard and tissue. We expect that the closure of inefficient units will gradually lead to a better market balance.

Our focus will therefore be to continue with our efficiency programme and to strengthen cost awareness within the Group. We expect significant improvements in earnings as a result of the efficiency programme. Variable costs for raw material and energy are a challenge for us and our competitors. We are making intensive efforts to compensate for these effects through increased prices.

To sum up our efforts during 2005, I can say that what is now taking shape is an increasingly improved production structure; closer to customers, more efficient and more profitable. SCA will continue to have a cost-leading position in the segments in which we operate. We will achieve this by closing down inefficient capacity, restructuring and investing more in fewer and more vibrant production units in the right location in the market. This, combined with a high rate of product launches, will considerably strengthen our future competitiveness.

I would like to extend my warm thanks to all employees for their hard work and for excellent contributions in challenging circumstances.

Jan Åström
President and CEO

Strengths for long-term value creation

SCA is a global consumer goods and paper company that develops, produces and markets personal care products, tissue, packaging solutions, publication papers and solid-wood products. SCA creates value through good awareness of the needs of consumers and customers, regional presence and efficient production.

Mission

SCA's mission is to provide essential products that improve the quality of everyday life.

Vision

SCA's vision is to be recognized as the leading provider of value for consumers, customers, shareholders and employees, in its field.

SCA's products make life considerably easier for consumers and customers in a modern society. Demand is rising steadily in mature markets and fast in the growth economies. Product attributes and functions are under constant development in new products and service in close cooperation between SCA and its customers. In addition to innovative development based on knowledge of consumer and customer needs, SCA's strengths are a global presence with strong regional market positions and an effective production structure able to take advantage of raw material integration with the forest products operations.

STRATEGY

The concentration on growth within personal care, tissue and packaging has gradually shifted the balance towards products with a higher value content. This strategy has reduced the effects of fluctuations in demand and prices in the industry's raw material supplies, and is designed to achieve more stable profitability and therefore lower operating risks.

The Group's growing size and financial position strengthen the individual business areas' opportunities to make strategic investments for increased growth and competitiveness.

SCA's strategy also includes growing by acquiring positions in attractive growth markets. The Group's drive in Eastern Europe, Latin America and Asia Pacific has built sound platforms for continued expansion. Sales in these prioritized growth markets account today for more than 15% of total sales compared with 8% five years ago.

Consumer and customer focus

SCA's awareness of the needs of customers and consumers is the Group's main factor for success. Development of new and existing products, focusing on increasingly high values and advanced functionality, provide excellent opportunities for product differentiation as well as the build-up of attractive brands and developed partnerships.

Leading market positions, strong regional roots and the Group's considerable resources make SCA an attractive partner when customers increasingly seek total solutions for the development of products and services. In consumer tissue, a growing number of retail customers have entrusted SCA with total responsibility for developing, producing and supplying an entire product category. Another example of integrated solutions is found among AFH tissue customers. SCA's strategy of creating complete hygiene solutions adapted for different customer categories and growing with the most successful distributors has proved highly successful.

In packaging, SCA seeks total solutions for strategic customers judged to be future market winners. SCA offers customers a complete analysis of the role of packaging in their entire distribution chain. Innovation centres give customers an opportunity to immediately assess alternative packaging solutions, including the increasingly important promotional and sales functions. Here the foundation is laid for meeting customers in a dialogue about products, function, services and measurable customer benefit, rather than solely cost per unit. This makes SCA an integrated part of the customer's supply chain.

Regional presence

SCA's focus means that most of production and distribution is carried out most efficiently in regional markets close to consumers and customers. Many of SCA's products cannot carry high costs for long-distance transport, particularly at a time when price competition in the retail trade is intensifying significantly. Demand is driven by increasingly regional consumer preferences that extend beyond national borders. SCA is responding to this by systematically building leading regional market positions, often through acquisitions.

The value of this regional strength with proximity to customers is now increasing further as development moves towards constantly rising demands for flexibility and speed from suppliers and producers.

Efficient production

Efficient production and organization as well as utilization of economies of scale throughout the entire production chain are essential for SCA to be able to offer competitive prices. Continual efficiency enhancements are part of SCA's corporate culture. The Group makes ongoing efforts to optimize the production structure in relation to purchasing, production and transport costs. The trend in recent years, with growing differences in cost development between different markets, has intensified requirements for efficient production as an increasingly important competitive factor.

SCA's strategy provides substantial cost advantages due to a symbiotic group structure and integration opportunities between the different business areas. The Group's own raw material base provides control over cost development and an efficient raw material integration. Cooperation strengthens the Group's position for group-wide purchasing of energy and raw materials such as recycled paper and pulp.

PROFITABILITY AND GROWTH

Profitability

SCA has grown with high profitability for many consecutive years. In 2004–2005, however, the Group's target was not achieved. In order to restore profitability, in 2005 SCA intensified the efficiency enhancement programme announced at the end of 2004, while a new and even more extensive programme was started. These programmes, which when fully completed will provide total savings of over SEK 2.7bn, are described in more detail on page 12.

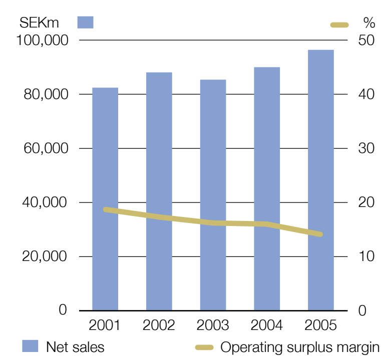
Growth

SCA is a company that is growing. Even during a challenging year in market terms like 2005, sales rose by 7%. The strategic focus has provided stable organic growth which has been complemented with selective acquisitions.

The underlying growth in SCA's present markets amounts to 3–4% overall. SCA's goal is that the Group's organic growth should reach at least that level. Historically, acquisitions have accounted for a significant share of SCA's growth and structural development. In the immediate future the focus will be on implementation of the efficiency programmes, although this does not rule out profitable acquisitions. In the long term, SCA sees continued favourable opportunities to create growth through selective acquisitions.

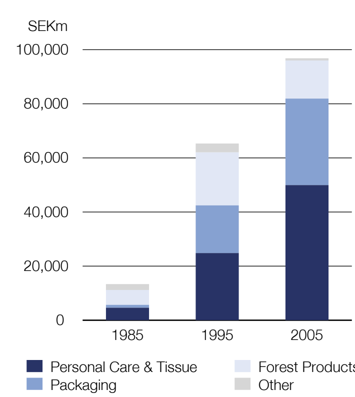
Divestments are also part of the strategy for the long-term structural

Sales and operating surplus margin[1]



[1] Exluding items affecting comparability.

Rebalancing SCA (sales 1985–2005)



development of the Group. Over the years, SCA has sold several operations in pace with shifts in market demand and concentration of the Group's business activities. Several acquisitions have also brought non-prioritized operations which were later sold at a good profit.

The long-term strength of SCA's strategy is shown by SCA's ability to systematically and profitably build up leading market positions within several different product segments and regions.

The basis for value creation within SCA is a thorough understanding of consumers' needs and preferences. This picture is from a campaign for TENA, SCA's world-leading brand for incontinence products.

Business control and financial targets

SCA's purpose is to provide its shareholders with the highest possible return. This requires the company to allocate resources in the best possible way. In order to achieve this purpose, SCA uses a cash-flow based model to measure profitability in both current operations and for new investments.

Cash flows are a good measure of the return on an investment unlike accounting based profitability measures (return on capital employed, return on equity, etc.), cash-flow measurements are not affected by depreciation, cost accruals or other accounting adjustments.

Profitability in current operations

SCA's main tool for measuring profitability in current operations is a cash-flow model where the cash operating surplus is placed in relation to a required rate of return. This return requirement stems from all assets in use, their estimated economic life and weighted cost of capital (see description on page 11). The return requirement is adjusted for inflation, which provides a measure that is independent of when in time the asset was acquired. This measure is also unaffected by accounting adjustments such as depreciation. This model is called Cash Value Added, CVA.

SCA follows up business groups and operating units by comparing the cash operating surplus with the return requirement. If the operating surplus is higher than the required return, with a CVA index over 1.0, the unit is profitable and therefore value-creating. The units are evaluated on the basis of historical, current and future profitability. These evaluations provide a basis for decisions on future investment allocations.

For the Group as a whole the requirement is set as cash flow from current operations, which is operating cash flow minus financial items and paid tax. The cash flow requirement shows at what level SCA is value-creating during an individual year. But this immediate picture must also be viewed in relation to value creation over a longer period.

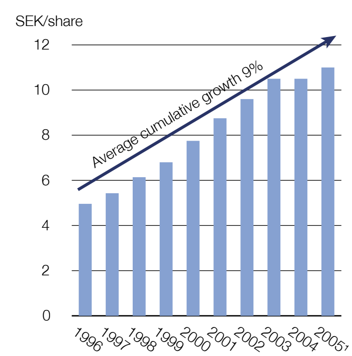
Strategic investments

SCA evaluates all strategic investments (acquisitions or expansion investments) in according with the cash flow model. All investments must provide a return that exceeds their cost of capital. The future cash flow of every strategic investment is calculated and discounted with the cost of capital. This provides a present value for the estimated future cash flow. If the present value is higher than the expenditure for the investment, the investment is value-creating. SCA's requirement is that the present value must exceed the investment expenditure by a certain margin.

Cash flow requirements

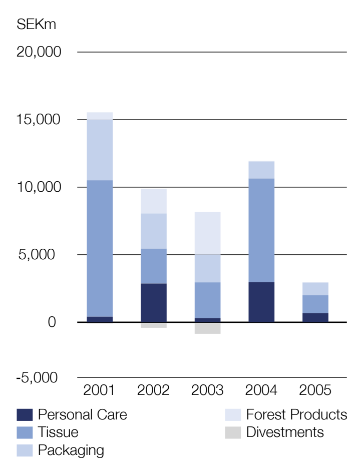
Since SCA introduced the cash flow model in 1997, the Group outperformed its targets by a wide margin during the first seven years, but underperformed during the past two years.

Dividend development over 10 years



¹⁾ Proposed dividend.

Strategic investments and divestments



Key ratios and financial targets	Result						
	2001	2002	2003	2004	2005	Average 5 yrs	Requirement [1] 2006
Cash flow from curent operations							
Result (SEKbn)	11.2	8.6	8.1	5.7	4.4	7.6	–
Requirement for value creation	–	–	–	–	5.1	–	5.2
Result/requirement (%)	–	–	–	–	86	–	–
Sustainable target (SEKbn)	5.9	6.7	7.8	8.3	8.7	–	–
Return metrics							
Capital employed target (%)	–	–	–	–	9		9
Result capital employed (%)	14	13	11	9	8[2]		–
Equity target (%)	–	–	–	–	8		8
Result equity (%)	13	12	10	10	8[2]		–
Financial metrics							
Debt/equity ratio (multiple)	0.5	0.5	0.4	0.6	0.7	0.6	0.7
Market adjusted debt/equity ratio (multiple)	0.4	0.3	0.3	0.5	0.6	0.4	–
Debt repayment ability (%)	51	47	54	35	27	43	–
Operating surplus margin requirement							
Group							15%

1) At start of 2006.
2) Excluding items affecting comparability.

Overall, SCA has met its targets by a wide margin over a business cycle.

Calculation of targets for each year has involved upward adjustment of the previous year with the estimated effects of strategic investments made during the year, based on prevailing interest rates, inflation and therefore cost of capital.

To enable a better description of whether the total operations meet the return requirement, i.e. a CVA index of 1.0, starting in 2005 SCA specifies a complementary cash flow requirement. This requirement for value creation is calculated for 2005 and initially for 2006 at SEK 5.1bn and SEK 5.2bn respectively. Based on these assumptions, corresponding requirements have been calculated for return on equity and capital employed, and for the operating surplus margin. For 2006 the corresponding requirement for capital employed is 9%, and 8% for equity, and 15% for the operating surplus margin.

These requirements have top priority in SCA's efforts to meet the challenging market conditions.

Incentive programme

SCA's incentive programme is designed to support the company's objective to create shareholder value. The programme for senior executives has two components: achievement of cash flow targets and the price performance of SCA shares compared with an index composed of SCA's major global competitors. For more detailed information about the incentive programme, see Note 32, Remuneration to senior executives, on page 84.

Dividend policy

Shareholders' return requirements are met through dividends and growth in the value of SCA shares. SCA aims to provide stable and rising dividends. Over a business cycle, about one-third of cash flow from current operations (after interest expenses and tax) is normally used for dividends and two-thirds for value-creating strategic investments. In addition to internal financing from cash flow from current operations, scope for further strategic investments is also created through additional borrowing capacity at a retained debt/equity ratio. If cash flow from current operations exceeds what the company can place in profitable investments over the long term, funds are returned to shareholders through higher dividends or repurchases of the company's own shares.

Debt/equity ratio

SCA's long-term target for the relation between book value of equity and borrowed capital amounts to 0.7. The debt/equity ratio has been chosen taking into account SCA's business risk and the composition of the product portfolio. Periodically, however, the debt/equity ratio may deviate from this target.

Financial risk management

Management of SCA's financial risks is concentrated to a central treasury function that is responsible for the Group's capital procurement, liquidity management, and currency and interest-rate risk management.

Currency risks

SCA's international activities expose the company to currency risks. The transaction exposure created by payment inflows and outflows in foreign currency is hedged at a minimum amount corresponding to booked accounts receivable and accounts payable.

The objective for financing the Group's foreign assets is that the debt/equity ratio is unaffected by exchange rate fluctuations.

Interest-rate risks

SCA mainly applies a floating rate policy for all funding currencies. In SCA's view, a short interest-rate term leads to lower funding costs over time.

Capital procurement and refinancing risk

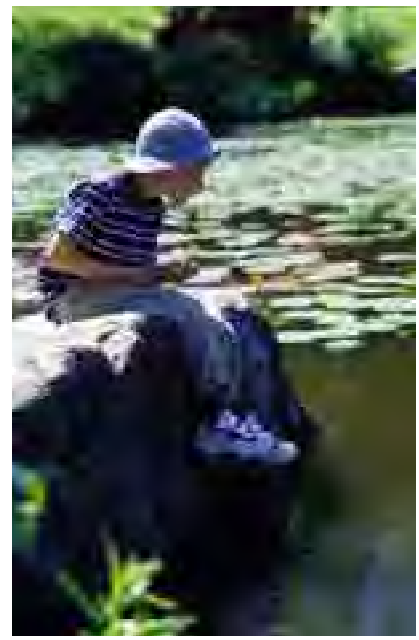
SCA's policy is to maintain a favourable distribution and a certain term on gross debt. The objective is that the average remaining maturity should exceed three years. Furthermore, financial preparedness is maintained in the form of centrally available liquid funds and committed credit facilities amounting to at least 10% of projected annual sales.

SCA's policy is that loan documentation should not contain clauses that provide the lenders with opportunities to terminate the loans or change coupon rates when changes occur in SCA's financial key ratios or credit ratings.

Ratings

SCA has a long-term credit rating of Baa1/A- and a short-term credit rating of P2/A2 from Moody's and Standard & Poor's respectively, and a short-term K1 rating in Sweden from Standard & Poor's.

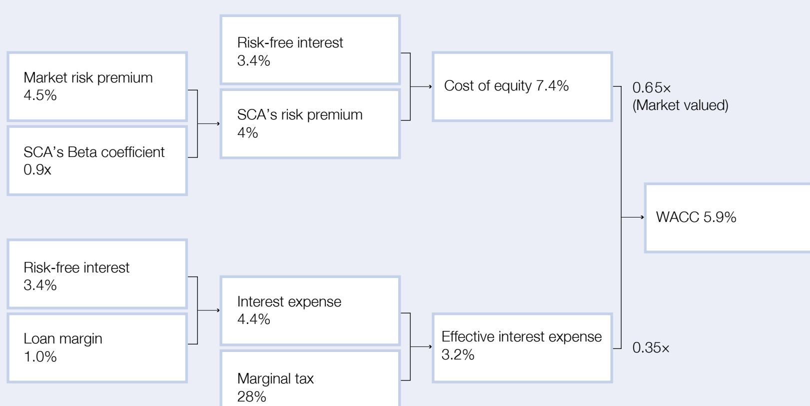
More detailed information about financial risk management is provided in Note 2 on page 66.



SCA'S REQUIRED RATE OF RETURN

SCA's required rate of return on assets is determined by the capital market's return requirement on investments in SCA shares and current long-term interest rates. The return requirement, the weighted cost of capital (WACC) was calculated at year-end 2005/2006 as shown in the table on the right:

Applying this method of calculation, the weighted cost of capital is determined as 5.9%. This means that all investments over time must generate an operating cash flow after tax, but before interest expenses, of at least 5.9% of the investment in order to be value creating and thus meet market demands.



The return requirement level set out above applies to investments in Sweden. Other borrowing costs and tax rates in other countries change the return requirement for operations in these countries.

Efficiency programmes

SCA exceeded its financial targets for many years. In recent years, however, market conditions have deteriorated within several business areas and as a consequence SCA did not reach its targets in 2004 and 2005.

SCA's Board of Directors has decided on two programmes designed to reduce costs and improve efficiency and product quality in production. These programmes are a key step towards restoring SCA's ability to meet its financial targets.

PROGRAMME 2004/2005

The first programme with cost-cutting measures was launched at the end of 2004 and complemented at the beginning of 2005. The objective is to achieve annual savings of SEK 1,200m with a full impact from 2006. Nonrecurring costs amounted to SEK 1,150m. Most of the cost savings are related to reductions in the workforce and the number of employees has been reduced by approximately 2,000 full-time equivalents (FTEs).

In the packaging operations, efficiency enhancements were carried out as well as a reduction in administrative employees. In personal care, parts of production were relocated to Eastern Europe.

PROGRAMME AUGUST 2005

An additional extensive efficiency programme was adopted in August 2005 to optimize the Group's production structure, combined with investments in technology to further strengthen productivity and quality. This programme involves closure of approximately 20 uncompetitive plants.

These measures will essentially be completed before the end of the first quarter of 2007. More than SEK 600m of the savings are expected to be realised in 2006 and a further SEK 750m in 2007, after which the full annual effect SEK 1,550m will be achieved in 2008.

The entire restructuring costs of SEK 4,940m were charged against earnings for the third quarter. Write-downs accounted for SEK 2,321m and the remaining SEK 2,619m comprised other expenses. The number of employees is expected to be reduced by 3,600 FTEs. Investments related to the programme represent a net expenditure of SEK 900m which falls within SCA's investment limit.

Packaging

Testliner capacity will be reduced by a net amount of 350,000 tonnes. In corrugated board, volumes will be concentrated to fewer, more competitive conversion units. Investments designed to improve capacity and quality will be made in these units in order to maintain volumes from the closed plants. These measures, which mainly affect Europe, will reduce the number of FTEs by 2,000. Annual savings are expected to total SEK 860m with full effect from 2008.

Tissue

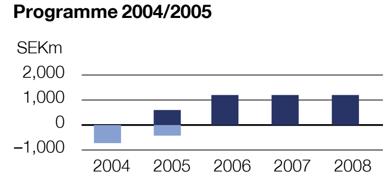
SCA's European tissue capacity will be reduced by 100,000 tonnes while investment will be made in a new 60,000 tonne machine and new, modern conversion lines which will provide higher productivity and improved product quality. The number of employees will be reduced by 1,500 FTEs. Annual savings are expected to amount to SEK 650m from 2008.

Development in 2005

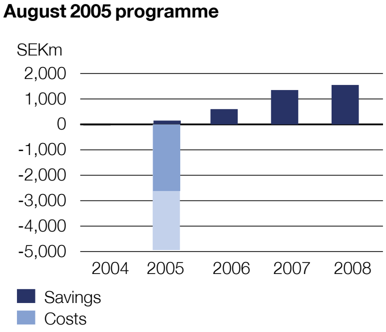
The cost-savings programmes developed according to plan. A number of closures were announced and implemented, including closure of the testliner mill in Argovia, Switzerland, in November 2005. Savings of SEK 600m were realized during the year from the first programme. Cost savings from the August 2005 had a positive impact on the result for the year of SEK 80m.

Costs and savings

Programme 2004/2005



August 2005 programme



A global organization for effective customer solutions

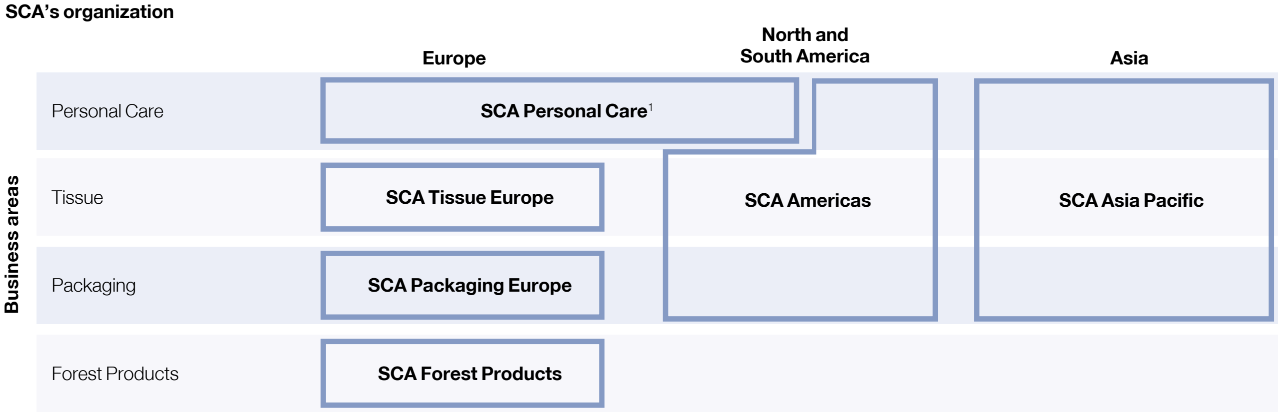
SCA's structure and organization have emerged in a dynamic process designed to meet customer requirements and effectively utilize the Group's production resources. The organization is continually developed to support expansion within prioritized product areas and markets and to exploit synergies for increased profitability.

SCA's organization in Europe is product oriented and consists of four operating units for the business areas Personal Care, Tissue, Packaging, and Forest Products. Here, SCA's market position has reached such a size and maturity that the main product areas can achieve significant regional coordination in terms of raw material supply, production, transport, administration, marketing and sales.

The organization outside Europe reflects different conditions and is geographically oriented. The operations in North and South America are organized under the SCA Americas business group. The SCA Asia Pacific business group is responsible for the operations in Asia, Australia and New Zealand. Operations within personal care, tissue and packaging are organized within these two operating units. Factors such as long distances, different time zones, significant cultural, social and economic differences, are the reason for this organizational structure.

SCA has a number of product segments where global coordination provides significant advantages. In order to exploit these advantages, SCA has a category-based organization within personal care, tissue and packaging solutions for global customers. Brand strategy is an area where the Group sees significant economies of scale. One example of this is the TENA brand in the incontinence segment with a strong position in some 90 countries. Development towards global brands and product categories also exists in the AFH tissue segment with the Tork brand.

SCA's organization



= Business Groups – the Group's operating units.

[1] The SCA Personal Care business group includes both Europe and North America.

Increased trading in SCA shares

Price trend in 2005

SCA's B shares closed 2005 on the Stockholm Stock Exchange at SEK 297 (283.50). This price corresponds to a market capitalization of approximately SEK 69bn (66), which is equivalent to 2% of the total market capitalization of the Stockholm Stock Exchange. SCA's share price rose by 5% in 2005. Including the dividend paid during the year, the total return amounted to 8%. Share price performance was weak in the first six months, but improved towards the end of the year. The highest closing price for SCA's B shares during the year of SEK 299.50 was noted on 27 December and the lowest price of SEK 246 was noted on 28 April and 7 July. During 2005, performance for SCA shares was considerably weaker than the Stockholm Stock Exchange as a whole but stronger than comparable sector indexes. Viewed over a five-year period, however, SCA shares outperformed both the Stockholm Stock Exchange and comparable sector index.

Trading in SCA shares

SCA shares are listed and traded primarily on the Stockholm Stock Exchange. The shares can also be traded on the London Stock Exchange (OTC) and as American Depositary Receipts (ADR level 1) in the US through the Bank of New York. In addition to indexes linked directly to the Stockholm and London exchanges, SCA is included on other indexes such as the Dow Jones STOXX Index, FTSE Eurotop 300 and MSCI Eurotop 300. SCA is also represented in several environmental indexes around the world, where companies are evaluated based on their ability to combine financial growth with successful environmental work, including FTSE4Good index and Dow Jones STOXX Sustainability Index.

Liquidity

High liquidity is important for attracting investors to SCA shares. The total volume of SCA shares traded on the Stockholm Stock Exchange in 2005 was 304 million shares (180), corresponding to a value of approximately SEK 81bn (52). Average daily trading was 1.2 million SCA shares with a value of SEK 321m (205) on the Stockholm Stock Exchange.

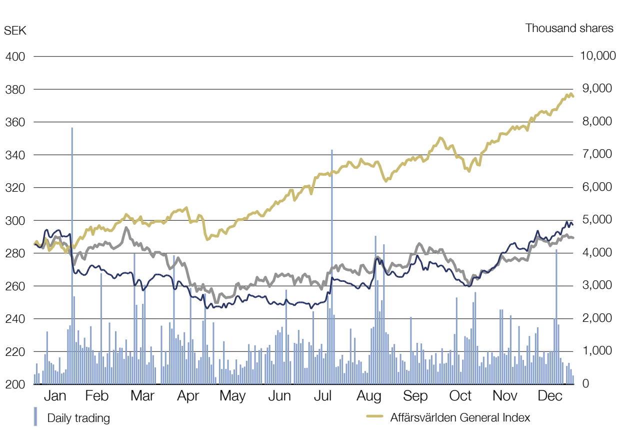
Foreign ownership

Approximately 61% (68) of the share capital is owned by investors registered in Sweden and 39% (32) by foreign investors. Foreign ownership has increased in recent years and the US and UK account for the highest percentage of shareholders registered outside Sweden, with 12% each. The proportion of institutional owners is approximately 88%.

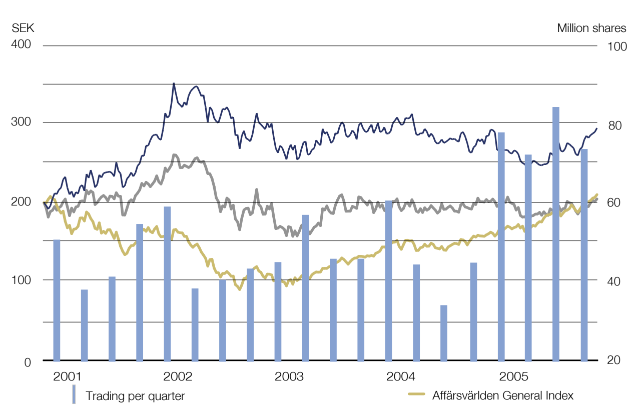
Dividend

The Board of Directors has proposed a dividend to shareholders of SEK 11.00 per share for 2005, which is SEK 0.50 higher than in 2004. The 2005 dividend corresponds to a dividend yield of 4% per share based on SCA's share price at year-end 2005. Since its shares were introduced on the Stockholm Stock Exchange in 1950, SCA has never reduced the dividend, and dividends over the past five years have increased by an average of 7% per year.

Price trend and share trading, 2005



Price trend and share trading, 2001–2005



Data per share

All earnings figures include non-recurring items. Historical data is restated due to new issues in 2001 and 1999.

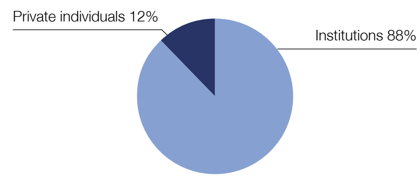
SEK per share unless otherwise indicated	2005	2004	2003	2002	2001
Earnings per share after full tax:					
After dilution	1.84	22.12	21.84	24.54	24.05
Before dilution	1.84	22.13	21.92	24.70	24.18
Market price for B shares:					
Average price during the year	266.86	288.66	279.69	311.25	230.31
Closing price, 30 December	297.00	283.50	294.00	294.00	287.00
Cash flow from current operations[1]	18.67	24.35	34.98	37.12	48.38
Dividend	11.00[2]	10.50	10.50	9.60	8.75
Dividend growth, %[3]	7	9	11	12	12
Yield, %	3.7	3.7	3.6	3.3	3.0
P/E ratio[4]	161	13	13	12	12
Price/EBIT[5]	36	17	12	10	10
Beta coefficient[6]	0.73	0.69	0.63	0.61	0.44
Pay-out ratio (before dilution), %	58[2]	68	48	39	36
Shareholders' equity, after dilution	241	233	214	207	198
Shareholders' equity, before dilution	240	231	212	208	200
Average number of shares after dilution (millions)	233.5	233.5	232.5	232.2	232.5
Number of registered shares, 31 December (millions)	235.0	235.0	235.0	232.2	232.2
Number of shares after full conversion (millions)	235.0	235.0	235.0	235.1	234.2

1) See definitions of key ratios on page 109.
2) Board proposal.
3) Rolling 5-years.
4) Share price at year-end divided by earnings per share after full tax and dilution.
5) Market capitalization plus net debt plus minority 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).

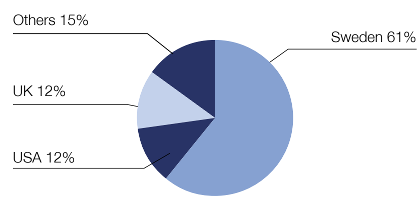
Proportion of foreign shareholders

Year	%
2005	39
2004	32
2003	31
2002	32
2001	26

Shareholders by category



Shareholders by country



SCA's ten largest shareholders

According to VPC AB's official share register for directly registered and trustee-registered shareholders at 30 December 2005, the following companies, foundations and mutual funds were the ten largest registered shareholders based on voting rights (before dilution).

	No. of votes	%	No. of shares	%
AB Industrivärden	167,600,000	28.9	23,600,000	10.1
Handelsbanken[1]	77,978,835	13.5	14,007,006	6.0
SEB[1]	43,827,281	7.6	10,339,829	4.4
Fourth Swedish National Pension Fund	15,726,809	2.7	2,834,309	1.2
Livförsäkringsaktiebolaget Skandia	15,396,738	2.7	3,503,139	1.5
Alecta	12,048,442	2.1	5,020,504	2.2
Second Swedish National Pension Fund	9,754,483	1.7	4,676,350	2.0
Föreningssparbanken[1]	9,517,767	1.6	8,822,049	3.8
Nordea mutual funds[1]	7,599,669	1.3	4,314,570	1.8
Investment AB Öresund	7,424,100	1.3	1,124,100	0.5

1) Including funds and foundations.

Share distribution

31 December 2005	Class A	Class B	Total
Registered number of shares	38,445,535	196,591,163	235,036,698
– of which treasury shares	–	1,602,283	1,602,283
Total	38,445,535	196,591,163	235,036,698

Shareholder structure

Holding	No. of votes	%	No. of share-holders	%	No. of shares	%
1–500	19,903,721	3.4	62,967	80.0	9,225,446	3.9
501–1,000	13,071,151	2.2	7,892	10.0	6,176,458	2.6
1,001–2,000	13,449,072	2.3	4,012	5.1	5,922,066	2.5
2,001–5,000	14,780,583	2.5	2,195	2.8	6,995,439	3.0
5,001–10,000	8,472,988	1.5	695	0.9	5,130,982	2.2
10,001–20,000	8,556,689	1.5	354	0.4	5,196,152	2.2
20,001–50,000	12,401,113	2.1	260	0.3	8,514,760	3.6
50,001–100,000	12,211,665	2.1	108	0.1	7,633,950	3.2
100,001–	478,199,541	82.3	242	0.3	180,241,455	76.7
Total	581,046,513		78,727		235,036,698	

Source: VPC AB

Issues 1993–2005

Since 1993, the share capital and number of shares have increased through new issues and conversions as follows:

		No. of shares	Increase in share capital, SEKm	Cash payment, SEKm	A	B	Total
1993	Conversion of debentures and new subscription through Series 1 warrants	4,030,286	40.3	119.1			
	New 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 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 issue, private placement	1,800,000	18.0	18.0	45,787,127	186,414,428	232,201,555
2002	New subscription through warrants IIB	513	0	0.1	41,701,362	190,500,706	232,202,068
2003	Conversion of debentures and new subscription though warrants IIB	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

Strong brands and world-leading positions

Personal Care comprises three product segments: incontinence products, baby diapers and feminine hygiene products. All products are sold to consumers via retail sales outlets, and incontinence products are also distributed via healthcare providers and pharmacies.

The global personal care market amounts to approximately SEK 230bn. Baby diapers account for almost half, 46%, feminine hygiene products for 36% and incontinence products for 18%. Globally, SCA is the third largest player and number two in Europe. SCA also has leading positions in North America, Latin America and Australia.

SCA's sales of Personal Care products total SEK 19.4bn, of which incontinence products account for 56% of sales, baby diapers 28% and feminine hygiene products 16%.

SCA's strengths within Personal Care are profound consumer understanding with strong brands, product development and efficient production. The aim is to grow organically by innovative and market-leading product offerings.

The past year

Demand for personal care products was good overall in 2005. Particularly strong growth was noted in the incontinence segment. Competition remains intense, however, especially within baby diapers and feminine hygiene products. SCA achieved a strong sales increase in the fast-growing Russian market during the year.

Like the rest of the Group, Personal Care suffered from rising raw material prices. This is primarily due to rising oil prices, since a large portion of the product area's raw materials, such as super absorbents, glue and plastic, are oil-based.

Net sales increased by 9% to SEK 19,351m. Operating profit increased by SEK 45m to SEK 2,474m.

During the year extensive efforts were made to strengthen SCA's positions within all three product segments by launching a large number of new products.

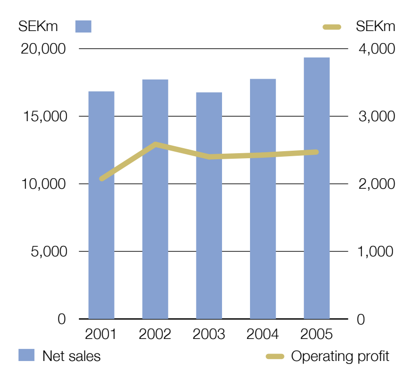
Under the TENA brand, SCA's global brand for incontinence products, TENA Discreet Activewear was launched in the US during the summer. TENA Discreet Activewear is a new type of incontinence protection in a pant model for sale through retail outlets. The product has an advanced design, a new fit and is made of newly developed material. This launch is strategically important since it focuses on the largest segment for incontinence products in terms of sales.

The Libero Up&Go pant diaper, for children who have just started to walk, was successfully re-launched in the important Nordic market where SCA is the market leader. The product was very well received by customers. Sales of baby diapers within the retailers' brands segment also developed well during the year.

Key ratios

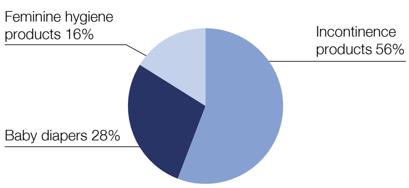
SEKm	2005	Group share, %	2004
Net sales	19,351	20	17,763
Operating cash surplus	3,427	26	3,283
Change in working capital	–334		63
Current capital expenditures, net	–436	9	–397
Other changes in operating cash flow	–202		65
Operating cash flow	2,455	33	3,014
Operating profit	2,474	32	2,429
Operating margin, %	13		14
Net operating assets	8,749	8	6,755
Return, %	28		36
Strategic investments			
– plant and equipment	–715	34	–714
– restructuring costs	0	0	–3
– company acquisitions	0	0	–2,308
Average number of employees	6,644	13	6,212

Net sales and operating profit

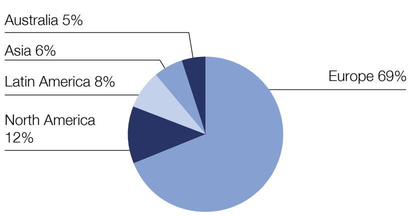


Operating cash flow

Sales breakdown by product segment



Sales breakdown by region



A new brand platform was launched during the year within feminine hygiene products. At the same time, preparations were made for the launch of a totally new product family, Secure Fit, at the beginning of 2006. A successful test launch was conducted during 2005.

During the year SCA carried out a number of activities designed to enhance the efficiency of its operations. One example of these measures is the relocation of production of feminine hygiene products from Western Europe to SCA's plant in Gemerská Hôrka, Slovakia. A decision was also made during the year on development of SCA's production plant for incontinence products and baby diapers in Olawa, Poland.

INCONTINENCE PRODUCTS

Incontinence products are available in a number of designs adapted to the specific needs of different target groups. The products are used as protection against incontinence problems, something that affects between 5 and 7% of the world population. SCA's global brand, TENA, comprises a complete product portfolio. Incontinence products range from large absorbent incontinence protection in a pant model to ultra-thin protective pads. The products are used in institutional care and are also sold to the consumer in retail outlets, via pharmacies and in special shops for healthcare products. The product portfolio also includes skin care and cleansing products.

Markets and customers

The global market for incontinence products is valued at approximately SEK 43bn. North America accounts for 30% of the market, Europe for 45% and Asia for 20%. Market growth is over 5% per year with the light incontinence products accounting for the fastest growth.

Market growth is driven by demographic factors, primarily the aging population, as well as increased purchasing power. Wider acceptance of incontinence problems, as well as the greater availability of these products in retail stores, is also driving market growth together with innovations and brand building.

The market varies across different parts of the world. In the US, Western Europe and Japan a large portion of sales goes to care institutions, while in other parts of the world, where institutional care is less developed, sales are mainly through retail outlets. In institutional markets there are also major differences within regions, such as Western Europe. In the Nordic region, for example, incontinence protection is regarded as a disability aid and is available on prescription. In a large number of countries, incontinence products are subsidized by public healthcare or through insurance. In places where incontinence protection is subsidized, market penetration has been faster and distribution is often via pharmacies and other specialist outlets.

In recent years, an increasing number of drugs and other treatments have been developed for some forms of incontinence. Absorbent products remain the solution, however, in most cases.

Market position and brands

SCA is the world leader within incontinence products. The TENA brand is available in almost every country with a developed market for incontinence products, i.e. more than 90 countries.

This makes SCA the global market leader with 26% of the market. SCA is the market leader in Europe and number three in North America. In the US, incontinence products are sold to the retail trade under the TENA Serenity brand. SCA is the leading supplier in the Australian and New Zealand markets.

Strategy and product development

SCA's objective is to continue to be the leader in terms of innovation rate and to offer a complete range of incontinence products. SCA continually develops new products, including a new generation of incontinence protection in a pant model and various protection models for women, as well as TENA Flex for individuals who require greater incontinence protection. The intention is to secure SCA's global leadership, to be at the leading edge in innovation and development and to offer a broad product portfolio.

One key reason for SCA's world-leading position within incontinence products is SCA's expertise within this area and its ability to share this knowledge with customers. This takes the form, among other things, of value-creating full-service concepts such as advice and training for healthcare providers.

SCA sees continued favourable growth opportunities in markets in both Europe and the US. Furthermore, demand is growing strongly in Asia, Eastern Europe and Latin America.

BABY DIAPERS

SCA manufactures both open baby diapers and pant diapers. The latter is the fastest growing category and here SCA has been the leading supplier in Europe since the mid-1990s. SCA produces baby diapers under its own brands and for retailers' brands. SCA has strong brands in markets such as the Nordic region, Eastern Europe, Latin America, Asia and New Zealand. SCA is also a major supplier of baby diapers to the retailers' brands in Europe. Both categories place considerable demands on product development and a high innovation rate. SCA has sales of baby diapers in some 50 countries.

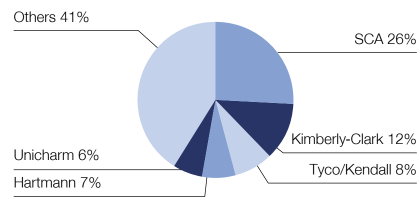
Markets and customers

The European market for baby diapers is valued at SEK 29bn. The main growth is in Eastern Europe where the penetration rate for disposable diapers is still low and growing. In Western Europe, market growth is lower mainly due to high market penetration and stable birth rates. Pant diapers, which today account for 14% in terms of value of the European diaper market, are growing at a faster rate than open diapers with annual growth of approximately 8%.

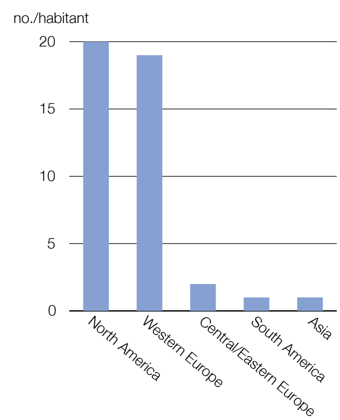
Growth for baby diapers is considerably higher in other parts of the

Libero Swimpants, combined swimming pants and diaper, was launched in 2005.

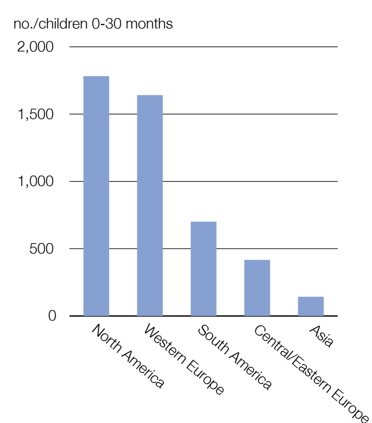
Market shares incontinence products, global



Annual per capita consumption of incontinence products



Annual per capita consumption of baby diapers



world, particularly in Asia but also in Latin America and Africa. The background is a higher birth rate and the fact that as living standards improve more disposable diapers are used.

In Europe, approximately 25% of the market for baby diapers consists of retailers' brands.

Market position and brands

SCA shares the number two position in Europe with a market share of 15%. In the retailers' brand segment, SCA is a leading player with one-third of the European market.

In the Nordic region, SCA is the market leader with the Libero brand and has a market share of about 55%. Libero is also growing fast in Eastern Europe, particularly in Russia where SCA is the third-largest supplier.

In Malaysia, Thailand and Singapore, SCA has leading positions with the Drypers brand, and in New Zealand with the Treasures brand.

Strategy and product development

SCA focuses on product development, with continuous upgrades of both own brands and retailers' brands in order to keep its market-leading positions. This requires constant technology improvements for every development step.

One example of this is the launch of the new Libero Up&Go, which is a result of SCA, together with the Japanese company Unicharm, investing in new technology to create a new generation of competitive products within the pant diaper segment. This shift has required development of an entirely new production platform. SCA is also investing in an upgraded production process and an improved product offering for open diapers.

FEMININE HYGIENE PRODUCTS

The product area comprises pads, panty liners and tampons, where SCA concentrates on the first two products. In several markets SCA increasingly and successfully complements its own brands with manufacture of products for the retailers' brands. Sales of SCA's feminine hygiene products are conducted in several European countries as well as in Latin America, Australia and New Zealand.

Markets and customers

The global market for feminine hygiene products is valued at SEK 83bn. In Europe, the distribution is 50 % for pads and approximately 25 % each for panty liners and tampons.

Market growth is determined by the number of women of fertile age. In Europe, this age group is decreasing somewhat due to an ageing population, while growth is stronger in Asia and Latin America due to a growing target group and increasing market penetration. There is also a high growth potential in Eastern Europe where usage is expected to increase.

Market position and brands

SCA's main market for feminine hygiene products is Europe where SCA is the third-largest supplier. A growing proportion of sales take place in markets such as Latin America, Eastern Europe, Australia and South Africa. In South Africa and parts of Latin America, sales are conducted via joint-venture companies.

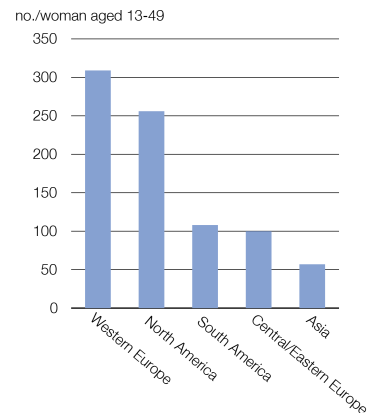
SCA has strong regional brands that are coordinated through a global brand platform. The Nordic brand is Libresse and in Europe there are a number of regional variants, such as

Bodyform, Nana and Nuvenia. Brands outside Europe include Saba, Nosotras and Libra.

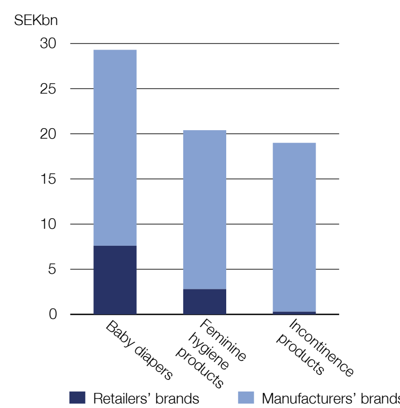
Strategy and product development

One key challenge for SCA is to strengthen its market positions. SCA is doing this through a combination of a focus on retailers' brands and new, innovative products under its own brands. SCA will also continue to

Annual per capita consumption of feminine hygiene products



Brand categories, Europe



strengthen the common brand platform.

In the sanitary pad segment, SCA is focusing determinedly on product development of a new generation of ultra-thin pads where Secure Fit is the catchword. The first launch of the new sanitary pad was conducted via a broad marketing campaign in Europe at the beginning of 2006.

Bodyform is SCA's brand for feminine hygiene products in the UK.

Partnership strengthens customer relationships

Product segments within consumer tissue include toilet paper, kitchen rolls, handkerchiefs and napkins. For the bulk-consumer customer group, Away-From Home tissue (AFH), the base in the customer offering is complete hygiene solutions for companies and institutions.

SCA is Europe's leading supplier of tissue products for consumers and bulk consumers. In the US, SCA is the third-largest player in the AFH market. In Australia and New Zealand, SCA is the market leader within consumer tissue and in Latin America the Group overall is the second-largest manufacturer of tissue.

In SCA's tissue operations, consumer tissue accounts for 59% and AFH for 41% of sales.

SCA's strategy for consumer tissue is to focus both on own brands and on supplying tissue for retailers' brands. For AFH, the aim is to continually further develop attractive customer concepts. SCA focuses on creating and strengthening long-term customer relationships through developed partnerships.

The past year

The prolonged price pressure on consumer tissue continued in 2005. Prices stabilized towards year-end. High energy costs had a negative impact on operations. The European market for AFH products was stable and SCA's operations developed well during the year.

In North America, a recovery took place in the AFH market during 2005. SCA showed strong volume development while prices could be raised in stages.

Net sales of tissue increased by 11% to SEK 30,701m. Operating profit fell by SEK 449m to SEK 1,577m.

The efficiency programme SCA started in its European tissue operations during 2004 was followed by further rationalizations during 2005. As part of this work, the production structure for tissue operations in Europe is optimized by common use and development of plants for the manufacture of AFH products and consumer tissue. The cost-cutting programme will lead to a more cost-effective delivery chain and the closure or divestment of several production plants. At the same time, other plants are upgraded.

A new tissue machine in Valls, Spain, went into operation during the year. The machine is part of SCA's ambition to exploit the rapid market growth and strengthen the customer relationship with one of Spain's leading retail chains. A decision has also been made to install a second machine.

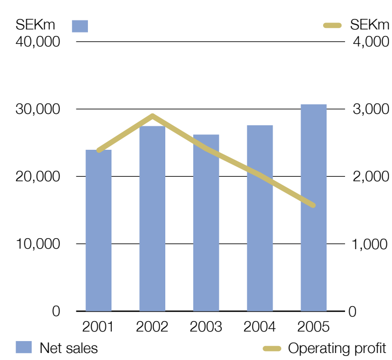
The tissue operations acquired from Munksjö were integrated from 1 June 2005.

In AFH operations in North America, an improved customer offering contributed to stronger partnerships with leading distributors. SCA continued to enhance the efficiency of the supply chain and production. Efforts were made in the US for a sustained reduction in energy consumption and raw material costs.

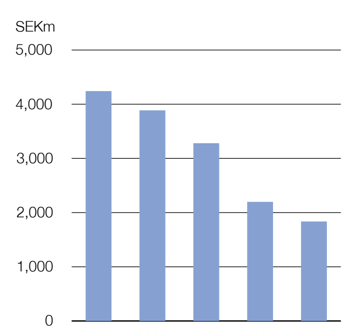
Key ratios

SEKm	2005	Group share %	2004
Net sales	30,701	32	27,596
Operating cash surplus	3,628	28	3,962
Change in working capital	233		33
Current capital expenditures, net	–1,694	35	–1,470
Other changes in operating cash flow	–395		374
Operating cash flow	1,772	24	2,151
Operating profit	1,577	20	2,026
Operating margin, %	5		7
Net operating assets	35,529	34	31,370
Return, %	4		6
Strategic investments			
– plant and equipment	–906	43	–1,310
– restructuring costs	–71	87	–67
– company acquisitions	–250	8	–6,244
Average number of employees	16,009	32	14,184

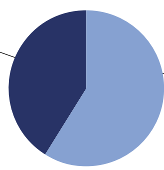
Net sales and operating profit



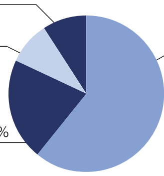
Operating cash flow



Sales breakdown by product segment



Sales breakdown by region



Deliveries	2005	2004
Consumer tissue (t)	1,077,000	936,800
AFH tissue (t)	825,700	776,800

In AFH, a totally new range of non-woven products, Tork Premium Cloths was launched worldwide, and a new Tork Cash & Carry range was launched in Europe. The launch of a new generation of AFH products consisting of paper hand towels in the highest quality segment and aluminium dispensers with a modern design started in January 2006. Two successful new launches, Xpress Nap and Tork Matic, were made for American fast food chains. Xpress Nap is a napkin system that is more hygienic and at the same time more economic than its predecessors. Tork Matic is a similar product for public toilets.

CONSUMER TISSUE

The product segment mainly comprises toilet paper, kitchen rolls, handkerchiefs and napkins. SCA manufactures and sells tissue products both as own brands and for retailers' brands.

A large proportion of sales take place in Europe. The products are also sold in Latin America, Australia, New Zealand and South-East Asia.

Markets and customers

Every year, approximately 17 million tonnes of consumer tissue is produced worldwide with a value of approximately SEK 230bn, where Europe accounts for 24%. The European market grows by an average of 3% per year. Eastern Europe, where market penetration is lower, shows a higher annual growth rate of approximately 8%. Markets in Latin America, such as Mexico and Colombia and surrounding countries where SCA has a significant presence, also show good growth figures.

The customer base for consumer

tissue primarily comprises retailers and their wholesalers. The European market has been negatively affected by mounting competition within the retail trade. This is partly a consequence of hard discounters in the retail sector which have grown substantially and captured market share from traditional retailers. The hard discounters mainly focus on sales of retailers' brands products. Total sales of tissue to retailers' brands account for 54% of the European market.

Market positions and brands

SCA is the leading supplier of consumer tissue in Europe with a market share of 20%. SCA's brands have a strong position with Zewa and Danke in Germany and Austria, Edet in Scandinavia and the Netherlands, and Velvet in the UK. In Eastern Europe, SCA is the market leader with Zewa and sales are increasing with high growth rates. SCA is Europe's largest supplier of tissue for retailers' brands, with strong positions in most European markets.

In Australia and New Zealand, SCA is the leader with a market share of 32% and 47% respectively. Products are sold under the brands Sorbent, Purex, Handee, Deeko and Orchid. SCA is the second-largest producer in the Latin American market. The strongest positions are in Ecuador with a share of 45% and Colombia with a share of 40%. Products there are marketed under the Familia brand.

Strategy and product development

SCA strives to develop strong customer relationships by offering high-quality products and long-term cooperation with key customers. This means that SCA develops clear value offerings for every customer category. In Europe,

SCA has developed a cost-effective offering to low-price chains, as well as tailor-made value-added offerings to sophisticated retail chains. The strategy also includes continued development of SCA's already strong local and regional brands.

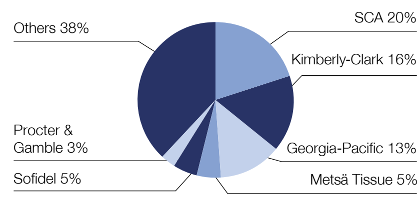
SCA utilizes the high potential for optimization at regional level in the supply chain. Making decisions close to customers and local production ensure coordination and efficiency throughout the value chain to meet different customer preferences.

SCA is actively involved in the strong growth in Eastern Europe, Russia and Latin America with own brands. The already strong positions in Australia and New Zealand will be consolidated by development of quality products and further efficiency enhancement of production.

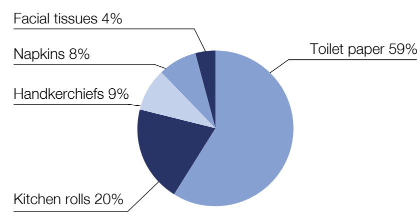
TISSUE FOR BULK CONSUMERS – AFH

Key product groups within the AFH segment are paper hand towels, toilet

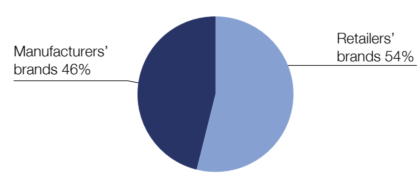
Consumer tissue, market shares in Europe



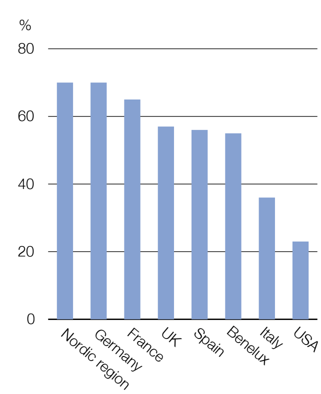
Product breakdown consumer tissue, Europe



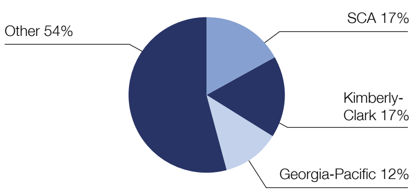
Brand categories for consumer tissue, Europe



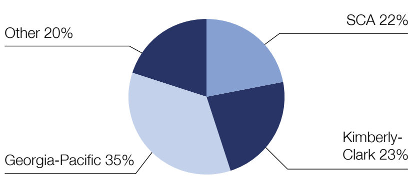
Retail trade consolidation



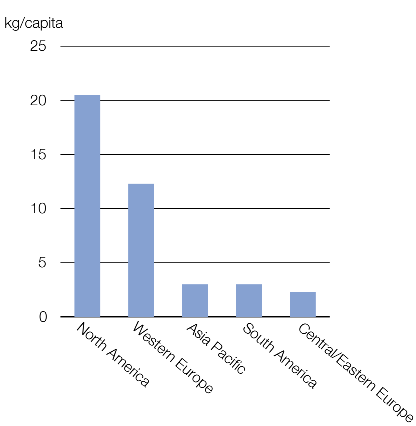
AFH – market shares in Europe



AFH – market shares in North America



Annual per capita consumption of tissue



paper, tissue napkins, facial tissues and products used in industry. SCA offers customers complete hygiene concepts for different types of public environments such as restaurants, hospitals, hotels, offices and industrial premises. These concepts consist of tissue products and related equipment such as dispensers, soap and service.

Markets and customers

The global market for AFH products is valued at SEK 76bn, of which 45% in North America and 35% in Europe. Annual market growth is approximately 2–3% in Western Europe and 2% in North America. Outside North America and Europe, market penetration for AFH products remains low but is growing at a slightly faster rate.

Growth depends on economic factors such as travel, meals taken outside the home and society's stricter hygiene demands.

The market is divided into the following customer categories: hotels, restaurants and catering (HoReCa), offices, industry and healthcare. The highest growth is taking place within HoReCa, driven by growth in the restaurant and tourist industry. The office segment grows in line with the general economy, while growth for the industry segment is slightly lower. Demand from healthcare is high but partly counterbalanced by budget restrictions in the public sector.

The products are distributed via wholesalers and service companies or directly to individual customers. Increased consolidation among customers means they are becoming larger and more international which favours global companies such as SCA.

Market positions and brands

SCA is the largest supplier of AFH products in Europe and number three in North America. Market share in Europe is 17% and 22% in North America.

Tork is SCA's global brand within AFH and is represented in Europe, North America and Asia Pacific. The brand covers the entire AFH product range. Additional brands in the US are Park Avenue, Coronet and MainStreet. In Colombia, AFH products are marketed under the Familia brand.

SCA leads the development of tissue dispensers for public environments. Common dispenser development in terms of technology and design has been initiated for the US, Europe and Australasia. Positioning of the customer offering is also being driven in a similar direction with a clear distinction between and within the three quality segments premium, value and budget products.

Strategy and product development

SCA's strategy is to build a global brand architecture based on intelligent systems solutions, an easily understood product range and distinct premium, value and budget offerings. Both brand promises and products and peripheral services are communicated consistently worldwide.

SCA consolidates and strengthens its leading positions with the aid of cost efficiency throughout the delivery chain, unique customized offerings and strategic partnerships with fast-growing customers. Key factors in this process include the development of dispensers and systems with unique design attributes. The process also builds on increased knowledge transfer between the Group's different geographical regions and better utilization of the Group's overall competence and global scale.

SCA is market leader within tissue in Russia with the Zewa brand.

A full-service packaging supplier

SCA offers both transport and consumer packaging for a broad range of products such as food and industrial goods. The packaging is mainly manufactured in corrugated board but also includes different types of plastic material.

The European corrugated board market is valued at approximately SEK 200bn. SCA is one of the leading players with 13% of the market.

SCA also offers protective packaging in Europe, the US and Asia.

SCA operates throughout the value chain – from collection of recycled fibre to tailor-made solutions for end users. The goal for SCA is to be a full-service supplier of packaging with corrugated board packaging as a base.

The past year

The market situation during 2005 was characterized by intense competition and strong price pressure driven by a surplus of containerboard in Europe. Some stabilization occurred, however, towards the end of the year. High energy costs had a negative impact on profitability.

The business area's sales increased by 3% to SEK 32,359m and operating profit decreased by 32% to SEK 1,775m.

In order to accompany its customers as they expand into new markets, SCA has invested in several plants in Eastern Europe in recent years. In 2005 this included investment in the extension of the industrial packaging plant in Kwidzyn, Poland.

The extensions and upgrades in the plants in Grenaa, Denmark, and Shenstone, UK, were completed in 2005. The Shenstone plant offers advanced packaging solutions for attractive point-of-sale displays and promotional packaging.

As part of the development of SCA's operations for temperature-assurance packaging, part of the British company Cool Logistics was acquired. This will enable the build-up of a European and global presence within packaging for temperature-sensitive goods.

SCA's packaging operations in China performed well during the year.

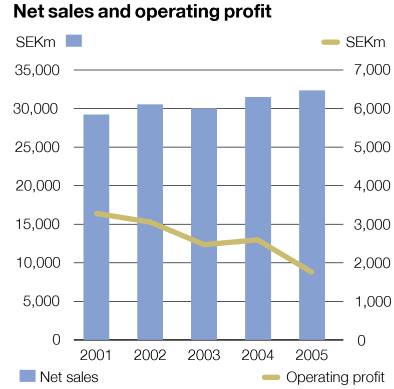
During 2005, SCA started to implement an efficiency programme designed to improve profitability within the packaging operations. Under this programme, SCA decided to phase out 17% of production of containerboard based on recycled fibre, a net quantity of 350,000 tonnes. Production will be phased out in stages. The mill in Argovia, Switzerland, was closed in November 2005, and Djursland, Denmark, will be closed in March 2006. A number of corrugated board plants in Europe will be closed or rationalized to fewer, but more efficient units.

A major rebuilding of the testliner mill in Aschaffenburg, Germany, was completed during the year. This is intended to meet the growing demand for light-weight products. This investment is market-oriented and will raise competitiveness and marks a key step towards SCA becoming one of the most cost-effective producers of containerboard in Europe.

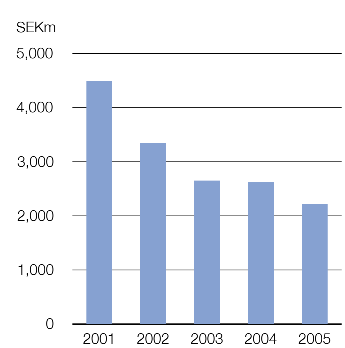
Key ratios

SEKm	2005	Group share, %	2004
Net sales	32,359	34	31,501
of which internal	382		393
Operating cash surplus	3,509	27	4,327
Change in working capital	403		–385
Current capital expenditures, net	–1,322	27	–1,322
Other operating cash flow changes	–375		–1
Operating cash flow	2,215	30	2,621
Operating profit	1,775	23	2,604
Operating margin, %	5		8
Net operating assets	29,661	28	30,145
Return, %	6		9
Strategic investments			
– plant and equipment	–422	20	–356
– restructuring costs	–11	13	–142
– company acquisitions	–174	41	–760
Average no. of employees	24,104	47	25,279

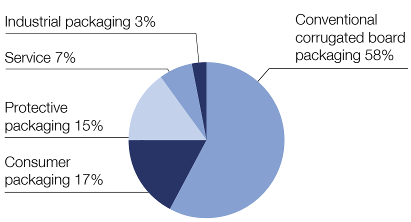
Net sales and operating profit



Operating cash flow

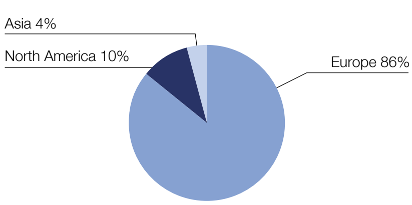


Sales by product segment[1]

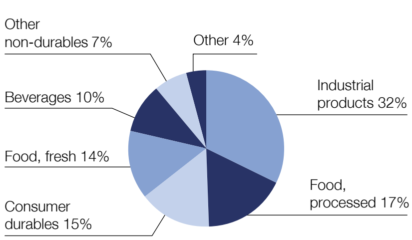


[1] Excluding external sales of containerboard.

Sales breakdown by region



Demand for corrugated board packaging in Europe by end-user



Deliveries	2005	2004
Corrugated board (million m²)	4,309	4,246
Kraftliner (kt)	731	705
Testliner/fluting (kt)	1,858	1,896

Containerboard	kt
Consumption and supply	
Kraftliner	731
Testliner	907
Fluting	951
Own production	**2,589**
Total consumption of containerboard	2,649
Net purchases	**60**

PACKAGING SOLUTIONS

SCA is one of Europe's leading supplier of transport packaging. The product portfolio increasingly includes consumer and point-of-sale packaging, customized protective packaging, and packaging for advanced printing, as well as services. By coordinating these products and services, SCA can offer its customers complete packaging solutions.

In concrete terms this means that SCA operates throughout the entire packaging chain: from packaging design, packing the goods, printing package leaflets and manuals, manaufacturing of transport packaging, including a protective interior, logistics, point-of-sale display in the store and consumer packaging which is sold with the product.

Markets and customers

The base of SCA's packaging operations is in Europe which accounts for 86% of sales within the business area. North America accounts for 10% and Asia for 4%. The market is traditionally divided into consumer packaging, 72%, and transport packaging, 22%. The distinction between these two segments is becoming increasingly blurred, mainly due to the retail trade's demands for complete packaging solutions.

Corrugated board is the material most used for transport packaging. In Europe, corrugated board accounts for over 60% of all transport packaging. In addition to protecting the goods, corrugated board also needs to be used for storage, transport and marketing. Approximately 40% of corrugated board packaging is manufactured for customers in the food industry, and approximately 30% is used for industrial products.

The properties of the product and customer demands for service and short lead times make local packaging production essential. Packaging customers are increasingly demanding a higher level of service from suppliers which also makes regional prescence important. Packaging is also used to a growing extent as promotional material in stores which places higher demands on design and new packaging concepts.

In response to customer demands for tailor-made packaging solutions, SCA has developed a number of new applications and competencies such as packaging for transport of temperature-sensitive items, high-visibility plastic packaging and protective packaging for use within the electronics, construction and automotive industries.

Market positions and brands

SCA is the second-largest supplier of corrugated board packaging in Europe. Consolidation in the industry remains low with the five largest producers only accounting for slightly below 50% of the total market.

SCA is among the world leaders within customized protective packaging. In North America SCA is the largest supplier of protective packaging solutions and these are also produced and offered in Europe and Asia. SCA also has growing packaging operations in Asia, with major global customers, such as Flextronics and Hewlett Packard.

Strategy and product development

SCA's goal is to be a full-service supplier of packaging solutions. This requires SCA to develop innovative products and total solutions in the packaging field. One example of this is continued development of design expertise in partnership with customers. Design expertise is a key component where SCA works in close partnership with customers. One successful example of this is how SCA develops attractive point-of-sale packaging for in-store promotions. Shelf-ready packaging creates added value for customers by reducing costs when the goods do not need to be repacked for the shelf.

Local presence is a cornerstone of SCA's packaging operations. Most of the customer base is rooted in the Western European economy, but in some industrial segments there has been a trend in recent years for customers to move production to low-cost countries. This has presented new business opportunities for SCA which has set up operations in countries such as Poland, Hungary and China.

At the same time as SCA wishes to increase sales in higher value segments, it is important to raise profitability through constant efforts to achieve lower costs and more efficient production.

PACKAGING TERMINOLOGY

SCA's packaging is designed to protect the contents during transport and storage, and for display to customers. SCA uses the following terms to describe the product categories.

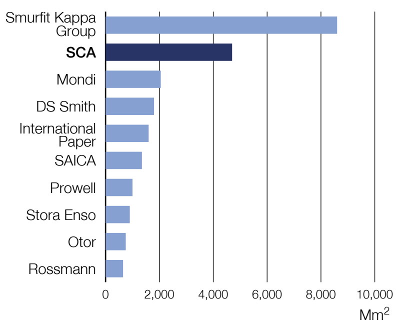
Transport packaging
Mainly used when transporting goods from production to customer. The most used material is corrugated board.

Consumer packaging
Consumer packaging sold together with its contents to the final consumer. SCA sells consumer packaging in both corrugated board, cartonboard, and plastic.

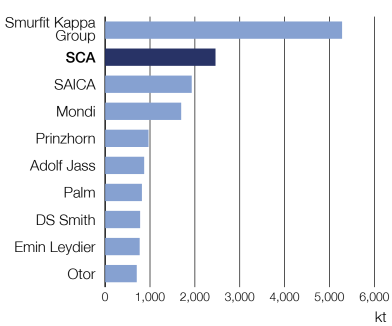
Protective packaging
Protective packaging comprises material that protects the contents from vibrations, knocks or temperature fluctuations. The material used to protect the product ranges from foam plastics to corrugated board.

Point-of-sale packaging
Point-of-sale packaging is used both to protect the goods during transport and to promote the product in the store.

Corrugated board competitors – Europe (capacity)



Containerboard competitors – Europe (capacity)



CONTAINERBOARD

SCA also manufactures containerboard, which is the outer layer (liner) and the rippled middle layer (fluting) in corrugated packaging. Containerboard is divided into two main categories: kraftliner and testliner. Kraftliner is based on fresh fibre, while the raw material for testliner is recycled fibre. SCA has nine mills that produce containerboard. Seven of these manufacture testliner, one mill manufactures kraftliner and one produces both testliner and kraftliner. SCA is largely self-sufficient of containerboard.

Markets and customers

Overcapacity in the European market is leading to reduced capacity utilization.

Demands on corrugated board

packaging are increasing, particularly with regard to printability and strength in relation to weight. For example, there is growing demand for containerboard with a white surface layer and low grammages.

Market positions

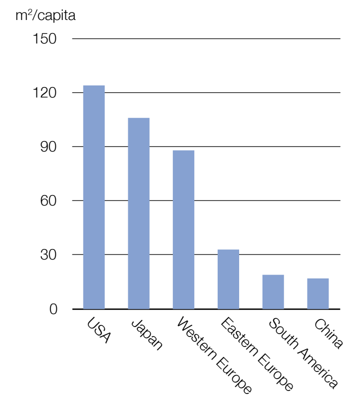
The largest corrugated board producers in Europe have their own containerboard supplies. SCA is the second-largest European producer of containerboard. Like the market for corrugated board packaging, the market for containerboard is fragmented. The five largest producers account for approximately 40% of the total market in Europe. In addition, there are a large number of small players each of which individually can have substantial local market shares.

Strategy and product development

SCA's ambition is to continue to be an integrated producer of containerboard. Integration is important for optimized utilization of SCA's corrugated board plants through efficient flows and to get the best product quality. In response to new customer demands on packaging properties, SCA is constantly adapting its production and product quality. One example of this is greater demand for light-weight products.

SCA works continuously to simplify its processes and enhance production efficiency. This is done through efforts throughout the value chain. Sales can also be made more efficient through integrated systems and stock management for SCA's corrugated board production. This will provide better opportunities for optimal production planning.

Annual per capita consumption of corrugated board



Cross-section of corrugated board showing the middle layer, fluting, encased in the outer layers, liner.

Production record for publication papers

The Forest Products business area produces publication papers, pulp and solid-wood products. Production takes place in Europe, which is also the main market. The business area also supplies the rest of the Group with raw material from SCA's own forests and is responsible for parts of the Group's transport and logistics.

Publication papers account for 50% of sales and pulp, timber and solid-wood products account for 50%.

The business area is characterized by a strong link between the different product segments, based on optimal utilization of the raw material base at every stage, from wood raw material to own energy supplies and finished products.

The past year

Demand for publication papers was high during the year and SCA broke its production record. Prices improved within all segments. The market balance improved partly due to the seven-week long labour conflict in Finland. Demand for solid-wood products was also high and prices increased slightly. Higher energy prices had a negative impact on all parts of the business area.

During the year, work started on building a new soda recovery boiler at the Östrand pulp mill in Sweden, a total investment of SEK 1.6bn. The boiler will enable increased production of electricity, and thus makes Östrand self-sufficient in electricity.

Net sales increased by 7% to SEK 15,935m. Operating profit rose by SEK 109m to SEK 1,886m.

PUBLICATION PAPERS

Publication papers are divided into newsprint and magazine paper (LWC and SC paper). LWC paper is a coated paper with a high content of mechanical pulp and SC paper is a high-gloss publication paper with a high content of mechanical pulp and/or recycled fibre. Both these grades are mainly used in periodicals, catalogues and printed advertising.

SCA has three paper mills located in Ortviken, Sweden, Laakirchen, Austria and partly owned Aylesford, UK. The three mills have a total capacity of 1.8 million tonnes of publication papers. SCA has sales of publication papers in approximately 40 countries.

Market and customers

The European market for publication papers amounts to SEK 120bn. Newsprint accounts for approximately 35% with other coated and uncoated publication papers accounting for the remainder. The market for magazine paper is growing by 3–4% per year, while annual growth in the newsprint market is slower at 1–2%.

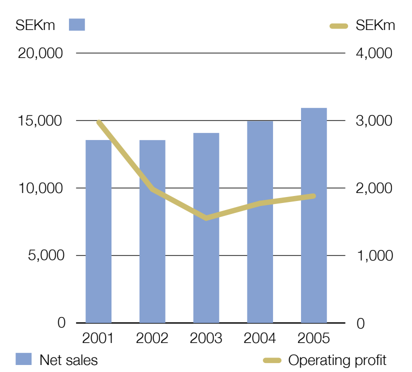
Customers include newspaper and magazine publishers as well as independent printers. Within the customer segment, particularly the publishing industry, a marked consolidation is taking place and many customers are today global media companies.

In many cases product development is conducted in close cooperation

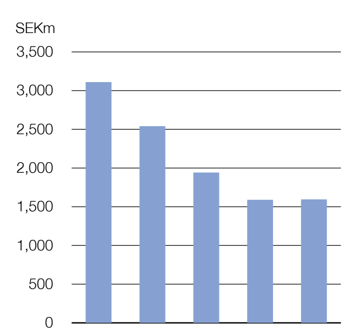
Key ratios

SEKm	2005	Group share, %	2004
Net sales	15,935	17	14,954
of which internal	1,846		1,733
Operating cash surplus	2,961	23	2,854
Change in working capital	–5		–296
Current capital expenditures, net	–1,377	28	–1,042
Other change in operating cash flow	16		73
Operating cash flow	1,595	21	1,590
Operating profit	1,886	24	1,777
Operating margin, %	12		12
Net operating assets	32,060	30	29,914
Return, %	6		9
Strategic investments			
– plant and equipment	–43	2	–19
– restructuring costs	0	0	0
– company acquisitions	–5	1	–27
Average number of employees	4,053	8	4,146

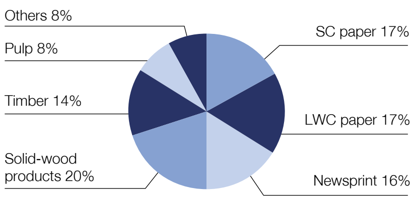
Net sales and operating profit



Operating cash flow



Sales by products



Deliveries	2005	2004
Newsprint (t)	552,000	560,000
SC paper (t)	482,000	489,000
LWC paper (t)	429,000	423,000
Solid-wood products (m^3)	1,539,000	1,500,000

Timber consumption and felling	Mm^3
Consumption, SCA's Swedish units	7.6
Felling	
– on own forest land	4.4
– as % of timber consumption	58

with publishers in order to offer paper grades suitable for specific publications. Many customers in the magazine paper market today are seeking a specific paper grade as part of their brand image.

Market position and brands

The European publication papers market is characterized by high consolidation among suppliers and the five largest players have a market share of 80% or higher for most publication paper grades. SCA is the sixth largest publication paper manufacturer in Europe. Among manufacturers of LWC paper, SCA comes seventh and is in fifth place among manufacturers of SC paper and newsprint.

SCA's products mainly focus on customers with high demands on product quality and delivery reliability. The umbrella brand for publication papers is Grapho which is available in different grades within both newsprint and magazine paper.

Strategy and product development

SCA is concentrating on an ever-growing customer orientation where the paper products that are developed to meet customer preferences also become a part of their product's image and message.

Substantial development resources are being used to improve product attributes. For example, SCA has successfully developed SC paper in the highest quality segment which has been well received in the market.

One cornerstone of the strategy is to continuously improve production efficiency. SCA can maintain a high profitability despite its relatively low market share because each mill is a large and efficient unit with a clear market orientation.

PULP, TIMBER AND SOLID-WOOD PRODUCTS

SCA is one of Europe's leading suppliers of solid-wood products. The Group has seven sawmills in Sweden with a capacity of 1.6 million cubic metres of sawn timber.

SCA's pulp mill in Östrand, Sweden, has a capacity of 400,000 tonnes of chlorine-free, bleached softwood sulphate pulp, and is adapted for production of pulp for both tissue and publication papers. Approximately half of SCA's pulp production is used in the Group's manufacture of tissue and publication papers. The remaining pulp is sold to external customers. Östrand also produces chemical thermo mechanical pulp (CTMP).

Markets and customers

The world market for bleached softwood pulp amounts to SEK 70bn. The largest customers are non-integrated manufacturers of fine paper, publication papers and tissue.

The West European market for solid-wood products amounts to approximately SEK 100bn. The industry is dominated by a large number of small and medium-sized sawmills and the five leading suppliers together only have approximately 23% of the European market.

SCA's principal markets for solid-wood products are Scandinavia, the UK and France, with the US and Japan as important niche markets. The sawmill operations primarily focus on two market segments: the wood processing industry and the building materials trade.

Market position and brands

Chlorine-free, bleached sulphate pulp is marketed under the Celeste brand. Celeste is used in a large number of applications including publication paper and tissue.

Chemical thermo mechanical pulp, CTMP, is sold under the brand CTMP Star and CTMP Star Fluff. CTMP Star is used in production of tissue and cartonboard and is particularly suitable for liquid board. The main applications for CTMP Star Fluff are personal care products, such as incontinence products and feminine hygiene products as well as baby diapers.

In the sawmill operations, SCA has a strong position in growing market segments. Among manufacturers in Europe, SCA is in sixth place in terms of size.

SCA holds a strategically important supplier position in the Do-It-Yourself (DIY) trade and building materials sector, particularly in the UK. One example of products focused on the DIY consumer is Deck in a Box – a kit for garden decking. SCA has also captured positions in this market in the US.

Strategy and product development

SCA's strategy within pulp production is to maintain maximum efficiency and develop pulp grades for specific customer segments.

In solid-wood products, SCA seeks to increase sales of products adapted to customers' specific needs, Developed Timber. As the owner of some of the most productive sawmills in Europe, SCA is well placed to focus on the most demanding segments in the market such as DIY as well as special components for the solid-wood products industry.

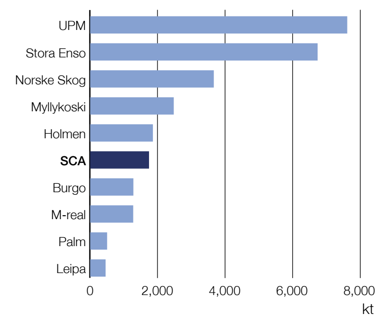
Other operations

Forest Products is also responsible for the Group's forest management, wood procurement and transport organization. SCA is the only remaining integrated forest company in northern Sweden.

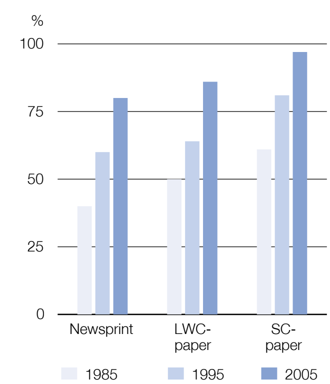
The forestry operations supply SCA's Swedish plants with timber and manage a total of 2.6 million hectares of forest, 2.0 million hectares of which is used for timber production. SCA's forestry is environmentally certified according to the Forest Stewardship Council.

SCA Transforest is responsible for distribution of products from SCA's plants in northern Sweden and for almost all sea transport for other parts of the Group. Shipments leave from 12 sea and land terminals in Europe. Transported goods set a new record in 2005.

Publication paper competitors, Europe (capacity)



Consolidation of publication paper market, Europe, 1985-2005



The diagram shows market shares for the five largest players in Europe.

PUBLICATION PAPER DEFINITIONS

LWC paper
Light Weight Coated
Coated, supercalendered paper with a high mechanical pulp content. Used for periodicals and printed advertising which require high-quality colour printing.

SC paper
Super Calendered
Supercalendered, high-gloss publication paper with a high content of mechanical pulp and/or recycled-fibre. Mainly used for periodicals and printed advertising.

Newsprint
Paper used for newspapers based on mechanical pulp from fresh wood fibre or recycled fibre.

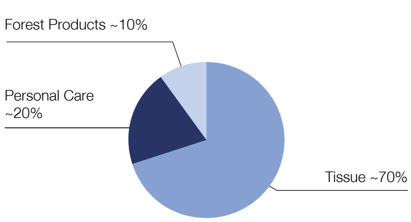
Integrated flows create synergies

Market pulp

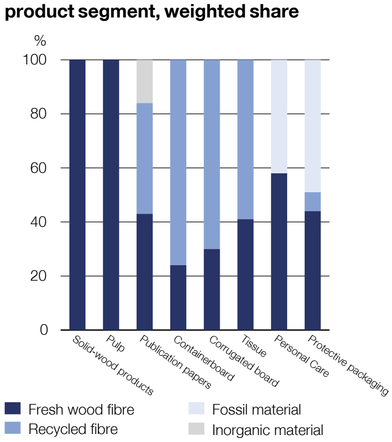
Consumption and supply 2005	kt
Total consumption	1,525
Own production[1]	696
Net purchases	**829**

[1] Östrand and Mannheim.

Breakdown of pulp consumption



Raw material consumption per product segment, weighted share



Consumption of other raw materials

	2005
Wood/chips (Mm³)	8.9
Felling from own forests (Mm³)	4.4
Net purchases (Mm³)	**4.5**
Recovered paper (Mt)	4.6
Fossil fuels (TWh)	14
Purchased electricity (TWh)	6.6

SCA is a major consumer of raw materials such as pulp, recovered paper and timber. The production process also requires energy and transport. Every year, SCA purchases raw materials for more than SEK 35bn.

RAW MATERIALS

Most of SCA's products contain some form of renewable raw material such as fresh wood fibre or recovered paper.

Wood / timber

Timber consumption comes first in SCA's raw material flow. SCA consumes a total of 8.9 million cubic metres of timber every year. Of this total, 21% is used in pulp production, 36% in the sawmills, 18% in the production of containerboard, 16% for publication papers and 9% in tissue. In the production of solid-wood products, one-third of the timber becomes chips which are used in the production of pulp, containerboard and publication papers.

During 2005, SCA harvested 4.4 million cubic metres of timber in its own forests corresponding to 49% of the Group's timber consumption.

Pulp

In terms of value, pulp is the largest input raw material for the manufacture of SCA's various products. The Group consumed 1,525,000 tonnes of market pulp in 2005 in its production. SCA's pulp plants in Östrand, Sweden, and Mannheim, Germany, had production of 696,000 tonnes of pulp and the remaining 829,000 tonnes was net purchases from external suppliers. Of the purchased pulp, approximately 70% is used in the manufacture of tissue, 20% in personal care products and the remainder in publication paper production.

Recovered paper

During 2005, SCA used approximately 4.6 million tonnes of recovered paper in its manufacturing. Approximately 1.6 million tonnes of recovered paper is collected and recycled through SCA's own European collection organization which is one of the largest in Europe.

Approximately 50% of the recovered paper is used in packaging operations for manufacture of testliner and fluting – containerboard based on recycled fibre. The remainder is used in the production of tissue, newsprint and SC paper.

ENERGY

Energy accounts for a significant portion of SCA's production costs. Energy prices rose in 2005 which led to increased costs for the Group. In addition to continuous measures designed to reduce energy consumption, SCA has a number of major projects aimed at reducing energy costs. The new soda recovery boiler in Östrand, Sweden, which will be ready in 2006, is one example of how SCA will increase its own electricity generating capacity.

Another example of how SCA works to reduce energy costs is the formation of BasEl during 2005. SCA and a number of other major, electricity intensive companies have joined together in a company in order to initiate increased energy access. The aim is to increase supplies of electricity in Sweden either in the form of production or as imports.

Electricity

SCA's total electricity consumption amounts to approximately 8.9 TWh per year which roughly corresponds to the annual production of a normal sized nuclear reactor. SCA's own electricity production amounts to 2.3 TWh while 6.6 TWh is purchased externally. SCA reduces its exposure to price changes by hedging electricity price through contracts with fixed prices for periods between three months and eight years.

Fossil fuels

SCA's consumption of fossil fuels corresponds to 14 TWh per year. Natural gas and LPG account for a full 85% of consumption. The price of fossil fuels, primarily oil, also affects the North American packaging operations indirectly since these to some extent use plastics as an input material.

Biofuels

Wood-based biofuels are an integrated part of SCA's energy chain. The biofuel operations use bark, sawdust and residual products from sawmills and fresh fibre based paper mills in SCA's own production processes.

TRANSPORT

SCA has a Group-wide system for land and sea transport that includes ships, trucks and rail transport. SCA's total transport activities amounted to 29 billion tonne kilometres. The largest proportion of transport, approximately 70% measured in tonne kilometres, is by sea. Coordination of the total transport requirement makes it possible to achieve more efficient logistics.

Business areas	Products	Main raw materials	Market
Personal Care	Incontinence products, baby diapers and feminine hygiene products	Pulp and synthetic materials such as super absorbents, glue and plastic	External
Tissue	Household and toilet paper, paper handkerchiefs, napkins and paper towels	Pulp from integrated units, purchased pulp from recovered paper	External
Packaging	Kraftliner, testliner and fluting	Timber and/or recovered fiber	External and Internal
	Corrugated board and protective packaging	Testliner, kraftliner, fluting, EPS (expanded polystyrene), EPP (expanded polypropylene) and other polymeric resins	External
Forest Products	Newsprint and magazine papers	Timber and/or recovered paper	External
	Timber, wood chips for pulp manufacture, solid-wood products, chlorine-free sulphate pulp and CTMP (chemical thermo mechanical pulp)	Wood	External and Internal

Human resources

SCA aims to offer an attractive and stimulating workplace for competent and motivated employees.

SCA is dependent on highly skilled and motivated employees in order to be the leader within its field. SCA therefore aims to ensure that the Group can continually attract, develop and retain skilled people. For SCA this means creating processes and platforms for matters such as remuneration, management succession planning, skills development and social responsibility.

2005

The efficiency programme started during the year to reduce the Group's costs will lead to a cutback of almost 5,000 employees. This corresponds to about 10% of the number of employees in the Group.

In conjunction with these efficiency enhancement measures, SCA regularly produces an action programme designed to ease the situation for the groups and individuals affected.

During the year extensive efforts were made to implement SCA's Code of Conduct. This process proceeded according to plan and all the Group's employees were informed about the contents and significance of the code.

Health and safety

SCA's aim is to offer a safe, stimulating and non-discriminatory working environment based on respect for employees. SCA's Group-wide guidelines for health and safety set out management responsibilities and include instructions that preventive measures be given highest priority. The guidelines also define how accident statistics should be compiled, followed up and published, and instruct the business groups to draw up alcohol and drug policies and rehabilitation programmes.

Code of Conduct

SCA's Code of Conduct is the foundation for the company's attitude to social responsibility and efforts to be an attractive employer. It contains guidelines for how SCA and its employees should behave with regard to such issues as human rights, child and forced labour, discrimination, business ethics and freedom of association. The code is founded on SCA's core values (respect, responsibility and excellence) and a number of internationally accepted declarations and conventions. These include the UN Declaration of Human Rights, the ILO's core conventions, and OECD guidelines for multinational companies.

The code was adopted by SCA's Board of Directors at the beginning of 2004 and was implemented in all business areas during 2005. In order to facilitate implementation, the code has been translated into 19 languages, special supervisor material has been developed, an electronic training programme has been launched on SCA's intranet and references to the code are being added to new employment contracts. Monitoring of compliance has started using a number of indicators such as, accident frequency and diversity reviews.

Support in change processes

The efficiency programmes started during 2005 have made considerable

Key figures employees 2005

SEK M	Sweden	EU excl. Sweden	Rest of Europe	America	Australia/ Asia	Rest of world	Total
Sales	6,851	60,196	3,488	16,848	8,079	923	96,385
Employees	6,288	26,450	714	9,690	7,512	262	50,916
Women, %	23%	21%	23%	27%	39%	21%	25%
Salaries	2,288	9,784	278	2,333	997	15	15,695
Social Costs	1,025	2,467	52	711	127	5	4,387

demands on the organization. SCA's core values: respect, responsibility and excellence, as well as SCA's determination to be a responsible employer require such processes to be conducted with great transparency, clarity and empathy. SCA has developed procedures for informing and supporting the employees concerned. Key components are help to find a new job, financial support and support for further training.

Leadership and skills development

SCA's objective is to offer attractive workplaces throughout the Group. The skills development programmes are designed to link the individual's enthusiasm for personal development with the company's needs for increased skills and higher competence levels.

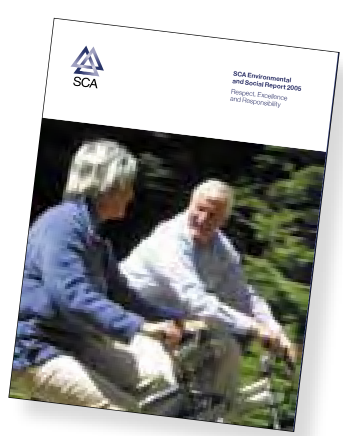
SCA invests significant amounts annually to give employees opportunities for skills development. All business groups conduct tailor-made programmes that meet their own staff development requirements. This includes further education, international work experience, mentor programmes, leadership programmes, seminars and electronic training products.

During 2005, SCA invested SEK 170m in skills-enhancement activities.

Diversity

The percentage of employees with a university education is an increasing trend and amounts to just over 12%. A growing proportion, currently about 35%, of these employees are women. This trend also applies to women in SCA's 300 top positions, with an increase from 7% in 2004 to 10% in 2005.

An extended survey also shows, among other things, that no less than 34 nationalities are represented among the 1,000 most senior employees (compared with 29 nationalities in 2004) and that the proportion of women is 12%.



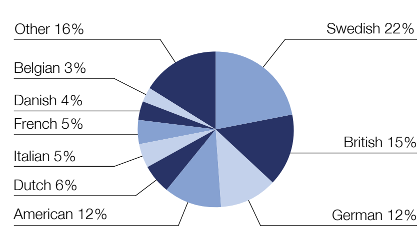
Read more about how SCA works in the Environmental and Social Report, www.sca.com.

Example of how SCA works with restructuring:

One successful example of how SCA worked with redundancies, in accordance with the Group's core values, is the closure of the Keon Park facility in Melbourne, Australia, where 140 employees were affected. In the four months leading up to the closure on 30 September 2005, a number of activities were carried out to facilitate the process for the employees. In addition to contractual severance pay, the company offered relocation support, financial advice and a special support programme for employees. A job exhibition was arranged and representatives from job centres were invited in on several occasions in order to help employees to register and make contacts.

Nationalities of SCA top 1,000 management

In total 34 nationalities. 88 % male, 12 % female.



Environment

SCA's aim is to create value for the company's shareholders and to make a positive contribution to the environment and the financial and social well-being of customers, employees and suppliers in the countries where the company operates.

SCA's environmental work has been recognized by a number of fund managers and SCA is included in several indexes including the global FTSE4Good and Dow Jones STOXX Sustainability Index. These indexes assess companies' ability to combine financial growth with successful environmental and social responsibility to create sustainable growth.

Sustainable development

SCA's sustainability policy emphasizes the company's responsibility for financial, environmental and social aspects. The policy also focuses on sustainable development. The use of renewable and recyclable raw materials, assessments of the environmental impact of the company's products, and offering a safe and non-discriminatory working environment are key points.

The Council for Sustainable Development, chaired by the President and CEO, has overall responsibility for guiding SCA's activities within environmental and social responsibility.

Environmental certification

SCA continually evaluates the environmental impact of its operations. Several of SCA's paper mills are certified in accordance with ISO 14001 (the international standard for environmental management systems) or registered in accordance with the EU's Eco-Management and Audit Scheme (EMAS). A key part of this work is making the forest assets environmentally compliant and reducing the environmental impact of forestry work. The forestry operations are certified according to ISO 14001 and the Forest Stewardship Council (FSC). To meet increasing demand, SCA offers FSC-certified pulp and paper products as well as solid-wood products. SCA is one of only a few companies in the world able to offer FSC-certified paper products based on totally chlorine-free pulp.

Ecocycle approach

SCA's products and operations form part of the ecocycle society. The products consist almost exclusively of renewable material that is reused in new products or burned to produce energy. The ecocycle approach also characterizes SCA's energy consumption. SCA gives priority to the use of natural gas and biofuel as well as its own electricity and heat production in effective co-generation plants. Several ongoing projects within the Group will increase the proportion of biofuel in energy production. These investments are part of SCA's measures to meet its environmental objective to reduce fossil carbon dioxide emissions and waste.

SCA participates in the EU's system for trading in emission allowances. The trading system started on 1 January 2005 and the first phase (2005–2007) covers the greenhouse gas carbon dioxide. The investments and energy savings already implemented by SCA and those planned for the future, provide a surplus of emission allowances.

Ahead of investments in machinery and plants, SCA takes the environmental effects into account. In addition, SCA makes substantial annual investments to protect the environment and make energy consumption more efficient. Such investments have totalled almost SEK 3bn over the past five years.

Table of contents for Financial Reporting

Board of Directors' Report[1]

Svenska Cellulosa Aktiebolaget SCA (publ)
Reg. no. 556012-6293

Group operations and structure

SCA is a global consumer goods and paper company that develops, produces and markets personal care products, tissue, packaging solutions, publication papers and solid-wood products. SCA offers essential products that make life considerably easier. Based on consumer and customer needs, new and more value-added products are continuously developed for consumers, institutions, industry and the retail trade. SCA seeks to increase the percentage of high-value-added products and the products consist almost exclusively of renewable and recyclable materials. Europe is SCA's main market, but the Group also holds strong positions in certain product areas in North America, Latin America and Asia Pacific. Expansion is taking place through organic growth and selective acquisitions, primarily within personal care, tissue and packaging. SCA owns approximately 2.0 million hectares of productive forest land, which secures most of the Swedish raw material base and allows efficient raw material integration with good control over cost development. As a natural complement to the forest operations, SCA conducts extensive sawmill operations.

SCA comprises four business areas – personal care, tissue, packaging and forest products. The business areas are organized in six business groups – SCA Personal Care, SCA Tissue Europe, SCA Packaging Europe, SCA Forest Products, SCA Americas and SCA Asia Pacific. The SCA Personal Care business group manufactures and sells products in Europe, North America and Africa. SCA Tissue Europe's operations comprise manufacture and sales of consumer and AFH tissue. There is also the SCA Packaging Europe business group which manufactures and sells packaging and packaging solutions, and the SCA Forest Products business group. The SCA Americas and SCA Asia Pacific business groups manufacture and sell packaging, personal care products and tissue.

Investments and acquisitions

Net current investments in property, plant and equipment during the year amounted to SEK 4,859m (4,270), while strategic investments amounted to SEK 2,086m (2,398). Of the strategic investments, SEK 906m comprised investments within Tissue and SEK 715m investments within Personal Care. Within Tissue included completion of the investment in a tissue machine in Spain and completion of a tissue machine in a joint-venture company in Colombia. SEK 422m of strategic investments were related to Packaging.

Company acquisitions totalling SEK 428m (9,340), on a debt-free basis, were made during the year. In the SCA Tissue Europe business group, Munksjö's Nordic tissue operations were acquired and consolidated with effect from mid-May 2005. The acquisition price amounted to SEK 257m. The SCA Packaging Europe business group acquired a number of small companies wholly or partly during the year for a total of SEK 142m. In the other business groups final payments and buyouts of minorities were made for SEK 29m.

Transition to international accounting standards

Effective 2005, SCA applies International Financial Reporting Standards (IFRS) when preparing the Group's reports. An EU directive makes this mandatory for listed companies. The effects of the transition are reported as an adjustment of opening equity for 2004. All comparative figures for 2004, but not for 2003, are restated.

A description of the effects of the transition from Swedish accounting standards to IFRS on opening and closing balance sheets for 2004 and earnings in 2004 is presented in Note 33. The effects of the transition to IAS 32 and IAS 39 at 1 January 2005 are also described in Note 33.

Result of operations

The market decline in the past four years has affected profitability in several of the Group's markets. SCA's strategic strengths: customer focus, regional presence and efficient production form the base of the Group's strong structure and provide the stamina to meet deep recessions and changed competitive patterns. Compared with the previous year, and adjusted for costs related to efficiency programmes, profit before tax decreased by 19%. Compared with the first half, earnings improved by 16% in the second half of the year. During 2005 SCA reduced costs by approximately SEK 700m through the ongoing efficiency enhancement programmes. Net sales totalled SEK 96,385m, which corresponds to growth of 7%, of which 4% from acquisitions. Exchange rate fluctuations had a positive impact on net sales of 2%.

Operating profit amounted to SEK 1,928m (7,669). Adjusted for costs related to efficiency programmes, earnings decreased by 14% and amounted to SEK 7,293m (8,439). Earnings for personal care improved by 2% and by 6% for forest products, while earnings for packaging and tissue

1) The Board of Directors' Report also includes comments sections on pages 53, 55 and 57.

decreased by 32% and 22% respectively. Exchange rate fluctuations had a positive impact on operating profit of 2%.

After adjustment for efficiency programmes, return on equity amounted to 8% (10) and return on capital employed was 8% (10).

Items affecting comparability in 2005 and 2004 were entirely related to the efficiency programme. 2003 items affecting comparability included capital gain from the sale of shares in Metsä Tissue of SEK 197m, reversal of negative goodwill SEK 418m, write-down of assets and restructuring of SEK 105m and SEK 158m respectively.

Earnings in the description of the business areas below refer to operating profit adjusted for efficiency programmes and other items affecting comparability. The breakdown of these items into business areas/segments is shown in Note 5.

Items affecting comparability **SEKm**	**2005**	**2004**	**2003**
Operating profit	1,928	7,669	7,757
	Efficiency programme		**Other**
Other income			–197
Raw material and consumables	100		
Personnel costs	1,980	599	
Other operating expenses	933		–212
Write-downs	2,352	171	57
Profit adjusted for items affecting comparability	**7,293**	**8,439**	**7,405**

SEKm	**2005**	**2004**	**2003**
Net profit for the year	454	5,192	5,075
Adjustment of operating profit as above	5 365	770	-352
Capital gain/loss on sale of shares		-170	
Tax on adjustment items as above	-1,384	-239	
Previously unrecognized loss carry forward and changed tax rates		-320	
Net profit for the year adjusted for items affecting comparability	**4,435**	**5,233**	**4,723**

Earnings trend (excluding items affecting comparability) **SEKm**	**2005:4**	**2005:3**	**2005:2**	**2005:1**	**0512**	**0412**
Net sales	25,141	24,740	23,986	22,518	96,385	89,967
Operating expenses	–21,554	–21,190	–20,711	–19,343	–82,798	–75,565
Operating surplus	**3,587**	**3,550**	**3,275**	**3,175**	**13,587**	**14,402**
Depreciation	–1,620	–1,616	–1,564	–1,519	–6,319	–5,981
Share in profits	8	3	8	6	25	18
Earnings	**1,975**	**1,937**	**1,719**	**1,662**	**7,293**	**8,439**
Financial items	–401	–393	–358	–343	–1,495	–1,254
Profit after financial items	**1,574**	**1,544**	**1,361**	**1,319**	**5,798**	**7,185**
Tax	–377	–288	–355	–343	–1,363	–1,952
Net profit for the period	**1,197**	**1,256**	**1,006**	**976**	**4,435**	**5,233**
Earnings per share, SEK	5.06	5.40	4.27	4.16	18.89	22.29
Earnings per business area and segment						
Personal Care	719	655	571	529	2,474	2,429
Tissue	379	428	391	379	1,577	2,026
Packaging	418	444	455	458	1,775	2,604
Forest Products	553	516	416	401	1,886	1,777
– Publication papers	222	206	113	121	662	470
– Pulp, timber and solid-wood products	331	310	303	280	1,224	1,307
Other	–94	–106	–114	–105	–419	–397
Total	**1,975**	**1,937**	**1,719**	**1,662**	**7,293**	**8,439**

Personal Care business area

Net sales for the business area increased by a total of 9% compared with the previous year, of which 4 percentage points are attributable to acquisitions.

Earnings increased by 2% mainly due to increased volumes within all geographic areas. Manufacturing costs were negatively affected by short supply of super absorbents which led to substantially increased prices.

Incontinence products: Following a weak start of the year, sales and earnings showed positive development and SCA strengthened its global leadership. European sales of incontinence products increased and sales to the retail sector developed particularly well. SCA's TENA is the brand with by far the highest market demand. During the year SCA worked intensively to change the product mix with the help of newly launched products with a better quality, performance and comfort, which resulted in higher margins. There was some increase during the year in retailer' brands for incontinence products as well, but this proportion remains modest. SCA supplies selected customers with whom SCA can develop partnerships within several areas.

The US market also saw a weak start to the year but volumes rose during the second half. Intensive efforts to secure distribution channels have yielded results as did the launch of new products. Both the retail market and the healthcare sector showed strong growth of 8% during the year and some price increases could be implemented.

SCA's incontinence operations in Asia developed favourably during 2005 with improved profitability and growth of approximately 10%. Sales of incontinence products in Australia and New Zealand continued to develop well.

Baby diapers: Competition in the Nordic market intensified during the year with more and increasingly aggressive campaigns. The successful relaunch of the Libero Up&Go pant diaper helped SCA to retain and even strengthen its leading position in this market. SCA also noted a very strong performance in Russia where sales increased by over 10%. Strong sales increases were also noted in Hungary and Greece.

In Europe, the price pressure on retailers' brands continued during the year. Higher raw material costs had a negative impact on margins. SCA's sales of retailers' brands developed relatively well due to a number of new, important contracts with major European retail chains.

Feminine hygiene products: The product area in Europe is developing intensively with a large range of new products, multi-packs and lower prices. During 2005 SCA prepared the launch of a new generation of ultra-thin panty liners. Sales and marketing commenced in January 2006 and had a positive start.

Sales of feminine hygiene products in Australia and New Zealand increased by approximately 10% during the year. Profitability was very satisfactory.

In Central America, sales and profitability primarily of feminine hygiene products improved. New product launches contributed to higher volumes.

Tissue business area

Total net sales for the business area increased by 11% compared with the previous year of which 9 percentage points are attributable to acquisitions in Mexico and Australia.

Earnings decreased by 22% compared with the previous year. The decline was due to lower average prices in the European consumer tissue operations and higher energy costs.

Consumer tissue: Demand for tissue in Europe was relatively good during 2005. Particularly strong growth of over 15% was noted in the Russian and Eastern European markets. Competition remains evident, however. During the third quarter SCA was able to raise the price of tissue for the first time in four years. However, this did not have an impact on earnings due to sharply increased energy costs. Further price increases were implemented with effect from the first quarter of 2006. SCA will substantially reduce its indirect costs as a result of the efficiency programmes. The tissue mill in Rovereto, Italy, was sold and a decision was made to close the plants in Tilburg, the Netherlands, Lucca, Italy, and Nisa, Portugal. The converting plants in Rantigny and Roanne, France, and Birmingham, England, were closed. Following the acquisition of Munksjö's tissue operations, the production facilities in Jönköping, Sweden, and Drammen, Norway, were rationalized. In summer 2005, production started with the new paper machine in Valls, Spain, both successfully and with very high capacity utilization. In response to the strong growth in the Iberian market, SCA decided to invest in a second paper machine in Valls, with an annual capacity of 60,000 tonnes.

In Mexico, SCA increased its sales and strengthened its market share, which is now about 18%, and earnings improved. In Australia and New Zealand, competition intensified significantly and retailers' brands captured market share which led to increased price pressure.

Tissue for bulk consumers, AFH: Demand in Europe was modest during 2005 and increased competition was noted. SCA's sales were unchanged compared with the previous year. SCA was able to compensate for lower prices through improvements in the product and market mix. Russia and other Eastern European markets showed good growth.

In the US, both volume and profitability improved during 2005. A price increase was implemented in the third quarter which had a positive impact on margins in the fourth quarter. The North American market had a good balance between supply and demand, and SCA has been able to develop its customer relationships, particularly within Hotel-Restaurant-Catering (HoReCa). SCA has two-thirds of its volume within HoReCa and invests in specific product launches for this customer category, such as Xpress Nap, a new napkin system.

Packaging business area

Total net sales for the business area increased by 3% compared with the previous year.

Earnings decreased by 32%, however, which was an effect of lower prices for corrugated board and containerboard combined with higher energy costs.

The prolonged decline in the European packaging market has led to a gradual fall in prices in a recessionary climate. During 2005 most of the European market saw weak development with the exception of Germany which increased slightly. The average price level was approximately 3% below 2004 and 7% below 2003.

SCA realized price increases in the third quarter for kraftliner and testliner of EUR 40 per tonne. The effects of these were neutralized by the increased energy costs. Further price increases for liner (EUR 50 per tonne) were announced in December. This increases opportunities for a rise in prices for corrugated board during the first half of 2006.

SCA's focus on integrated packaging solutions and services continued to develop well. Targeted efforts towards areas such as consumer electronics, specialty goods and cosmetics have yielded results in the form of increased volumes. In 2005, SCA improved and coordinated its sales and market functions, including common design functions for key customers.

Intensive work has been conducted to implement the efficiency enhancement programme in Europe. The paper mill in Argovia, Switzerland, was closed in the fourth quarter, as well as a converting plant in Brussels, Belgium. A decision was also made on closure of plants in Darlington, England, Djursland, Denmark, and Prague, Czech Republic. In addition to these closures, the operations in Sweden, Denmark and Finland were restructured.

In the US packaging operations, sales and earnings improved during the year. Costs were reduced through efficiency enhancement programmes and, combined with price increases, this compensated for higher raw material and energy costs and contributed to the positive earnings trend. The temperature-assurance protective packaging product area with the ThermoSafe brand showed positive development as did consumer packaging, while industrial packaging was exposed to intense price competition which led to pressure on margins.

In China, SCA's packaging sales increased substantially and profitability in the Chinese operations improved. The customer structure is fragmented but the strategy to increase sales to the largest customers yielded results.

Forest Products business area

Net sales within the publication papers product area increased by 5% compared with the previous year and earnings rose 41%. The earnings improvement was due to increased prices the effects of which were reduced by higher energy prices.Net sales for pulp, timber and solid-wood products increased by 8% compared with the previous year. Earnings decreased by 6%, however, due to lower average prices for pulp and solid-wood products.

Publication papers: European demand for publication papers was good during 2005. This was partly due to customer stock depletions due to the prolonged strike in Finland. The advertising market was also comparatively favourable, particularly in Germany.

SCA focused on raising profitability in each unit through intensive efforts to reduce costs and increase productivity. This, combined with favourable demand and slightly rising prices, yielded positive results.

Pulp, timber and solid-wood products: The market balance towards the end of the year was comparatively favourable for long-fibre pulp and prices were in principle unchanged since the summer. Prices of short-fibre pulp gradually stabilized in the latter part of 2005 despite considerable additional capacity in the market. Sales of solid-wood products were high and prices for Nordic pine increased due to low stocks. The Nordic spruce market was balanced during the fourth quarter with stable prices for quality products. Towards the end of the year, the lower grades were still under pressure due to the heavy storm fellings in southern Sweden at the beginning of the year. Deliveries from SCA's sawmills were high during the fourth quarter.

Operating cash flow analysis

Compared with 2004, operating cash flow declined, mainly due to the effect of a lower cash operating surplus and increased expenditure for current investments as well as payments for the ongoing efficiency enhancement programmes. Fixed-asset sales of SEK 560m (513) reduced current net capital expenditures. Paid tax decreased slightly compared with the previous year.

Operating cash flow analysis

SEKm	**2005:4**	**2005:3**	**2005:2**	**2005:1**	**0512**	**0412**
Net sales	25,141	24,740	23,986	22,518	96,385	89,967
Cash operating surplus	3,446	3,425	3,155	3,087	13,113	14,108
% of net sales	*14*	*14*	*13*	*14*	*14*	*16*
Current capital expenditures, net	–2,161	–785	–1,163	–750	–4,859	–4,270
% of net sales	*8*	*3*	*5*	*3*	*5*	*5*
Change in working capital	1,395	284	–175	–1,266	238	–646
Restructuring costs, etc.	–332	–364	–169	–156	–1,021	–355
Operating cash flow	**2,348**	**2,560**	**1,648**	**915**	**7,471**	**8,837**
Paid tax, etc.[1]	–467	–596	–311	–704	–2,078	–2,412
Free cash flow	**1,881**	**1,964**	**1,337**	**211**	**5,393**	**6,425**
Per share, SEK	*8.05*	*8.41*	*5.73*	*0.90*	*23.09*	*27.51*
Interest payments after taxes	–250	–291	–253	–237	–1,031	–737
Cash flow from current operations	**1,631**	**1,673**	**1,084**	**–26**	**4,362**	**5,688**
Per share, SEK	*6.98*	*7.16*	*4.64*	*–0.11*	*18.67*	*24.35*
Strategic investments, net	–735	–456	–741	–662	–2,594	–11,964
Cash flow before dividend	**896**	**1,217**	**343**	**–688**	**1,768**	**–6,276**
Dividend	–2	–21	–2,455	–	–2,478	–2,471
Conversion of debentures, warrants	–	–	–	–	–	1
Sale of own shares	7	3	1	2	13	15
Net cash flow	**901**	**1,199**	**–2,111**	**–686**	**–697**	**–8,731**

[1] Tax attributable to operating profit.

Financial items and tax

Financial items rose to SEK –1,495m (–1,084). The increase is primarily attributable to a higher net debt due to company acquisitions in 2004.

Total tax in 2005 was positive and amounted to SEK 21m (–1,393). The tax expense on current earnings amounted to SEK –1,363m and is calculated based on the income distribution per country within the Group, which corresponds to an average tax rate of 24%. Costs for efficiency programmes are expected to provide tax income of SEK 1,384m and the average tax rate for these costs is estimated at 26%.

Financing and shareholders' equity

Net debt amounted to SEK 39,826m, an increase of SEK 4,003m since the beginning of the year. The increase is due to a negative net cash flow of SEK 697m and negative currency effects which amounted to SEK 3,240m. In addition, remeasurements according to IAS 19 for pensions increased net debt by SEK 255m and remeasurements according to IAS 39 for financial instruments reduced the net debt by SEK 189m, providing a total increase from remeasurements of SEK 66m.

The Group's net pension liabilities increased by SEK 370m during the year. The increase was primarily due to lower discount rates and currency effects. A higher return on fund assets reduced this increase.

Consolidated shareholders' equity increased by SEK 1,992m to SEK 57,110m. Net profit for the year increased equity by SEK 454m. Currency effects, etc., had a positive impact on equity of SEK 3,903m, while dividends reduced equity by SEK 2,478m. Effects of remeasurements according to IAS 19 for pensions had a negative impact on equity of SEK 205m[1] after tax, and IAS 39, for financial instruments, had a total positive impact of SEK 318m after tax, of which SEK 95m pertained to the effect of the transition on the 2005 opening balance. The debt/equity ratio amounted to 0.65 at the beginning of the year and was 0.70 (0.63) at year-end. Taking costs from efficiency programmes into account, the interest coverage multiple was 1.3 (7.1).

Efficiency enhancement programme

In August 2005, SCA's board decided on an extensive efficiency enhancement programme to optimize the Group's production structure, combined with investments in technology for increased productivity and quality. The programme will lead to the closure of approximately 20 uncompetitive plants. The number of employees is expected to decrease by 3,600 and investments related to the programme represent increased expenditure of SEK 900m net. The entire cost for the efficiency programme of SEK 4,940m was charged against earnings for the year. Write-downs comprised SEK 2,321m and SEK 2,619m related to other costs, primarily personnel costs. The programme is expected to provide annual savings of SEK 1,550m with full effect in 2008. Just over SEK 600m is expected to be realized in 2006 and an additional SEK 750m in 2007. The programme provided savings of SEK 80m in the fourth quarter of 2005.

In addition, a complement to the 2004 efficiency programme was decided at the beginning of 2005. The cost of this amounted to SEK 425m, of which SEK 31m comprised write-downs and the remainder, SEK 394m, personnel costs.

The programme which was essentially completed during the year, resulted in total cost reductions of SEK 600m in 2005.

Environmental impact

Pursuant to the Swedish Environmental Code, it is noted that SCA conducts fourteen operations for which a permit is required and ten that are subject to an obligation to submit reports. Operations for which permits are required or reporting is mandatory account for 17% of the Group's net sales.

Six permits relate to manufacture of pulp and paper. These operations affect the environment through emissions to air and water, solid waste and noise. Seven permits relate to production of solid-wood products. These operations affect the environment through noise and emissions to air and water. One permit relates to production of fuel pellets which affect the environment through emissions to air and water, and noise.

The operations that are required to submit reports pertain to production of corrugated board packaging (three plants), EPS packaging (three plants), moulded pulp packaging (one plant), display packaging (one plant), fluff products (one plant) and converting products (one plant).

Production of corrugated packaging, EPS packaging, moulded pulp packaging and display packaging affect the outdoor environment through emissions to air and water, and through solid waste. Production of fluff products and converting products affect the outdoor environment through solid waste.

[1] Actuarial gains and losses from pension calculations are recognized directly in equity.

Research and development
Research and development costs amounted to SEK 545m (574) which corresponds to 0.6% of the Group's sales. Research and development is conducted centrally and locally in the different business groups. The central operations are conducted in the form of materials and technology research and development, while the local units work with product development, often in direct cooperation with customers.

Treasury shares
In 2001, SCA issued a total of 1,800,000 shares for cash. The shares were then acquired by SCA to be distributed to senior executives and key persons included in the employee option programme described in Note 32.

Shares transferred during the year pertain to shares that were redeemed by employees in accordance with the rules in SCA's employee option programme. Payments pertaining to the transferred shares constitute the payments received by SCA for the shares. Payments pertaining to the total holding on 1 January 2002 and 31 December 2005, respectively, comprise amounts paid by SCA for the shareholdings on each day.

Distribution of shares
During the year 1,982,322 Class A shares were converted to Class B shares. The proportion of Class A shares at year-end was 16.4%. Calculated according to IFRS recommendations, the effects of outstanding employee option programmes correspond to a maximum dilution of 0.08%, which is taken into account when calculating earnings per share for the year.

Holding of treasury shares

	Number	Nominal amount	% of share capital	Paid/received amount
Total holding 1 Jan 2002	**1,800,000**	**18,000,000**	**0.78**	**18,090,000**
Transferred during 2002	24,457	244,570	0.01	6,750,757
Transferred during 2003	65,426	654,260	0.03	15,972,803
Transferred during 2004	56,165	561,650	0.02	15,135,024
Transferred during 2005	51,669	516,690	0.02	13,496,430
Total holding, 31 Dec 2005	**1,602,283**	**16,022,830**	**0.68**	**16,102,944**

Other
A report on corporate governance and the work of the Board is provided in the Corporate Governance section on pages 95–99.

Information regarding financial risk management and the use of financial instruments for risk management is provided in the section Financial risk management on pages 10–11 and in Note 2.

Dividend
The Board of Directors has decided to propose to the Annual General Meeting a dividend of SEK 11.00 per share. Accordingly average dividend growth during the past five years will amount to 7%. In total, the dividend will amount to approximately SEK 2,570m.

Operating Cash Flow Statement
Supplementary Disclosures

Group	2005		2004		2003[2]	
	SEKm	EURm[1]	SEKm	EURm[1]	SEKm	EURm[1]
OPERATIONS						
Net sales	96,385	10,398	89,967	9,867	85,338	9,368
Operating expenses	–85,811	–9,257	–76,164	–8,353	–71,093	–7,804
Operating surplus	10,574	1,141	13,803	1,514	14,245	1,564
Adjustment for significant non-cash Items	2,539	274	305	33	–737	–81
Operating cash surplus	13,113	1,415	14,108	1,547	13,508	1,483
Change in						
– Operating receivables	1,023	110	942	103	743	82
– Inventories	–499	–54	–320	–35	191	21
– Operating liabilities	–286	–31	–1,268	–139	–197	–22
Change In working capital	238	25	–646	–71	737	81
Current capital expenditures, net	–4,859	–524	–4,270	–468	–3,902	–428
Restructuring costs, etc.	–1,021	–110	–355	–39	–241	–27
OPERATING CASH FLOW	**7,471**	**806**	**8,837**	**969**	**10,102**	**1,109**
Financial items	–1,495	–161	–1,084	–119	–790	–87
Tax payments	–1,629	–176	–2,088	–229	–1,151	–126
Other	15	2	23	3	–27	–3
CASH FLOW FROM CURRENT OPERATIONS	**4,362**	**471**	**5,688**	**624**	**8,134**	**893**
STRATEGIC INVESTMENTS, RESTRUCTURING COSTS AND DIVESTMENTS						
Company acquisitions	–428	–46	–9,340	–1,024	–4,808	–527
Expansion investments, fixed assets	–2,086	–225	–2,398	–263	–2,949	–324
Strategic restructuring costs	–81	–9	–226	–25	–437	–48
Total strategic investments	**–2,595**	**–280**	**–11,964**	**–1,312**	**–8,194**	**–899**
Divestments	1	0	0	0	961	105
Cash flow from strategic investments, Restructuring costs and divestments	**–2,594**	**–280**	**–11,964**	**–1,312**	**–7,233**	**–794**
Cash flow before dividend and new issue	**1,768**	**191**	**–6,276**	**–688**	**901**	**99**
Conversion of debentures, warrants	–	–	1	0	723	79
Sale of own shares	13	1	15	2	16	2
Dividend to shareholders	–2,478	–267	–2,471	–271	–2,235	–245
NET CASH FLOW	**–697**	**–75**	**–8,731**	**–957**	**–595**	**–65**

Net Debt	2005		2004		2003	
	SEKm	EURm[1]	SEKm	EURm[1]	SEKm	EURm[1]
Net debt, 1 January	–35,823	–3,986	–26,533	–2,922	–23,899	–2,605
Net cash flow	–697	–75	–8,731	–957	–595	–65
Remeasurements taken to equity	–66	–7	–265	–29		
Currency effects, etc.	–3,240	–158	784	42	2,188	213
Net Debt, 31 December	**–39,826**	**–4,226**	**–34,745**	**–3,866**	**–22,306**	**–2,457**

Adjustments in net debt on transition to IFRS	2005		2004	
	SEKm	EURm[1]	SEKm	EURm[1]
Net debt at 1 January according to previous year's accounting principles	–34,745	–3,866	–22,306	–2,457
Adjustment of provisions to pensions on transition to IFRS			–4,136	–455
Other effects of transition to IFRS excluding IAS 39			–91	–10
Effect of IAS 39 on transition to IFRS	–1,078	–120		
Adjusted net debt, 1 January	**–35,823**	**–3,986**	**–26,533**	**–2,922**

For additional information on adjustments in net debt on transition to IFRS, see Note 33.

1) Average exchange rate of 9.27 (9.12, 9.11) was applied in translation to EUR.

2) 2003, Swedish accounting standards.

Operating cash flow

Operating cash flow amounted to SEK 7,471m (8,837; 10,102).

The operating cash surplus decreased by SEK 995m compared with the previous year and amounted to SEK 13,113m (14,108; 13,508). In relation to net sales, the operating cash surplus margin decreased by 2 percentage points and amounted to 14%. Tied-up working capital decreased during the year which led to a positive cash flow of SEK 238m (–646; 737).

Current net capital expenditures increased by SEK 589m, mainly attributable to investments within the forest products and tissue operations, and amounted to SEK 4,859m (4,270; 3,902). Payments for ongoing efficiency programmes amounted to SEK 972m (341; 136) of which SEK 623m related to the 2005 efficiency programmes. Other operating cash flow changes amounted to SEK –49m (–14; –105).

Cash flow from current operations

Cash flow from current operations, defined as cash flow before strategic investments and dividends, amounted to SEK 4,362m (5,688; 8,134) or SEK 18.67 (24.35; 34.98) per share, a decrease compared with the previous year of 23%.

Financial expenses exceeded income by SEK 1,495m (1,084; 790) and the net expense was therefore SEK 411m higher than in the previous year. The increase is mainly attributable to a higher net debt due to acquisitions carried out in 2004. This was offset by taxes paid which were SEK 459m lower than in the previous year and amounted to SEK 1,629m (2,088; 1,151).

Cash flow from strategic investments, restructuring costs and divestments

Payments for acquisitions amounted to SEK 428m (9,340; 4,808) and mainly relate to the acquisition of Munkjö's tissue operations for SEK 257m on a debt-free basis. In addition, a number of smaller acquisitions were made mainly within the packaging operations. These acquisitions totalled SEK 171m on a debt-free basis.

Expansion investments in plant and machinery amounted to SEK 2,086m (2,398; 2,949). Expansion investments are defined as investment in new production volumes as well as in efficiency enhancing technology. The largest single investments were a tissue investment in Spain and packaging investments in Germany. In total, expansion investments within the tissue business area amounted to SEK 906m and to SEK 715m within personal care. Investments within packaging amounted to SEK 422m and SEK 43m within forest products.

Expenditure related to strategic restructuring costs amounted to SEK 81m (226; 437). Strategic restructuring costs relate to restructuring measures in conjunction with integration of acquired units.

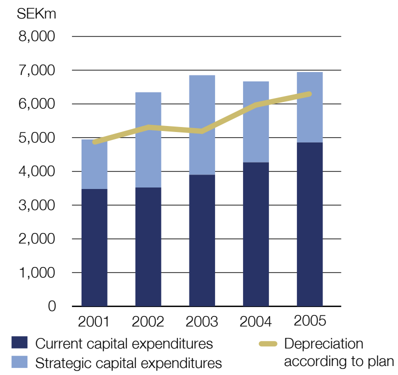
Divestments of operations only affected cash flow for the year by SEK 1m (0; 961).

Net strategic investments, restructuring costs and divestments amounted to SEK –2,594m (–11,964; –7,233).

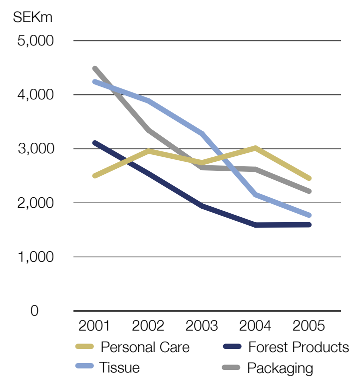
Net debt

Net debt at 31 December was SEK 39,826m (34,745; 22,306) and had therefore increased by SEK 5,081m compared with the end of the previous year. SCA applies IAS 32 and 39 with effect from 1 January 2005. The effect of the transition on the opening balance for 2005 was an increase in the net debt of SEK 1,078m. In addition to this effect, the net debt increased by SEK 4,003m where the change comprises overall a net of a positive cash flow from operations of SEK 4,362, a net outflow from strategic investments and divestments amounting to SEK 2,594m, an outflow relating to dividends to shareholders of SEK 2,478m, an inflow from sales of own shares of SEK 13m, negative effects from remeasurements according to IAS 19, Employee Benefits, and IAS 39, Financial Instruments, amounting to SEK 66m as well as negative effects from exchange-rate fluctuations of SEK 3,240m.

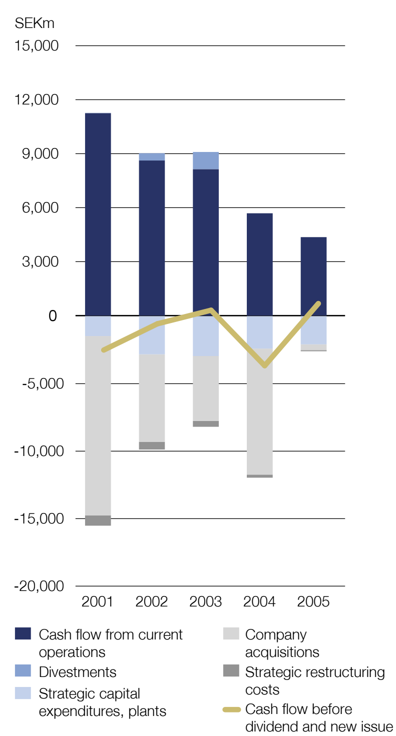
Capital expenditures



Operating cash flow by business unit



Cash flow



Income statement

Group	Note	IFRS 2005 SEKm	IFRS 2005 EURm[1]	IFRS 2004 SEKm	IFRS 2004 EURm[1]	Swedish accounting standards 2003 SEKm	Swedish accounting standards 2003 EURm[1]
Net sales		**96,385**	**10,398**	**89,967**	**9,867**	**85,338**	**9,368**
Other income	6	1,902	205	1,364	149	1,852	203
Change in fair value of biological assets	13	286	31	252	28	–	–
Change in inventories of finished goods and work in progress		–417	–45	–688	–75	–132	–14
Work performed and capitalized		167	18	201	22	84	9
Raw materials and consumables	9	–34,748	–3,748	–33,370	–3,660	–31,623	–3,471
Personnel costs	7	–21,912	–2,364	–19,418	–2,130	–18,497	–2,030
Other operating expenses	9	–31,089	–3,354	–24,505	–2,687	–22,777	–2,501
Depreciation	8,	–6,299	–680	–5,972	–655	–6,612	–726
Write-downs	8, 9	–2,372	–256	–180	–20	–	–
Share of profits of associated companies	14	25	3	18	2	124	14
OPERATING PROFIT		**1,928**	**208**	**7,669**	**841**	**7,757**	**852**
Financial income	10	156	17	453	50	544	59
Financial expenses	10	–1,651	-178	–1,537	–169	–1,334	–146
PROFIT BEFORE TAX		**433**	**47**	**6,585**	**722**	**6,967**	**765**
Tax	17	21	2	–1,393	–153	–1,861	–204
NET PROFIT FOR THE YEAR		**454**	**49**	**5,192**	**569**		
Minority share of net profit 2003						-31	-3
Net profit for 2003						**5,075**	**558**
Earnings attributable to:							
Parent Company shareholders		430	46	5,164	566	5,075	558
Minority interests		24	3	28	3	31	3

Earnings per share	2005	2004	2003
Earnings per share, SEK – Parent Company shareholders			
– before dilution effects	1.84	22.13	21.92
– after dilution effects	1.84	22.12	21.84
Proposed dividend per share, SEK	11.00	10.50	10.50
Net profit for the period	430.0	5,164.0	5,075.0
Interest on convertible debentures	0.0	0.0	4.6
Adjusted profit attributable to Parent Company shareholders	**430.0**	**5,164.0**	**5,079.6**
Average number of shares before dilution, million	233.4	233.4	231.5
Personnel convertibles	0.0	0.0	0.7
Warrants	0.1	0.1	0.3
Average number of shares after dilution	**233.5**	**233.5**	**232.5**

By business area SEKm	Net sales 2005	Net sales 2004	Net sales 2003	Earnings/Operating profit 2005	Earnings/Operating profit 2004	Earnings/Operating profit 2003
Personal Care	19,351	17,763	16,768	2,474	2,429	2,403
Tissue	30,701	27,596	26,212	1,577	2,026	2,418
Packaging	32,359	31,501	30,029	1,775	2,604	2,482
Forest Products	15,935	14,954	14,081	1,886	1,777	1,559
Publication papers	*7,998*	*7,609*	*7,267*	*662*	*470*	*662*
Pulp, timber and solid-wood products	*7,937*	*7,345*	*6,814*	*1,224*	*1,307*	*897*
Other	1,068	1,087	1,032	–5,784	–1,167	25
Intra-Group deliveries	–3,029	–2,934	–2,784			
Goodwill amortization						–1,130
Total	**96,385**	**89,967**	**85,338**	**1,928**	**7,669**	**7,757**

Other includes items affecting comparability from efficiency programmes, etc. For a segment breakdown of items affecting comparability see Note 5.

[1] Average exchange rate of 9.27 (9.12, 9.11) was applied in translation to EUR.

Net sales

Net sales amounted to SEK 96,385m (89,967; 85,338), an increase of 7% compared with 2004. Acquisitions had a positive impact on net sales of 4% and exchange-rate fluctuations had a positive effect of 2%.

Within personal care, net sales increased by a total of 9% of which 4 percentage points was attributable to acquisitions. Tissue increased net sales by 11%, most of which, 9 percentage points, was attributable to the full-year effect from acquisitions carried out in 2004 in Mexico and Australia. Packaging's net sales increased by 3%. Forest products increased net sales by 5% within publication papers and by 8% within pulp, timber and solid-wood products.

Operating profit

Operating profit amounted to SEK 1,928m (7,669; 7,757). The 2005 operating profit includes costs for efficiency programs started during the year of SEK 5,365m. Similar items affecting comparability in the previous year were SEK –770m, in 2003 they were positive and amounted to SEK 352m. Excluding costs of this type, earnings decreased by 14%. Changed exchange rates had a positive impact on earnings of 2%.

Within the personal care, earnings improved by 2% primarily due to increased volumes within all geographical areas. Manufacturing costs were negatively affected by shortages of and therefore increased prices for super absorbents.

In tissue, earnings decreased by 22% compared with the previous year. This decline is due to average lower prices within the European consumer tissue operations as well as higher energy costs.

In packaging, earnings decreased by 32% compared with 2004, an effect of lower prices for corrugated board combined with higher energy costs.

In forest products, earnings increased for publication papers by 41% as a result of raised prices. The effect was reduced, however, by higher energy costs. For pulp, timber and solid-wood products, operating profit decreased by 6% due to average lower prices for pulp and solid-wood products.

Profit before tax

Profit before tax amounted to SEK 433m (6,585; 6,967). Excluding items affecting comparability, profit was 19% lower than in the previous year and amounted to SEK 5,798m (7,185; 6,615). Exchange rate fluctuations had a positive impact on earnings of 2%.

Financial expenses increased by SEK 114m while financial income decreased by SEK 297m compared with the previous year. The increased expenses are due to the average net debt which was higher than in the previous year. This is due to acquisitions in 2004. Financial items for 2004 include SEK 170m in a capital gain from the sale of shares in Industrivärden.

Net profit for the year and tax expense

Consolidated net profit amounted to SEK 454m (5,192; 5,075). Excluding items affecting comparability net profit decreased by 15%. Tax for the year amounted to SEK 21m (–1,393; –1,861). The tax expense for current earnings is based on the actual earnings distribution between countries. The average tax rate for current profit for the year amounted to 24% while the tax rate for expenses relating to efficiency programs was estimated at 26%. Overall, this meant that tax expense was positive.

Current tax expense was SEK 1,279m (2,113; 1,870) of total taxes. Change in deferred tax affected the total tax expense positively by SEK 1,300m (720; 51).

Key ratios

Return on capital employed amounted to 2% (9; 11). Return on equity amounted to 1% (10;10). Earnings per share, after full tax and dilution effects, amounted to SEK 1.84 (22.12; 21.84). The interest coverage ratio was 1.3 (7.1; 9.8).

Excluding items affecting comparability, return on capital employed amounted to 8% (10; 10), return on equity amounted to 8% (10; 10). Earnings per share, after full tax and dilution effects, amounted to SEK 18.89 (22.29; 20.31).

A reconciliation of earnings before and after items affecting comparability is provided in the table on page 45.

Consolidated statement of recognized income and expense

	2005			2004		
SEKm	**SCA's shareholders' equity**	**Minority interests**	**Total equity**	**SCA's shareholders' equity**	**Minority interests**	**Total equity**
Income and expenses recognized directly in equity:						
Actuarial gains and losses related to pensions, incl. payroll tax	–238		–238	–334		–334
Available-for-sale financial assets:						
– Gains from fair value measurement taken to equity	191		191			–
– Transferred to profit or loss at sale	–		–			–
Cash flow hedges:						
– Gains from remeasurement of derivatives taken to equity	64		64			–
– Transfer to profit or loss for the period	3		3			–
– Transfer to cost of hedged investments	–24		–24			–
Translation difference in foreign operations	3,303	52	3,355	–1,191	10	–1,181
Gains from hedging of net investments in foreign operations	567		567	192		192
Tax on items taken to/transferred from equity	38		38	90		90
Total transactions taken to equity	**3,904**	**52**	**3,956**	**–1,243**	**10**	**–1,233**
Net profit for the period recognized in the income statement	**430**	**24**	**454**	**5,164**	**28**	**5,192**
TOTAL INCOME AND EXPENSES RECOGNIZED FOR THE PERIOD	**4,334**	**76**	**4,410**	**3,921**	**38**	**3,959**

Balance sheet

Group		IFRS				Swedish accounting standards	
		2005-12-31		2004-12-31		2003-12-31	
	Note	SEKm	EURm[1]	SEKm	EURm[1]	SEKm	EURm[1]
ASSETS							
Fixed assets							
Goodwill	11	19,823	2,104	17,594	1,958	14,586	1,607
Other intangible assets	11	2,431	258	2,140	238	897	99
Real property, machinery and equipment	12	60,127	6,381	57,223	6,367	62,402	6,873
Biological assets	13	17,716	1,880	17,383	1,934	–	–
Participations in associated companies	14	454	48	387	43	412	45
Shares and participations	15	119	13	309	35	246	27
Surplus in funded pension plans	25	470	50	418	46	2,289	252
Long-term financial assets	16	1,565	166	708	79	958	106
Deferred tax assets	17	992	105	605	67	157	17
Other long-term assets		178	19	77	8	84	9
Total fixed assets		**103,875**	**11,024**	**96,844**	**10,775**	**82,031**	**9,035**
Current assets							
Inventories	18	10,550	1,120	9,319	1,037	8,098	892
Accounts receivable	19	15,028	1,595	11,725	1,305	10,332	1,138
Tax assets	17	525	56	564	63	655	72
Other current receivables	20	3,253	345	4,073	453	3,795	418
Short-term financial assets	21	237	25	128	14	749	82
Liquid funds	21	1,684	179	3,498	389	1,696	187
Total current assets		**31,277**	**3,320**	**29,307**	**3,261**	**25,325**	**2,789**
Fixed assets held for sale	22	68	7	–	–	–	–
TOTAL ASSETS		**135,220**	**14,351**	**126,151**	**14,036**	**107,356**	**11,824**
EQUITY AND LIABILITIES							
Shareholders' equity	23						
Parent Company shareholders							
Share capital		2,350	249	2,350	261	2,350	259
Other capital provided		6,830	725	6,830	760	–	–
Restricted reserves		–	–	–	–	15,724	1,732
Reserves		3,423	363	–856	–95	–	–
Profit brought forward, incl. profit for the year 2004, 2005		43,740	4,643	46,026	5,122	26,605	2,932
Net profit for the year		–	–	–	–	5,075	557
		56,343	**5,980**	**54,350**	**6,048**		
Minority interests		767	81	768	85		
Total shareholders' equity		**57,110**	**6,061**	**55,118**	**6,133**	**49,754**	**5,480**
Minority interests						751	83
Long-term liabilities							
Long-term financial liabilities	24	18,638	1,978	19,155	2,131	15,500	1,707
Provisions for pensions	25	4,810	510	4,388	488	2,569	283
Deferred tax liabilities	17	10,524	1,117	11,382	1,266	9,847	1,085
Other long-term provisions	26	1,701	181	1,192	133	1,204	132
Other long-term liabilities	27	208	22	90	10	163	18
Total long-term liabilities		**35,881**	**3,808**	**36,207**	**4,028**	**29,283**	**3,225**
Current liabilities							
Current financial liabilities	24	20,190	2,143	15,776	1,755	9,766	1,075
Accounts payable		11,567	1,228	10,150	1,130	9,280	1,022
Tax liabilities	17	531	56	891	99	1,011	111
Current provisions	26	2,081	221	644	72	447	49
Other current liabilities	28	7,860	834	7,365	819	7,064	779
Total current liabilities		**42,229**	**4,482**	**34,826**	**3,875**	**27,568**	**3,036**
TOTAL EQUITY AND LIABILITIES		**135,220**	**14,351**	**126,151**	**14,036**	**107,356**	**11,824**
Capital employed		96,936		89,863		72,810	
Net debt		39,826		34,745		22,306	

1) The closing exchange rate of 9.42 (8:99; 9.08) is applied in translation to EUR.

Assets and capital employed

The Group's total assets increased during the year by 7% or almost SEK 9,100m. Exchange rate fluctuations during the year increased the value of assets, for example translation differences in intangible and tangible fixed assets increased the value of assets by SEK 6,432m.

Capital expenditures in fixed assets totalled SEK 6,945m (6,668; 6,851). Of these investments, SEK 2,086m (2,398; 2,949) comprised strategic investments, i.e. major expansion investments and investments for conversions to new technology. The remaining amount, SEK, 4,859m (4,270; 3,902), was attributable to current capital expenditures, i.e. maintenance investments. Approximately 75% of strategic investments were made within tissue and personal care and approximately 25% in packaging. In connection with the efficiency programme decided on and started in 2005 a write-down of fixed assets was made of SEK 2,321m.

The value in Swedish kronor of the Group's foreign net assets at 31 December 2005 amounted to SEK 28,007m (15,143; 39,850). Capital employed was 8% higher than in the previous year and totalled SEK 96,936m (89,863; 72,810). The breakdown of capital employed by currency is shown in the table below.

Financing

SCA's interest-bearing gross debt at 31 December 2005 amounted to SEK 38,828m (34,931; 24,906). The weighted average maturity at the same date was 3.8 years. The increase in the gross debt is mainly due to effects from exchange-rate fluctuations.

Net debt at 31 December was SEK 39,826m (34,745; 22,306), an increase of SEK 5,081m compared with the year-end 2004. SCA applies IAS 32 and 39 with effect from 1 January 2005. The effect on the 2005 opening balance caused an increase of the debt with the amount of SEK 1, 078m. In addition to this, there is the increase from a negative operating net cash flow of SEK 697m and from negative remeasurement effects according to IAS 19, Employees Benefits, and IAS 39, Financial Instruments, amounting to SEK 66m as well as from effects of exchange rate fluctuations which increased the net debt by SEK 3,240m.

Shareholders' equity

Shareholders equity increased during the year by SEK 1,992m and amounted to SEK 57,110m at 31 December. Net profit for the year amounted to SEK 454m. Translation effects, etc., had a positive impact on shareholders equity of SEK 3,887m and dividends a negative impact of SEK 2,478m. Effects of remeasurements according to IAS 19 and 39 had a positive impact of SEK 129m after tax, including SEK 95m as an effect of transition to IAS 39 at 1 January 2005. Translation effects in equity relate to foreign subsidiaries which according to SCA's policy were not fully hedged during the year.

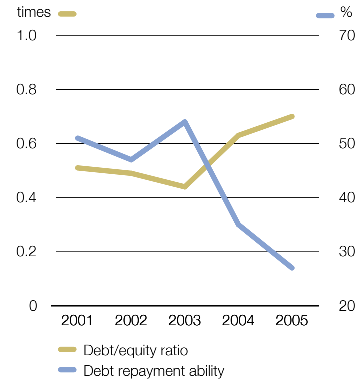
Key ratios

The debt/equity ratio was 0.70 (0.63; 0.44) and visible equity ratio amounted to 42% (44; 47).

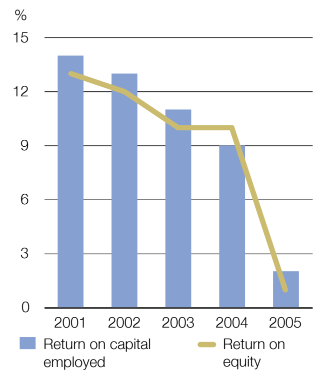
Changes in presentation of 2004

In addition to the 2004 figures being presented in accordance with international accounting standards IFRS, the figures are also restated due to preliminary acquisition balances relating to acquisitions made in 2004 being finally adopted. See Note 4 and 33.

Debt/equity ratio



Return on capital employed and equity



Capital employed, by currency

SEKm	2005	%	2004	%	2003	%
EUR	31,502	32	27,833	31	29,022	40
SEK	24,040	25	25,904	29	15,566	21
USD	11,985	12	10,615	12	10,966	15
GBP	11,587	12	10,143	11	10,208	14
MXN	3,940	4	3,080	3	106	0
AUD	2,868	3	2,554	3	76	0
DKK	2,004	2	2,374	3	2,387	3
NZD	1,767	2	1,505	2	–	–
COP	1,089	1	734	1	690	1
MYR	906	1	715	1	–	–
CNY	698	1	587	1	133	0
CAD	668	1	378	0	257	0
RUB	406	0	300	0	253	0
Other	3,476	4	3,141	3	3,146	6
Total	**96,936**	**100**	**89,863**	**100**	**72,810**	**100**

Cash flow statement

Group	IFRS				Swedish accounting standards	
	2005		2004		2003	
	SEKm	EURm*	SEKm	EURm*	SEKm	EURm*
Operating activities						
Profit before tax	433	47	6,585	722	6,967	765
Adjustment for non-cash items[1]	10,064	1,086	5,896	647	5,100	558
	10,497	**1,133**	**12,481**	**1,369**	**12,067**	**1,323**
Taxes paid	–1,629	–176	–2,088	–229	–1,151	–126
Cash flow from operating activities before changes in working capital	**8,868**	**957**	**10,393**	**1,140**	**10,916**	**1,197**
Cash flow from changes in working capital						
Change in inventories	–499	–54	–320	–35	191	21
Change in operating receivables	1,023	110	942	103	743	82
Change in operating liabilities	-286	-31	-1,268	-139	-197	-22
Cash flow from operating activities	**9,106**	**982**	**9,747**	**1,069**	**11,653**	**1,278**
Investing activities						
Acquisition of subsidiaries[2]	–391	–42	–7,305	–801	–1,581	–173
Sold units[3]	1	0	–	–	961	105
Acquisition of tangible and intangible fixed assets[4]	–7,482	–807	–7,096	–778	–6,763	–742
Sale of tangible fixed assets	560	60	513	56	0	0
Payment of loans to external parties	–154	–16	–112	–12	–	–
Repayment of loans from external parties	–	–	–	–	8	1
Cash flow from investing activities	**–7,466**	**–805**	**–14,000**	**–1,535**	**–7,375**	**–809**
Financing activities						
New issue	–	–	–	–	435	48
Sale of own shares	13	1	15	2	16	2
Loans raised	–	–	8,311	911	–	–
Amortization of debt	–1,149	–124	–	–	–3,339	–367
Dividend paid**	–2,478	–267	–2,471	–271	–2,235	–245
Cash flow from financing activities	**–3,614**	**–390**	**5,855**	**642**	**–5,123**	**–562**
Cash flow for the year	**–1,974**	**–213**	**1,602**	**176**	**–845**	**–93**
Liquid funds at the beginning of the year	3,498	377	1,929	212	2,826	308
Exchange differences in cash and cash equivalents	160	17	–33	1	–52	–3
Liquid funds at the end of the year[5]	**1,684**	**181**	**3,498**	**389**	**1,929**	**212**

Note 1-5 see page 57.

*Average exchange rate of 9.27 (9.12, 9.11) was applied in translation to EUR.

** Including dividends to minorities.

Cash flow from operating activities

Cash flow from operating activities amounted to SEK 9,106m (9,747; 11,653) and was thus SEK 641m lower than in the previous year. Cash flow from operating activities before changes in working capital was SEK 1,525m lower than in the previous year. This despite tax payments for the year being SEK 459m lower than in 2004.

Tied-up working capital decreased during the year which led to a positive effect on cash flow of SEK 238m compared with a negative effect of SEK 646m in the previous year.

The correlation between Cash flow from operating activities and Cash flow from current operations in accordance with the Operating cash flow statement is presented below:

SEKm	2005	2004	2003
Cash flow from operating activities	**9,106**	**9,747**	**11,653**
Less			
– Strategic restructuring costs	81	226	437
Add			
– Current capital expenditures	–4,859	–4,270	–3,902
– Accrued interest	34	–15	–54
Cash flow from current operations as shown in the Operating cash flow statement	**4,362**	**5,688**	**8,134**

Cash flow from investing activities

Cash flow from investing activities amounted to SEK –7,466m (–14,000; –7,375). Acquisition costs for subsidiaries, excluding net debt and liquid funds in the acquired companies, amounted to SEK –391m (–7,305; –1,581). The largest acquisition was Munksjö's tissue operations in the Nordic region. Investments in tangible and intangible fixed assets amounted to SEK -7,482m (–7,096; –6,763). Of this, SEK 2,086m related to strategic investments, i.e. expansion investments and investments for conversions to new technology.

The correlation between Cash flow from investing activities and Cash flow from strategic investments, restructuring costs, and divestments according to the Operating cash flow statement is presented below:

SEKm	2005	2004	2003
Cash flow from investing activities	**–7,466**	**–14,000**	**–7,375**
Less			
– Current capital expenditures	4,859	4,270	3,902
– Payment of loans to external parties	154	112	–
– Repayment of loans from external parties	–	–	–8
Add			
– Strategic restructuring costs	–81	–226	–437
– Net debt in acquired companies	–37	–2,035	–3,227
– Investments financed via leasing	–23	–85	–88
Cash flow from strategic investments, restructuring costs and divestments according to the Operating cash flow statement	**–2,594**	**–11,964**	**–7,233**

Cash flow from financing activities

Cash flow from financing activities amounted to SEK –3,614m (5,855; –5,123). Net amortization of debt during the year amounted to SEK 1,149m which led to a negative cash flow compared with a positive cash flow in the previous year of SEK 8,311m due to increased borrowing that was required to finance acquisitions.

Dividend payments to shareholders were slightly higher compared with the previous year and amounted to SEK 2,478m (2,471; 2,235).

Cash flow for the year

Cash flow for the year therefore amounted to SEK –1,974m (1,602; –845).

The correlation between Cash flow for the year and Net cash flow as shown in the Operating cash flow statement is presented below:

SEKm	2005	2004	2003
Cash flow for the year	**–1,974**	**1,602**	**–845**
Less			
– Payment of loans to external parties	154	112	–
– Repayment of loans from external parties	–	–	–8
– Amortization of debt	1,149	–	3,339
– Loans raised	–	–8,311	–
Add			
– Net debt in acquired companies	–37	–2,035	–3,227
– Accrued interest	34	–15	–54
– Investments through finance leases	–23	–85	–88
– Conversion of loan to equity	–	1	288
Net cash flow according to Operating cash flow statement	**–697**	**–8,731**	**–595**

1) Adjustment for non-cash items, SEKm	**2005**	**2004**	**2003**
Depreciation and write-downs fixed assets	8,673	6,152	6,555
Fair value measurement of forest assets	–286	–252	–
Unpaid relating to efficiency programme	1,928	304	–
Paid restructuring costs, previously expenses	–	–	-395
Other	–251	–308	–1,060
Total	**10,064**	**5,896**	**5,100**

2) Acquired operations, SEKm	**2005**	**2004**	**2003**
Fixed assets	344	8,625	6,179
Operating assets	116	4,294	1,255
Liquid funds	8	125	317
Provisions	–23	–380	–1,050
Net debt excl. liquid funds	–37	–2,035	–3,227
Operating liabilities	–65	–3,156	–685
Minority interests	56	–20	–69
Total net assets incl. goodwill	**399**	**7,453**	**2,720**
Value in Group as associated companies	–	–23	–822
Purchase price paid	**399**	**7,430**	**1,898**
Liquid funds in acquired companies	–8	–125	–317
Effect on Group's liquid funds	**391**	**7,305**	**1,581**

3) Sold operations, SEKm	**2005**	**2004**	**2003**
Fixed assets	0	0	597
Operating assets	0	0	346
Liabilities	0	0	–266
Gain/loss on sale	1	0	284
Purchase price received	**1**	**0**	**961**
Liquid funds in sold companies	0	0	0
Effect on Group's liquid funds	**1**	**0**	**961**

4) Investments in tangible fixed assets

Investments in tangible fixed assets during the year totalled SEK 7,505m (7,181; 6,851), of which SEK 23m (85; 88) was financed through finance leases.

5) Liquid funds, SEKm	**2005**	**2004**	**2003**
Cash and bank balances	1,592	2,735	1,696
Short-term investments, maturity <3 months	92	763	233
Total	**1,684**	**3,498**	**1,929**

The Group's total liquidity reserve at year-end amounted to SEK 10,497m (9,175; 18,041).

Interest paid, SEKm			
Interest paid	–1,937	–1,162	–1,118
Interest received	311	118	280
Total	**–1,626**	**–1,044**	**–838**

Parent Company's financial reports

Income statement

SEKm	Note	2005	2004
Operating income		**118**	**135**
Operating expenses			
Other external costs	34	–182	–196
Personnel costs	35	–294	–180
Depreciation of tangible and intangible assets	36	–49	–50
Other operating expenses, net		–80	–95
Total operating expenses		**–605**	**–521**
OPERATING PROFIT		**–487**	**–386**
Financial items	37		
Income from participations in Group companies		1,565	4,055
Income from participations in other companies		12	22
Interest income and similar profit/loss items		170	58
Interest expenses and similar profit/loss items		–920	–751
Total financial items		**827**	**3,384**
PROFIT AFTER FINANCIAL ITEMS		**340**	**2,998**
Appropriations	38	–2	707
Taxes	39	363	99
NET PROFIT FOR THE YEAR		**701**	**3,804**

Cash flow statement

SEKm	2005	2004
Operating activities		
Profit after financial items	340	2,998
Adjustment for non-cash items	–35	–775
	305	2,223
Taxes paid	–246	–101
Cash flow from operating activities before changes in working capital	**59**	**2,122**
Cash flow from changes in working capital		
Change in operating receivables[1]	950	556
Change in operating liabilities[1]	–803	–98
Cash flow from operating activities	**206**	**2,580**
Investing activities		
Capital contribution[2]	–8,106	–
Sold units	–	5,642
Acquisition of tangible and intangible fixed assets	–69	–60
Sale of financial assets	11	–
Sale of tangible fixed assets	49	7
Payment of loans to external parties	–	–5,526
Repayment of loans from external parties	167	369
Cash flow from investing activities	**–7,948**	**432**
Financing activities		
New issue, capital contribution	–	1
Sale of own shares, etc.	15	15
Loans raised	10,176	–
Amortization of debt	–	–580
Dividend paid	–2,451	–2,450
Cash flow from financing activities	**7,740**	**–3,014**
Cash flow for the year	**–2**	**–2**
Liquid funds at the beginning of the year	2	4
Liquid funds at the end of the year	**0**	**2**

1) The dealings of the Parent Company with the Swedish subsidiaries relating to tax are reported as Change in operating receivables and operating liabilities respectively.
2) Capital contribution pertains to contributions to existing subsidiaries.

Supplementary disclosures	2005	2004
Interest and dividends paid and received		
Dividends received	1,565	3,179
Interest paid	–819	–758
Interest received	168	72
Total	**914**	**2,493**

Balance sheet

SEKm	Note	31 Dec 2005	31 Dec 2004
ASSETS			
Fixed assets			
Intangible assets	40		
Capitalized expenditure for development costs		17	24
		17	24
Tangible assets	41		
Buildings and land		6,043	6,023
Machinery and equipment		1	1
		6,044	6,024
Financial assets			
Shares and participations	42	53,899	45,793
Interest-bearing receivables		39	43
Interest-bearing receivables from subsidiaries		5,763	5,497
		59,701	51,333
Total fixed assets		**65,762**	**57,381**
Current assets			
Receivables from subsidiaries	43	1,558	1,827
Tax assets	39	7	–
Other current receivables	44	115	77
Cash and bank balances		0	2
Total current assets		**1,680**	**1,906**
TOTAL ASSETS		**67,442**	**59,287**

SEKm	Note	31 Dec 2005	31 Dec 2004
EQUITY, PROVISIONS AND LIABILITIES			
Shareholders' equity	45		
Share capital		2,350	2,350
Premium reserve		–	6,830
Statutory reserve		7,283	451
Revaluation reserve		1,363	1,363
Total restricted equity		*10,996*	*10,994*
Profit brought forward		13,204	11,443
Net profit for the year		701	3,804
Total unrestricted equity		*13,905*	*15,247*
Total shareholders' equity		**24,901**	**26,241**
Untaxed reserves	38	121	119
Provisions			
Provisions for taxes	39	1,227	1,356
Provisions for pensions	35	306	242
Other provisions	46	24	–
Total provisions		**1,557**	**1,598**
Long-term liabilities			
Long-term interest-bearing liabilities	47	44	129
Other long-term liabilities		0	2
Total long-term liabilities		**44**	**131**
Current liabilities			
Liabilities to subsidiaries	43	40,696	30,874
Current interest-bearing liabilities	47	6	–
Accounts payable		23	17
Taxes payable	39	–	251
Other current liabilities	48	94	56
Total current liabilities		**40,819**	**31,198**
TOTAL EQUITY, PROVISIONS AND LIABILITIES		**67,442**	**59,287**
Contingent liabilities	49	35,864	30,770
Assets pledged	50	536	537

Change in shareholders' equity (Note 45)

SEKm	Share capital	Premium reserve	Statutory reserve	Revaluation reserve	Profit brought forward and net profit for the year	Total equity
SHAREHOLDERS' EQUITY, 31 DEC 2003	**2,350**	**6,829**	**451**	**1,363**	**14,117**	**25,110**
Group contributions					–331	–331
Tax effect of Group contributions					92	92
Total changes not recognized in the income statement	**0**	**0**	**0**	**0**	**-239**	**-239**
Net profit for the year					3,804	3,804
Dividend, SEK 10.50 per share					–2,450	–2,450
Conversions	0	1				1
Sale of own shares					15	15
SHAREHOLDERS' EQUITY, 31 DEC 2004	**2,350**	**6,830**	**451**	**1,363**	**15,247**	**26,241**
Transfer of premium reserve to statutory reserve[1]		–6,830	6,830			
Group contributions					547	547
Tax effect of Group contributions					–153	–153
Total changes not recognized in the income statement	**0**	**–6,830**	**6,830**	**0**	**394**	**394**
Net profit for the year					701	701
Dividend, SEK 10.50 per share					–2,451	–2,451
Sale of own shares					14	14
Prescription			2			2
SHAREHOLDERS' EQUITY, 31 DEC 2005	**2,350**	**0**	**7,283**	**1,363**	**13,905**	**24,901**

1) In accordance with the provisions of the Annual Accounts Act, existing funds in the premium reserve at 31 December 2005 were transferred to the statutory reserve.

Notes

In all notes comparative figures for 2003 are prepared according to Swedish accounting standards while 2004 and 2005 are prepared according to IFRS.

Note 1 Accounting principles

The most important accounting principles applied in preparation of this annual report are set out below. Normally, the same principles are 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 provided under a separate heading.

BASIS OF 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 they are adopted within the EU. (Hereinafter referred to as IFRS, unless referring to a specific standard.) The consolidated financial statements also contain information in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 30, Complementary Accounting Rules for Groups. The Parent Company's financial statements are prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 32, Reporting by Legal Entities, and the Annual Accounts Act.

SCA has chosen to present two comparative years in this report. According to the International Accounting Standards Board's (IASB) rules only one comparative year needs to be prepared according to IFRS. SCA has chosen to apply this rule and the transition date to IFRS is therefore 1 January 2004. Comparative figures for 2003 are therefore compiled according to previously applied Swedish accounting standards. IAS 32, Financial Instruments: Disclosure and Presentation, IAS 39, Financial Instruments: Recognition and Measurement and IFRS 5, Non-Current Assets Held for Sale are applied from 2005 onwards. Note 33 contains a description of the effects of the transition to IFRS.

SCA applies the historical cost method for valuation of assets and liabilities except for biological assets (standing forest), financial assets available for sale and financial assets and liabilities, including derivative instruments, measured at fair value via the income statement. In the Parent Company biological assets or their financial assets and liabilities are not measured at fair value.

INTRODUCTION OF NEW AND REVISED IFRS

In addition to the consequences of the actual transition to reporting according to IFRS and which means compliance with all IFRS to be applied from 1 January 2005 which have been approved by the EU, the following amendments to standards (IAS and IFRS), new standards (IFRS) and interpretations (IFRIC) have been decided by IASB and adopted by the EU:

IAS 1 Presentation of Financial Statements – Amendment capital disclosures (effective date 1 January 2007). According to this amendment disclosures will be required that make it possible to assess objectives, policy and methods for capital management. This amendment will apply from 2007 and today SCA cannot judge whether additional disclosures will be required compared with those provided today.

IAS 19 Employee Benefits – Amendment recognition of actuarial gains and losses (effective date 1 January 2006, earlier application encouraged). According to this amendment it is permitted to recognize actuarial gains and losses directly in equity. SCA chose to apply this amendment with effect from transition to IFRS, 1 January 2004.

IAS 39 Financial Instruments: Recognition and Measurement – Amendments relating to cash flow hedges of intra-group transactions, relating to Fair value option as well as regarding financial guarantees (all with effective date 1 January 2006). This amendment which makes it possible to apply hedge accounting at hedging of intra-group transactions will be applied from 2006. Amendments relating to fair value option and financial guarantees are not applicable to the Group according to current assessments.

IFRS 6 Exploration and Evaluation of Mineral Resources and changes due to IFRS 1 (effective date 1 January 2006). IFRS 6 is not applicable to the Group's operations.

IFRS 7 Financial Instruments: Disclosures (effective date 1 January 2007). For SCA, this standard is not assessed as resulting in a need for additional disclosures compared with those provided in this annual report.

IFRIC 4 Determining Whether an Arrangement Contains a Lease (effective date 1 January 2006). According to IFRIC 4 determining whether an arrangement is, or contains, a lease is based on the content of the arrangement. An assessment must be made of the extent to which a) fulfilment of the arrangement depends on the use of a specific asset (assets) and b) the arrangement conveys a right to control the use of the asset. The current assessment is that IFRIC 4 will not lead to reclassification of already existing contracts to leases. IFRIC 4 will be taken into account in future contracts.

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective date 1 January 2006). IFRIC 5 is not applicable to the Group's operations.

IFRIC 6 Liabilities Arising from Participating in a Specific Market –Waste Electrical and Electronic Equipment (effective date 1 January 2007). IFRIC 6 is not applicable to the Group's operations.

The following new standards and interpretations have been adopted by IASB but not yet approved by the EU:

IAS 21 The Effects of Changes in Foreign Exchange Rates – Amendment regarding hedging of net investments in foreign operations (effective date 1 January 2006). This amendment extends the circle of companies and currencies that can enter such a hedging transaction. SCA's hedging transactions were not restricted by previous rules. SCA will apply this amendment from 2006 in cases where it is deemed appropriate.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date 1 March 2006).The Group does not currently have operations in any countries where transition to reporting for hyperinflationary economies is required.

IFRIC 8 Scope of IFRS 2 (effective date 1 May 2006). According to IFRIC 8 the rules in IFRS 2 cover goods and services received in exchange for an equity instrument even if such goods and services, wholly or partly, cannot be specifically identified. This interpretation does not apply to the Group since this type of transaction does not arise.

USE OF ASSESSMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires assessments and assumptions to be made that affect reported asset and liability items and income and expense items respectively, as well as other information disclosed. The actual result can differ from these assessments. Areas where assumptions and assessments are significant for the Group are presented in Note 3.

CONSOLIDATED ACCOUNTS

The consolidated accounts 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 has 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. In order to obtain consistent reporting within the Group, group companies where necessary align their reporting to comply with the Group's accounting principles.

Intra-Group transactions, such as revenues, expenses, receivables and liabilities as well as unrealized earnings and Group contributions have been eliminated.

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 a decisive influence, are consolidated as subsidiaries. In this connection, the existence and effect of potential votes that can be exercised at the closing date are taken into account.

The consolidated accounts are prepared according to the purchase method. Historical cost consists of the fair value of the assets provided as remuneration to the seller, liabilities assumed at the transfer date and expenses directly attributable to the acquisition.

Equity in acquired subsidiaries is determined on the basis of measurement of the fair value of assets, liabilities and contingent liabilities on the acquisition date (acquisition analysis). The valuation is performed without taking the extent of any minority interests into account. If measurement at fair value of these assets and liabilities provides values other than the book values of the acquired company, these fair values constitute the Group's cost. If the cost of shares in subsidiaries on the acquisition date exceeds the estimated value of the Group's share of net assets in the acquired company, the difference is recognized as consolidated goodwill. If the historical cost is less than the finally determined value of net assets, the difference is recognized directly in the income statement.

Joint-venture companies

Joint-venture companies are defined as companies in which SCA together with other parties through an agreement has shared control over operations. Joint-venture companies are reported according to the proportional consolidation method.

Application of the proportional consolidation method means that the Group's percentage share of all income statement items, balance sheet items and cash flow is included in corresponding reports for the SCA Group. Income statement items and other changes recognized directly in equity by the joint-venture companies are also recognized directly in equity in the Group.

Associated companies

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

The Group's share of the profit after tax reported in the associated company's income statement and which arose in the associated company after the acquisition, is reported on one line in the consolidated income statement. Income statement items and other changes recognized directly in the associated company's equity, are also recognized in the Group directly in equity. Share in profits is calculated on the basis of SCA's share of equity in the associated company.

Shares in associated companies are reported as a separate item in the consolidated balance sheet. The carrying amount of the shareholding changes to reflect SCA's share in the associated company's profit, reported both in the income statement and directly in equity, reduced by dividends received and depreciation and write-downs of consolidated surplus values including goodwill. Undistributed earnings in associated companies are part of the Group's retained earnings.

If the Group's shares of any accumulated losses exceeds the cost of the shares in the company, the book value is reduced to zero and recognition of future losses ceases, provided the Group is not bound by guarantees or other commitments in relation to the associated company.

Unrealized internal gains are eliminated against the share of gains accruing to the Group.

Parent Company:

The Parent Company reports all holdings in group companies at cost after deduction for any accumulated write-downs.

Minority interests

Minority share in a subsidiary's net assets is reported as a separate item in the Group's equity. In the consolidated income statement, minority share is included in net profit.

Transactions with minority interests are handled in the same way as transactions with external parties. Sale of participations to minority interests result in a gain or loss that is recognized in the consolidated income statement. Acquisition of minority shares can result in goodwill if the cost exceeds the carrying amount of the acquired net assets.

TRANSLATION OF FOREIGN CURRENCY

Functional currency and presentation currency

The companies in the Group prepare their financial reports 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 accounts. The consolidated accounts are prepared in Swedish kronor (SEK) which is the Parent Company's functional currency and therefore the presentation currency of both the Parent Company and the Group.

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 are translated at the average exchange rate for the year
- all exchange differences that arise are reported as a separate component directly in consolidated equity.

Exchange differences arising on the financial instruments held to hedge these net assets, are also taken directly to consolidated equity. When a foreign operation is disposed of both these exchange differences are reported in the income statement as part of the gain or loss on disposal. SCA has chosen to apply the exemption in IFRS 1, First-time Adoption of IFRS, which allows these translation differences to be disclosed in equity from the date of transition to IFRS, i.e. from 1 January 2004.

Goodwill and fair value adjustments that arise on acquisition of a foreign operation are treated as assets and liabilities of the operation and translated according to the same principles as the foreign operation.

Financial reports of a subsidiary in a hyperinflationary country, are adjusted for inflation using the price index for the country concerned before these reports are included in the consolidated accounts.

Transactions and balance sheet items in foreign currency

Transactions in a foreign currency are translated to a functional currency using the exchange at the date of the transaction. Monetary receivables and liabilities in foreign currency are remeasured at closing day rates at each balance sheet date. Exchange gains or losses that arise from such remeasurement and on payment of the transaction are recognized in the income statement, except for, in accordance with IAS 39, approved hedging transactions relating to cash flows or net investments where the gain or loss is recognized in equity. Gains and losses on operating receivables and liabilities are reported net and reported within operating profit. Gains and losses on borrowing and financial investments are reported as other financial items.

Change in fair value of monetary securities issued in foreign currency and classified as financial assets available for sale is analyzed and the change attributable to changed exchange rates is reported in the income statement while other unrealized change is reported in equity.

Translation differences for non-monetary financial assets and liabilities valued at fair value via the income statement are reported as part of the fair value gain or loss. Translation differences for non-monetary financial assets, classified as assets available for sale, are taken to directly to equity.

Non-monetary assets and liabilities recognized at historical cost are translated at the exchange rate prevailing on the transaction date.

SEGMENT REPORTING

A business segment is a part of operations that provides products and that is subject to risks and returns that are different from those of other business segments. Geographical segments provide products within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. Business segments are classified as primary segments and geographical segments as secondary segments.

INTANGIBLE ASSETS

Goodwill

Goodwill is the amount by which the cost of an acquisition exceeds the fair value of the net assets acquired by the Group in conjunction with a company acquisition or net assets purchase. Goodwill that arises at acquisition of associated companies is included in the carrying amount of the associated company.

Goodwill is not amortized, but tested annually for impairment. Goodwill is recognized at cost reduced by accumulated write-downs. Write-downs on goodwill are not reversed. Net gains or losses from sale of group companies include remaining carrying amount of the goodwill attributable to the sold unit.

Impairment tests are performed for cash-generating units and goodwill is therefore allocated to the cash-generating units that are expected to benefit from the acquisition from which the goodwill arose.

Trademarks

Trademarks are reported at cost after any accumulated depreciation and accumulated write-downs.

Trademarks that are found to have an indefinite useful life are not amortized but 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 amortized on a straight line basis during their anticipated useful life which varies between 3-5 years.

Research and development

Research expenditure is recognized as an expense as incurred. In cases where 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 capitalized to the extent it is expected to provide future economic benefits. In other cases, development costs are expensed as incurred. Capitalized expenditure is depreciated 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 5-10 years.

Emission allowances and costs for carbon dioxide emissions

Emission allowances received from the government relating to carbon dioxide emissions are recorded as an intangible asset. Allowances are received free of charge and valued and reported at market value as of the first day to which the allocation pertains. Remeasurement or amortization are not carried out. The allowances are used as payment in the settlement with the government regarding liabilities for emissions. The cost and liability continuously reported for emissions is based on the value at which emissions allowances received were initially recorded. This continues to apply for as long as the emission allowances received are assessed as covering the Group's requirement of allowances needed to settle the liability to the government. If the emission allowances received do not cover emissions made, SCA makes a provision to reserves for the deficit valued at the market value prevailing on the balance sheet date.

Other intangible assets

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

TANGIBLE ASSETS

Tangible assets are stated at cost after deduction for accumulated depreciation and any accumulated write-downs.

Cost includes expenditure that can be directly attributed to the acquisition of the asset as well as transfer from equity of the gains or losses from approved cash flow hedges relating to purchases in foreign currency of tangible assets. 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 are included in cost for major investment projects (SEK >500m and >6 months construction period).

All expenditure for new investments in progress is capitalized.

Additional expenditure increases the carrying amount of the asset or is reported as a separate component only when it is probable that future economic benefits associated with the asset will accrue to the Group and the cost of the asset can be measured in a reliable manner. All other forms of repair and maintenance are reported as expenses in the income statement in the period in which they are incurred.

Land is regarded as having an infinite useful life and is therefore not depreciated. Depreciation of other tangible assets is done on a straight-line basis down to the estimated residual value of the asset and during the anticipated useful life of the assets. 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 continually and adjusted where required.

Parent Company:

The Parent Company's tangible assets include standing forest, which in the Group is classified as a biological asset. No systematic depreciation or change in value in conjunction with felling is effected in the Parent Company. Collective revaluation of forest assets has occurred. The revaluation amount was placed in a revaluation reserve in equity.

WRITE-DOWNS

Assets that have an indeterminable 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 is possibly not recoverable.

In cases where the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the higher of fair value reduced by selling expenses and value in use. Fair value is the most probable price from a sale in a normally functioning market. Value in use is the sum of present value of the estimated future cash flows that are expected to be received through use of the asset and the estimated residual value at the end of its useful life. When testing for impairment, the assets are grouped in cash-generating units and assessments made on the basis on these units' future cash flows.

A write-down recognized earlier is reversed if reason for the earlier write-down no longer exists. However, a reversal is not higher than the book value would have been if a write-down had not been reported in previous years. Write-downs of goodwill are never reversed.

BIOLOGICAL ASSETS

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

Parent Company:
The Parent Company reports standing forest as a tangible asset.

LEASING

Leases for fixed assets where the Group substantially carries all the risks and rewards incidental to ownership of an asset are classified as finance leases. The leased asset is recognized as a fixed asset and a corresponding financial liability is reported among interest-bearing liabilities. The initial value of these two 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 amortization of the liability and financial expenses so that every accounting period is charged with an interest amount corresponding to a fixed interest rate on the recognized liability in each period. The leased asset is depreciated according to the same principles that apply to other assets of the same type. 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 type.

Leases for assets where the risks and rewards incidental with ownership essentially remain with the lessor are classified as operating leases. The lease payments are recognized as an expense on a straight line basis over the lease term.

Parent Company:
The Parent Company reports all leases as operating leases.

FINANCIAL INSTRUMENTS

Financial instruments reported in the balance sheet include liquid funds, securities, other financial receivables, accounts receivable, accounts payable, loans and derivatives.

Recognition and derecognition

Purchases and sales of financial instruments are recorded in the accounts on the trade date with the exception of the categories: loan receivables, available-for-sale financial assets and other financial liabilities which are recorded on the settlement date. Financial instruments are initially reported at cost which corresponds to the fair value of the instrument including transaction costs which apply to all financial assets that are not measured at fair value via the income statement. Recognition then takes place on the basis of the categories specified below. The purpose of the financial transaction determines whether gains or losses are classified as an operating or financial item.

Financial assets are derecognized 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 derecognized from the balance sheet when SCA has met its commitments or they have been otherwise extinguished.

Measurement

The fair value of financial instruments is calculated on the basis of current market listings at year-end. In the absence of market listings, SCA determines fair values with the aid of normal valuation models in the financial market based on market conditions on the balance sheet date. Impairment of financial assets takes place when there is objective proof of impairment such as cessation of an active market or when it is possible the debtor cannot meet his commitments. For disclosures in a note relating to long-term 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 book value against the background of the fact that a change in market interest rates has a negligible effect on market value.

Classification

SCA reports financial instruments with a remaining maturity of less than 12 months as current assets and liabilities and those with a maturity that exceeds 12 months as long-term assets and liabilities.

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

Financial assets at fair value through profit or loss
This category has two subcategories: financial assets held for trading and those that SCA designated in this category on the first accounting date. A financial asset is classified in this category if the intention is to sell in the short term. Derivatives with a positive market value are classified in this category if they are not used for hedge accounting. Assets in this category are recognized continuously at fair value and changes in value are recognized in profit or loss.

Only financial derivatives were classified in this category during the year.

Held-to-maturity investments
Financial assets with fixed or determinable payments and are not derivatives that SCA intends and is able to hold to maturity. Assets in this category are measured at amortized 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 receivables
Loans and receivables are financial assets with fixed or determinable payments, that are not quoted in an active market. This category

does not include derivatives. Receivables arise when SCA provides money, goods or services directly to a customer without any intention to conduct trading in the receivables. Assets in this category are measured at amortized cost minus a possible reserve for impairment. Receivables are reported at the amount at which they are expected to be paid, based on an individual assessment of bad debts.

Available-for sale financial assets

This category includes financial assets that are designated in this category at initial recognition or non-derivative financial assets that have not been classified in any other category. Assets in this category are measured continuously at fair value and changes in value are recognized in equity except with regard to the change attributable to exchange rate fluctuations reported in the income statement. If an individual item has value lower than SEK 5m, no market valuation is performed since the effect is assessed as immaterial. When the asset is sold, the cumulative gain or loss that was recognized in equity is recognized in profit or loss.

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously recognized at fair value in the balance sheet. Profit or loss on remeasurement of derivatives used for hedging purposes is recognized as set out below.

Hedge effectiveness is the extent to which changes in a hedged item's fair value or cash flows attributable to a hedged risk are matched by changes in the fair value or cash flow of the hedging instrument.

Cash flow hedges

Changes in value of cash flow hedges are recognized in equity and recycled to the income statement at the rate at which the hedged cash flow affects profit or loss. Any ineffective part of the changes in value is recognized directly in profit or loss. If the hedge pertains to inventories or another balance sheet item, the profit or loss is transferred from equity to the asset or liability to which the hedge relates when the value of the liability or asset is determined for the first time. In cases where the forecast cash flow that forms the basis of the hedging transaction is no longer assessed as probable, the cumulative profit or loss recognized in equity is transferred directly to the income statement.

Hedges of net investments in foreign operations

Changes in value attributable to hedging transactions relating to derivative instruments intended to hedge SCA's net investments in foreign operations are recognized in equity. The cumulative profit or loss in equity is recycled to the income statement 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 recognized in the income statement either with changes in the fair value of the asset or liability pertaining to the hedged risk. For SCA this means that long-term loans, which 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 recognized directly in profit or loss, any ineffective part is taken from the derivative in the income statement.

Economic hedges

Where SCA effects hedges and the transactions do not meet documentation requirements according to IAS 39, changes in fair value of the hedging instrument are recognized directly in profit or loss.

Parent Company:

The Parent Company reports financial assets at cost and write-downs are effected if a lasting impairment is noted.

INVENTORIES

Inventories are recognized at the lower of cost and net realizable price on the balance sheet date. Cost is calculated using the first-in, first-out (FIFO) or weighted average cost formula. 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 realizable value is the estimated selling price in the ordinary course of business, less the estimated cost for completion and sale of the item.

The holding of felling rights relating to standing forest is valued at contract prices which on average do not exceed the lower of net realizable value and cost.

LIQUID FUNDS

Liquid funds are defined as cash and bank balances as well as short-term investments with a maturity not exceeding three months from the acquisition date. Blocked funds on bank accounts are not included in liquid funds.

FIXED ASSETS HELD FOR SALE

Fixed assets (and disposal groups) are classified as fixed assets held for sale if their value, within one year, will be recovered through a sale and not through continued utilization in operations. On the reclassification date the assets are measured at fair value in order to identify any impairment loss. Reclassified assets are recognized at the lower of book value and fair value minus selling costs. Following reclassification, no depreciation is carried out on these assets.

The Group applies IFRS 5, Non-current Assets Held for Sale, prospectively with effect from 2005 according to the transitional rules in IFRS 1 and IFRS 5. Fixed assets held for sale have previously been neither classified, recognized nor measured in any manner other than for similar fixed assets.

Parent Company:

The Parent Company does not apply the rules in IFRS 5. Fixed assets held for sale are not reclassified and depreciation does not cease. If such assets exist, disclosures are made instead.

SHAREHOLDERS' EQUITY

Transaction costs directly attributable to the issue of new shares or options are reported, net after tax, as a reduction in the issue proceeds.

Expenditure for purchase of own shares reduces retained earnings in equity in the Parent Company and the portion of consolidated equity that pertains to Parent Company shareholders. When these shares are sold, the sales proceeds are included in retained earnings in the equity pertaining to Parent Company shareholders.

SECURITIZATION

Securitization of accounts receivable has occurred during comparative years. Sold receivables then reduced reported accounts receivable. The difference between sold, outstanding accounts receivable and what is received from the financier for them is reported as other operating receivables.

TAXES

The Group's income taxes include taxes on the Group companies' reported profits during the accounting period and adjustments relating to tax for earlier periods as well as changes in deferred taxes for the period.

Deferred tax is calculated and reported on all temporary differences in accordance with the balance sheet method. According to this method deferred tax is calculated on the difference between the tax value and the carrying amount of assets and liabilities. Temporary differences primarily arise through depreciation of tangible assets, valuation of standing forest at fair value, provisions for pensions and other obligations as well as loss carry forwards. At company acquisitions, temporary differences arise on the difference between the consolidated value of assets and liabilities and their value for tax purposes.

Temporary differences that arise the first time an asset or liability is recognized, and which are not attributable to a company acquisition and do not affect either accounting profit or taxable profit, do not give rise to any deferred tax liability or deferred tax asset.

Deferred taxes are measured at their nominal amount and based on the tax rates adopted at the balance sheet date. Deferred tax assets relating to loss carry forwards are recognized to the extent it is probable that deductions can be made against future profit.

For items recognized in the income statement related tax effects are also recognized in the income statement. For items recognized in equity, related tax effects are recognized in equity.

Deferred tax liabilities relating to temporary differences attributable to investments and subsidiaries, associated companies and participations in joint-venture companies are not reported in SCA's consolidated accounts 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 in Sweden, the deferred tax liability on untaxed reserves in the Parent Company is recognized in the year-end accounts as part of untaxed reserves.

EMPLOYEE BENEFITS

Pensions

There are a number of defined contribution and defined benefit pension plans within the Group. Some of these have plan assets in separate foundations or similar institutions. The pension plans are financed mainly through payments from each Group company and the employees to insurance companies or foundations. Independent actuaries calculate the size of the obligations of each plan and revalue the obligations of the pension plans each year.

A defined contribution pension plan is a plan where fixed contributions are paid to a separate legal entity. There is no obligation to pay additional contributions if the fund has insufficient assets to pay the benefits to which the employees are entitled and which are earned during current and previous periods. A defined benefit pension plan is a plan where the amount of the pension benefit to be received by an employee after retirement is determined. This amount is determined on the basis of factors such as salary, age and period of service.

The liability recognized 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 asset, i.e. plans with assets exceeding obligations, are recognized as a financial fixed asset. The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method in a manner that distributes the cost during the anticipated period of service of the employee. 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 that arise as a result of changed actuarial assumptions and a return on plan assets that is other than expected, are recognized directly in equity in the period in which they arise.

The total cost relating to defined benefit plans is divided between personnel costs and financial expenses. Financial expenses are calculated from the net value of the 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 recognized as an expense during the period the employees carry out the service to which the payment relates. Prepaid contributions are only recognized as an asset to the extent the Group is entitled to a repayment or reduction of future payments.

Past service costs are recognized directly in the income statement unless changes in the pension plan are subject to employees remaining in service during 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 recognized as an expense in the income statement except with regard to actuarial gains and losses where the payroll tax, like the actuarial gains and losses, is recognized directly in equity.

Parent Company:

The Parent company applies the regulations in "Tryggandelagen" (Swedish act safeguarding pension obligations) with regard to pensions. Accounting complies with FAR's (FAR, Swedish Institute of Authorised Public Accountants) 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 benefits after retirement

Some Group companies provide post-retirement health care benefits. The obligation and anticipated costs for these benefits are calculated and reported 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 retirement date or when an employee voluntarily accepts retirement in exchange for such compensation. Severance pay is recognized as an expense when the Group demonstrably is obliged to issue notices to employees as a result of a detailed, formal plan or to pay compensation in the event of voluntary resignation.

Employee stock option program

The Group has two outstanding employee stock option programmes. In the case of both programmes, and a programme completed during 2004, allocation of options was made prior to 7 November 2002. In accordance with the exemption rules in IFRS 1, the Group has chosen not to apply the rules in IFRS 2, Share-based payments, with regard to personnel expenses and equity effects when accounting for these programmes.

The costs of the employee stock option programmes, i.e. the social security costs are taken to the income statement as personnel expenses for the period in which the options are exercised. The costs for social security contributions in conjunction with exercise are hedged against a rise in the price of SCA shares.

PROVISIONS

Provisions are recognized 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.

Provisions for restructuring measures are made when a detailed, formal plan for the measures exists and well established expectations have been created among those who will be affected by the measures.

Assessed costs for discontinuing an operation and restoration of an area are capitalized as part of the initial cost of the asset and depreciated. The capitalized amount comprises the discounted present value of the anticipated future expenditure for the restoration. The undertaking linked to the restoration is recognized as a provision and change in value over time is recognized on a current basis as an interest expense in the income statement.

Provisions are made for environmental activities related to past operations, and which do not contribute to present or future income, when it is probable that payment liability will arise and the amount can be estimated with reasonable accuracy.

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. The revenue is recognized when delivery to the customer has taken place according to applicable sales terms. Sales revenue is recognized exclusive VAT and net after discounts, bonus and elimination of intra-Group sales.

Other income includes remuneration for sales that are not included in the Group's ordinary activities and include.

- rental revenue which is recognized in the period covered by the lease
- royalties and similar which are recognized in accordance with the implied financial effect of the contract.

Interest income is recognized in accordance with the effective interest method. Dividends received are recognized when the right to receive a dividend has been determined.

GOVERNMENT GRANTS

Government grants and assistance are recognized 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 recognized in the balance sheet by the grant reducing the carrying amount of the asset.

Government grants received as compensation for costs are accrued and recognized in the income statement during the same period as the costs. The costs are reduced by the grant.

If the government grant or assistance is attributable neither to acquisition of assets nor to compensation for costs, the grant is recognized as other income.

Note 2 Financial risk management

The SCA Group's financial risk management is centralized to capitalize on economies of scale and synergy effects and to minimize operational risks. The central treasury function is responsible for the Group's borrowing, currency and interest rate risk management and serves as an internal bank for the Group's financial transactions. In addition to ensuring that the SCA Group has secure financing, financial transactions are conducted with the aim of limiting the Group's financial risks.

The Group's financial policy, which is established by the SCA Group's Board of Directors, constitutes a framework of guidelines and rules for financial risk management and financial activities in general. The policy is the subject of regular review, at least once a year. The Group's financial risks are continuously compiled and followed up to ensure compliance with the financial policy. Each business group has its own financial policy drafted in compliance with the SCA Group's general policy.

OBJECTIVES AND POLICY FOR RISK MANAGEMENT

Currency risk

Transaction exposure

The Group's operating units have export revenues and import costs in a large number of currencies. This exposes the SCA Group to currency fluctuations. This currency risk is called transaction exposure and affects the Group's operating profit. SCA's financial policy provides central guidelines for management of the Group's transaction exposure. Within these guidelines, each business group selects an appropriate policy for its subsidiaries. A minimum requirement, however, is that booked accounts receivable and accounts payable are hedged. Centrally, it is possible to deviate from the subsidiaries' positions within the established risk limits for the Group's total hedging of transaction exposure, which is between 0 and 18 months.

Group companies with forward contracts relating to future payments for investments in foreign currency are exempt from the transaction exposure risk limits that apply to operating activities. The acquisition value of these investments can be hedged up to 100%.

Translation exposure

SCA reports its income statement and balance sheet in Swedish kronor (SEK). Since most of the Group's subsidiaries report in currencies other than SEK, SCA's consolidated earnings and equity are exposed to exchange rate fluctuations. This currency risk is called translation exposure. Anticipated future earnings in foreign subsidiaries are not hedged. For translation exposure of net investments in foreign subsidiaries, it is SCA's policy to hedge a sufficient proportion so that the Group's consolidated debt/equity ratio is not affected by exchange rate fluctuations. This is achieved by capital employed in foreign currencies being financed by a certain proportion of loans and currency derivatives in corresponding currencies. The optimal degree of matching depends on the current consolidated debt/equity ratio and applicable exchange rates. At the same time, tax considerations will also affect the capital structure for different countries. This means that the debt/equity ratio in different countries can deviate from the Group's consolidated debt/equity ratio. Depending on the capital structure chosen in the respective foreign subsidiary, SCA hedges both positive and negative net investments.

Energy price risks

Due to its energy intensive operations, the SCA Group is exposed to risks related to price changes for energy, particularly gas and electricity.

When the energy price risk is not hedged, price changes in the energy market have a direct impact on the Group's operating profit. SCA's energy price policy is designed to offset undesired effects on operating profit as a result of changes in energy prices.

Refinancing risks and liquidity

Due to its relatively capital intensive operations and chosen capital structure, SCA has to manage significant nominal debt. Refinancing risk is the risk that SCA is unable to meet its payment obligations as a result of insufficient liquidity or difficulty in raising external loans.

SCA applies a centralized approach to the Group's financing, whereby as much external borrowing as possible is conducted centrally. Subsidiary borrowing can take place, however, where it is advantageous or necessary due to SCA's structure and geographic spread. Examples of this are liabilities in acquired companies, finance leases, overdraft facilities or loans in countries where regulations and taxes make central financing impossible or uneconomical.

SCA limits its refinancing risk by having a good distribution and a certain length on its gross borrowing. According to SCA's financial policy, the gross debt's average maturity must always exceed three years. This rule will also include committed lines of credit to cover short term borrowing. Furthermore, financial readiness must be maintained in the form of a liquidity reserve comprising centrally available liquid funds and committed lines of credit totalling at least 10% of the Group's projected annual sales.

Liquidity in Group companies is placed with the central treasury function or in local cash-pool accounts. Since the Group is a net borrower, surplus liquidity must be used to amortize external liabilities.

Interest rate risks

The SCA Group's earnings are directly affected by interest rate fluctuations through a changed interest net but also indirectly by the effect of interest rate levels on the economy in general. It is SCA's opinion that floating rates result in lower interest exposure over time and it is therefore SCA's policy to maintain short-term fixed interest rates. The central treasury function is responsible for identifying and managing the interest rate exposure. The average term for fixed interest rates per currency shall be 3–15 months.

Credit risk

Financial credit risk

Financial risk management involves exposure to credit risks. This exposure arises from investments of surplus liquidity, leasing transactions and through claims on banks and other counterparties that arise through derivative instruments. SCA's financial policy contains a special counterparty regulation by which maximum credit exposure for different counterparties is stipulated. One goal is that counterparties must have a minimum credit rating of A minus from Standard & Poor's or Moody's.

Customer credit risk

The risk that customers cannot meet their obligations, i.e. that SCA will not receive payment for its accounts receivable, constitutes a customer credit risk. SCA runs credit checks on its customers where information about customers' financial position is obtained from various credit rating companies. Within the personal care and tissue business areas the risk of credit losses is limited through credit insurance on major account receivables. Packaging and forest products do not use external customer credit insurance.

RISK MANAGEMENT DURING THE YEAR

Currency risk

Long-term currency sensitivity

A breakdown of the Group's net sales and operating expenses in different currencies provides a picture of the Group's long-term currency sensitivity. The imbalance between sales and expenses in USD is due to the fact that SCA is a net purchaser of pulp, which is priced in USD.

Net sales and operating expenses, by currency

Currency	Sales 2005	Expenses 2005	Operating profit[1] SEKm	Closing rate 31 Dec 2005	Average rate 2005
EUR	47%	44%	6,508	9.42265	9.26944
USD	16%	19%	–1,246	7.9516	7.4466
GBP	13%	11%	3,108	13.73160	13.54970
SEK	4%	12%	–7,409		
AUD	3%	2%	1,227	5.83488	5.67581
DKK	3%	2%	655	1.26344	1.24430
MXN	2%	2%	319	0.74631	0.68409
NOK	1%	0%	1,100	1.17512	1.15705
Others	11%	8%	3,031		
TOTAL	**100%**	**100%**	**7,293**		
Foreign currency portion	96%	88%	14,702		

[1] Adjusted for items affecting comparability.

Transaction exposure

The forecasted currency transaction flow after net calculations of opposite flows in the same currencies, amounted to SEK 8,621m (7,654) on a 12-month basis. The table below shows a forecast for 2006 as well as outstanding hedging positions at year-end 2005.

Transaction exposure

Currency	2006 Forecast flows SEKm	31 Dec 2005 Total hedged volume, SEKm	31 Dec 2005 No. of hedged months	2005 Forecast flows SEKm	31 Dec 2004 Total hedged volume, SEKm	31 Dec 2004 No. of hedged months
GBP	2,750	683	3.0	2,431	707	3.5
EUR	1,766	1,784	12.1	2,840	1,873	7.9
NOK	852	170	2.4	846	116	1.6
AUD	798	69	1.0	619	1	0.0
CAD	548	166	3.6	372	25	0.8
CHF	506	65	1.5	110	37	4.0
MXN	427	0	0.0	–71	0	0.0
USD	–1,201	–213	2.1	–671	35	–0.6
Other	2,175	716	4.0	1,178	235	2.4
SEK	–8,621	–3,440	4.8	–7,654	–3,029	4.7
	0	0		0	0	

The flows shown above are expected to occur consistently over time, or one-twelfth per month. Outstanding hedging positions are forward contracts with a net market value of SEK 15m (13). During the year hedging positions in total had a negative impact on the Group's operating profit of SEK 237m (13). A one-sided weakening of SEK by 10% would have a negative impact on operating profit of SEK 344m. During the year, maximum flows of 5.7 months (5.2) and minimum of 3.7 months (4.4) were hedged against SEK. At year-end, 4.8 months (4.7) were hedged.

Hedging of the anticipated forecast currency flow relating to the cost of investments had a net market value of SEK 13m (-16) at year-end. These hedges mainly relate to purchases of EUR against SEK. SEK 24m reduced the cost of the investments during the year. A one-sided weakening of SEK of 10% would affect the cost of investments by SEK 74m.

The table "Outstanding derivatives", on page 69, shows outstanding hedging positions that meet requirements for cash flow hedges in the accounts at 31 December 2005.

Translation exposure, hedging of net investments outside Sweden

Capital employed in foreign currency at 31 December 2005 amounted to SEK 72,896m (63,959). Distribution per currency is shown in the table on page 68.

At year-end 2005, capital employed was financed with SEK 30,360m (27,081) in foreign currency, which corresponded to a total matching ratio of 42% (42). Matching is achieved through both existing external net debt per currency and centrally managed forward contracts.

Financing of the North American operations during the year decreased in USD in relation to previous years, but despite this decrease it is still on a high level. A corresponding lower matching level is applied in EUR.

Financing of capital employed by currency

Currency	2005			2004		
	Capital employed SEKm	Net debt SEKm	Financing	Capital employed SEKm	Net debt SEKm	Financing
EUR	31,502	11,513	37%	27,833	7,197	26%
USD	11,985	6,630	55%	10,615	7,082	67%
GBP	11,587	5,473	47%	10,143	6,676	66%
MXN	3,940	1,749	44%	3,080	1,411	46%
AUD	2,868	1,302	45%	2,554	970	38%
DKK	2,004	1,054	53%	2,374	1,796	76%
NZD	1,767	457	26%	1,505	509	34%
COP	1,089	361	33%	734	92	13%
MYR	906	101	11%	715	121	17%
CNY	698	38	5%	587	89	15%
CAD	668	135	20%	378	20	5%
RUB	406	144	35%	300	88	29%
Others	3,476	1,403	40%	3,141	1,030	33%
Total	**72,896**	**30,360**	**42%**	**63,959**	**27,081**	**42%**
SEK	24,040	9,466		25,904	7,664	
TOTAL	**96,936**	**39,826**		**89,863**	**34,745**	

In order to reach the desired hedging level for foreign capital employed, SCA has chosen to identify a number of legal units to meet requirements for hedge accounting. In total during the year, hedging positions had a positive impact on equity of SEK 567m (192). This positive result is largely attributable to hedges of negative net assets in EUR. The total market value of outstanding hedging transactions at year-end was SEK –145m (56). In total, SCA hedged at year-end negative net assets abroad amounting to SEK 13,803m with forward exchange contracts. Total foreign net investment at year-end amounted to SEK 28,007m.

Hedging of net investments outside Sweden

Currency SEKm	2005 Total hedged volume[1]	Hedged net investment
EUR	16,322	–16,322
USD	–1,470	1,470
GBP	–2,468	2,468
MXN	104	–104
AUD	880	–880
DKK	1,394	–1,394
NZD	–703	703
COP	–104	104
Others	–152	152
TOTAL	**13,803**	**–13,803**

[1] + = investment, – = loan

Energy price hedges

In 2005, SCA purchased approximately 6 TWh (6) of electricity which represented a cost of approximately SEK 2,300m (2,200) and approximately 13 TWh (12) of natural gas at a value of approximately SEK 2,250m (1,500). Most of these energy supplies relate to fixed-price delivery contracts of up to one year. In energy markets with liquid spot trading and well-developed derivative trading, SCA also uses financial instruments for price hedging. At present, SCA uses financial instruments in the Swedish and Danish electricity markets.

At year-end, SCA had 0.2 TWh (1.6) of electricity derivatives outstanding, with a market value of SEK 24m (–121). A 10% reduction in energy prices would have a negative impact of SEK 6m on operating profit.

In 2005, SCA signed a long-term delivery agreement with fixed prices for the Swedish operations. This contract reduces SCA's need to use financial instruments for price hedging. The table "Outstanding derivatives", on page 69, shows outstanding hedging positions that meet the requirements for cash flow hedges at 31 December 2005.

Refinancing risks and liquidity

At 31 December 2005, the interest-bearing gross debt amounted to SEK 38,828m (34,931). After additions for net pension provisions and deductions for liquid funds, interest-bearing receivables, accrued interest expense and capital-investment shares, the net debt was SEK 39,826m (34,745).

At 31 December, subsidiaries' external debts in relation to the Group's consolidated gross debt was 12.0% (13.6). Subsidiaries' share of the total consolidated gross debt decreased by 1.6 percentage points (14.4) during the year.

SCA's financing is secured partly through medium-term credit facilities syndicated among first-class banks. With these as protection against refinancing risks, SCA uses short-term borrowing under market programmes to the extent this provides a lower financing cost than loans under the credit facilities.

SCA's loan documentation does not contain clauses that give lenders the possibility to terminate loans or adjust interest rates as a direct result of changes in SCA's financial key ratios or credit ratings.

The weighted average maturity of the interest-bearing gross debt was 3.8 years (3.6) at year-end. This includes SEK 16,018m (12,739) of committed credit facilities with maturity terms in excess of one year, which partly correspond to the Group's due loans and amortizations in 2006. In addition to these credit commitments, there were unutilized credit commitments totalling SEK 10,123m (7,833) at year-end with an average remaining maturity of 1.3 years (0.5). On the same date, centrally available liquid funds amounted to SEK 374m (1,342). SCA's total liquidity reserve therefore amounted to SEK 10,497m (9,175) which corresponded to 11% (10) of SCA's sales in 2005.

The table below shows the maturity profile of the gross debt by loan source and credit commitments that are used to cover short-term borrowing. The adjusted maturity term profile shows the Group's total refinancing risk.

SCA's funding sources and maturity profile at 31 December 2005

SEKm	2006	2007	2008	2009	2010	2011	2012–	Total
Commercial paper & Short-term bank loans	13,184	0	0	0	0	0	0	**13,184**
Finance leases	147	127	131	1,103	19	12	391	**1,930**
Bond issues	156	6,931	0	0	2,000	0	4,274	**13,361**
Other loans	6,847	1,436	707	92	271	30	1,114	**10,497**
TOTAL	**20,334**	**8,494**	**838**	**1,195**	**2,290**	**42**	**5,779**	**38,972**
Credit facilities covering short-term borrowing	–16,018	0	4,711	0	11,307	0	0	**0**
ADJUSTED MATURITY PROFILE	**4,316**	**8,494**	**5,549**	**1,195**	**13,597**	**42**	**5,779**	**38,972**

Bank credit facilities

To limit the refinancing risk in the Group's short-term financing and provide a liquidity reserve, SCA has two syndicated bank facilities; EUR 750m (SEK 7,067m) with a final maturity in 2008 and EUR 1,200m (SEK 11,307m) with a final maturity in 2010. The latter facility contains an option, with the banks approval, to extend the final maturity by a maximum of two years. SCA also has bilaterally confirmed bank credit facilities amounting to SEK 7,767m (7,833). These facilities are primarily one-year with an extension option.

Market programmes

For the issue of bonds in the European capital market, SCA has a Medium Term Note (EMTN) programme with a framework amount of EUR 2,000m (SEK 18,845m). At 31 December SEK 9,396m (6,291) was outstanding with remaining maturity of 3.1 years (2.5 years).

SCA also has a Swedish MTN programme with a framework amount of SEK 2,000m. At 31 December SEK 150m (250) was outstanding with an average remaining maturity of 0.1 years (1.1).

SCA's short-term borrowing programme comprises a Swedish commercial paper programme with a framework amount of SEK 15,000m and a Belgian commercial paper programme with a framework amount of EUR 400m (SEK 3,769m). At 31 December, the outstanding amounts under these programmes were SEK 10,903m (11,016) and SEK 1,605m (1,205), respectively.

Market programmes

Issues	Nominal	Currency	Nominal, SEKm	Book value 31 Dec 2005, SEKm
SEK MTN framework SEK 2,000m				
1999 – 2006	150	SEK	150	150
Total			**150**	**150**
EUR MTN framework EUR 2,000m				
2002 – 2007	700	EUR	6,596	6,931
2005 – 2010	1,500	SEK	1,500	1,500
2005 – 2010	500	SEK	500	500
2005 – 2015	300	SEK	300	329
2005 – 2015	500	SEK	500	548
Total			**9,396**	**9,808**

Interest rate risk

According to SCA's financial policy, the interest-rate adjustment terms must be between 3 and 15 months in each funding currency. SCA seeks to achieve a good distribution of its interest due dates in order to avoid large volumes of renewals at the same time.

In order to achieve the desired currency balance and interest rate adjustment term in accordance with the financial policy, SCA uses financial derivatives, mainly currency swaps, Forward Rate Agreements (FRAs), and interest-rate swaps.

The average interest rate adjustment term for the interest-bearing gross debt, including derivatives, amounted to 6.0 months (4.6) at year-end.

The average interest rate on the total outstanding net debt, including derivatives, amounted to 4.13% (4.0) at year-end.

A general increase in interest rates of one percentage point, not considering changes in interest curves and currencies, would lead to a deterioration in the Group's interest net of approximately SEK 398m (305) on an annual basis. The assumption is based on the present level of net debt and interest rate adjustment terms. The increased cost would be delayed due to the prevailing interest rate adjustment term within the possible interval of 3 to 15 months per currency.

Credit risks

Financial credit risk

Credit exposure in derivative instruments is determined as market value plus an additional amount based on credit risk factors, which reflect the risk of increased exposure as a result of market fluctuations.

SCA endeavours to use standardized agreements, which in countries where this is possible, allow statutory net calculation of receivables and liabilities.

Even if continuous payment set-offs on outstanding receivables and liabilities in derivative instruments do not occur, the right of set-off in the event of a counterparty's bankruptcy means that SCA measures this credit risk as a net amount.

At 31 December 2005, the credit risk in financial cash instruments amounted to SEK 8,923m (8,888) of which SEK 8,567m (7,031) is attributable to leasing transactions. Credit exposure in derivative instrument was SEK 2,990m (5,083).

Customer credit risks

Accounts receivable are reported in the amount expected to accrue, based on individual assessment of accounts receivable.

Customers of the personal care and tissue business areas are mainly large retail companies and distributors. The ten largest customers accounted for less than 21% of outstanding accounts receivable at 31 December 2005. Packaging has a large number of customers, the ten largest accounted for less than 9% of the business area's outstanding accounts receivable at year-end. Forest products' customers mainly comprise newspaper and magazine publishers. At 31 December 2005, the ten largest customers accounted for less than 17% of the business area's accounts receivable.

Derivatives

A table showing all the derivatives that affected the Group's balance sheet and income statement in 2005 is provided below.

Outstanding derivatives

Total outstanding derivatives	2005			2004		
	Nominal	Asset	Liability	Nominal	Asset	Liability
Currency derivatives[1]	70,657	112	323	108,446	814	410
Interest-rate derivatives	19,923	470	482	19,746	185	6
Commodity derivatives	302	49	25	532	0	46
Equity derivatives	107	11	11	109	0	0
Total	**90,989**	**642**	**841**	**128,833**	**999**	**462**

1) Nominal SEK 22,151m (45,090) if derivatives that meet right of offset are considered.

Outstanding derivatives with hedge accounting[2]	2005			
	Nominal	Asset	Liability	Hedging reserve after tax
Cash flow hedges				
Transaction exposure				
– Commercial transaction exposure	1,926	24	3	15
– Investments	1,083	16	5	8
Energy	22	0	0	0
Hedging of net investments in foreign units	24,741	42	187	
Fair value hedges				
– Interest-rate risk in financing	11,366	405	387	
Total	**39,138**	**487**	**582**	**23**

2) Outstanding derivatives with hedge accounting are included in the table Total outstanding derivatives.

Hedging reserve in equity

Currency derivatives related to hedging of commercial transaction exposure mostly mature during the second quarter of 2006. Before the end of the third quarter, all derivatives in the hedging reserve at year-end will be realized. With unchanged exchange rates, this will have a positive impact on operating profit of SEK 15m after tax.

Currency derivatives for hedging of the cost of investments will mature until August 2008. With unchanged exchange rates, the cost of these investments will be reduced by SEK 8m after tax.

Derivatives intended to hedge energy costs in the Group mature entirely in the first quarter of 2006. The earnings impact of these derivatives, with unchanged prices, is marginal.

Operating and financial derivatives in the balance sheet

SEKm	2005 Asset	2005 Liability
Operating derivatives		
Short-term	116	69
Long-term	55	55
Total operating derivatives	**171**	**124**
Financial derivatives		
Short-term	54	294
Long-term	417	423
Total financial derivatives	**471**	**717**
TOTAL	**642**	**841**

Note 3 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

The Group's biological assets, i.e. standing forest, are valued at the present value of anticipated future cash flows.

Calculation of this cash flow is based on the most recent felling plan that is available. Felling plans are updated every tenth year and the most recent one was adopted in 1997. The calculation is also based on assumptions with regard to growth, future selling prices, costs for felling and forestry 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 100 years. The discount factor used is the cost of capital before tax (WACC, weighted average cost of capital) that is normally used in valuations of similar assets.

The consolidated value of biological assets at 31 December 2005 amounted to SEK 17,716m. A change in WACC of 0.25 percentage points affects the value of the assets by approximately SEK 950m.

Goodwill

Every year the Group examines whether there is any impairment relating to goodwill. Goodwill is divided among cash-generating units and these concur with the Group's primary segments except in relation to packaging which is divided into Europe and the rest of the world.

The recoverable amount for the cash-generating units is decided by calculating value in use. This calculation is based on the Group's existing strategic plan, which includes anticipated future cash flows for the existing operations during the next five-year period. Cash flows beyond the five-year period are taken into account by an operating surplus multiple being applied to sustained cash flow. This multiple concurs with current market multiples for similar operations.

The discount factor 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.

Pensions

Costs such 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 defined benefit obligations at 31 December 2005 amounted to SEK 20,936m. A change in the discount rate of 0.25 percentage points would affect the total value of these obligations by approximately SEK 800m.

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 recognized 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 a future utilization of recognized and unrecognized deferred tax assets depends on this in addition to existing deferred tax liabilities. At year-end SEK 992m was recognized 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.

Note 4 Acquisitions and disposals

Acquisitions

The following acquisitions were made during the year

Company	Operations	Date of acquisition	Purchase price, SEKm	Goodwill, SEKm	Acquired percentage, %	Total holding after acquisition,%
Recupero	Recycling/ collection of recycled fibre	Jan-05	21	7	50	50
Rhein Display	Display packaging	Apr-05	21	15	29	100
Munksjö	Tissue	May-05	257	88	–	–
Cool Logistics[1]	Protective packaging	Oct -05	24		25	25
Welpa[1]	Packaging	Dec-05	56	6	40	100

[1)] Acquisition balances for companies are not finalized, since acquisitions made late in the year.

The reported purchase price represents the acquisition price including net debts assumed on the acquisition date. In all cases, the acquired share pertains to both capital and votes with the exception of Munksjö which is a net asset acquisition. The companies are consolidated as subsidiaries according to the purchase method with the exception of Cool Logistics which is an associated company and consolidated according to the equity method. There are no plans to divest all or parts of the acquired companies. In addition, to the companies listed, minor acquisitions and adjustments of earlier acquisition prices were made in an amount of SEK 49m.

Goodwill pertains to acquisition of markets, where an individual value of another asset could not be identified. Most of these operations have been integrated with other operations in a manner that makes the effect on sales and earnings difficult to identify. In total, acquisitions for the year did not have a material impact on the Group.

Total acquisition balances for acquisitions for the year

SEKm	
Fixed assets	228
Operating assets	116
Liquid funds	8
Provisions	–23
Net debt excl. liquid funds	–37
Operating liabilities	–65
Minority	56
Market value of net assets	**283**
Goodwill	116
Purchase price paid	**399**

Adjustment of preliminary acquisition balances

Preliminary acquisition balances for acquisitions made in 2004 were adopted during the year, following final valuation of acquired assets and liabilities. This led to changes in preliminary balances as shown below. These amounts also affect the 2004 balance sheet:

SEKm	
Goodwill	443
Other fixed assets	–15
Operating assets	–93
Total assets	**335**
Provisions	228
Equity	107
Total liabilities and equity	**335**

These changes did not lead to any earnings impact in 2004.

Disposals

During the year, 1% of the shares in Unicharm Mölnlycke KK in Japan was divested.

Note 5 Segment reporting

Primary segments – business segments

SEKm	Tissue	Personal care	Packaging	Publication papers	Pulp, timber and solid-wood products	Other operations	Eliminations	Total Group
FISCAL YEAR 2005								
Revenues								
External sales	30,592	19,350	31,977	7,914	6,175	377	0	96,385
Internal sales	109	1	382	84	1,762	691	–3,029	0
Total revenues	**30,701**	**19,351**	**32,359**	**7,998**	**7,937**	**1,068**	**–3,029**	**96,385**
Result								
Segment result	**1,577**	**2,474**	**1,775**	**662**	**1,224**	**–419**	**0**	**7,293**
Items affecting comparabilityr								–5,365
Operating profit								**1,928**
Financial income								156
Financial expenses								–1,651
Tax expense for the year								21
Net profit for the year								**454**
Other disclosures								
Assets	44,405	14,280	36,598	9,223	25,941	1,960	–1,005	131,402
Share of equity in associates	30	7	382	14	21	0	0	454
Unallocated assets								3,364
Total assets	**44,435**	**14,286**	**36,980**	**9,237**	**25,962**	**1,960**	**–1,005**	**135,220**
Liabilities	7,550	4,148	7,827	1,157	1,457	2,056	–1,005	23,190
Unallocated liabilities and equity								112,030
Total liabilities and equity	7,550	4,148	7,827	1,157	1,457	2,056	–1,005	135,220
Investments	–3,156	–1,215	–2,086	–342	–1,115	–19		–7,933
Depreciation	–2,145	–955	–1,803	–879	–496	–41		–6,319
Write-downs, unallocated								–2,352
Expenses, in addition to depreciation, not matched by payments	800	183	1,447	7	–285	387		2,539

SEKm	Tissue	Personal care	Packaging	Publication papers	Pulp, timber and solid-wood products	Other operations	Eliminations	Total Group
FISCAL YEAR 2004								
Revenues								
External sales	27,498	17,760	31,108	7,525	5,583	493	0	89,967
Internal sales	98	3	393	84	3,327	594	–4,499	0
Total revenues	**27,596**	**17,763**	**31,501**	**7,609**	**8,910**	**1,087**	**–4,499**	**89,967**
Result								
Segment result	**2,026**	**2,429**	**2,604**	**470**	**1,307**	**–568**	**0**	**8,268**
Items affecting comparability								–770
Operating profit								**7,669**
Financial income								453
Financial expenses								–1,537
Tax expense for the year								–1,393
Net profit for the year								**5,192**
Other disclosures								
Assets	40,967	11,581	35,428	9,481	24,734	2,703	–1,263	123,631
Share of equity in associates	27	6	332	10	12	0	0	387
Unallocated assets								2,133
Total assets	**40,994**	**11,587**	**35,760**	**9,491**	**24,746**	**2,703**	**-1,263**	**126,151**
Liabilities	7,041	3,805	5,686	1,100	1,260	1,777	-1,263	19,406
Unallocated liabilities and equity								106,745
Total liabilities and equity	**7,041**	**3,805**	**5,686**	**1,100**	**1,260**	**1,777**	**–1,263**	**126,151**
Investments	–9,154	–3,461	–2,706	–407	–746	–46		–16,521
Depreciation	–1,937	–874	–1,817	–861	–457	–36		–5,981
Write-downs, unallocated								–171
Expenses, in addition to depreciation, not matched by payments	428	–14	72	–1	–239	59		305

SEKm	Tissue	Personal care	Packaging	Publication papers	Pulp, timber and solid-wood products	Other operations	Eliminations	Total Group
FISCAL YEAR 2003								
Revenues								
External sales	26,160	16,735	29,640	7,184	5,164	455	0	85,338
Internal sales	53	33	389	83	3,056	576	–4,190	0
Total revenues	**26,213**	**16,768**	**30,029**	**7,267**	**8,220**	**1,031**	**–4,190**	**85,338**
Result								
Segment result	**2,417**	**2,403**	**2,482**	**662**	**897**	**-326**	**0**	**8,535**
Goodwill amortization								–1,130
Items affecting comparability								352
Operating profit								**7,757**
Financial income								544
Financial expenses								–1,334
Tax expense for the year								–1,861
Minority interests								–31
Net profit for the year								**5,075**
Other information								
Assets	36,239	6,792	34,626	9,905	15,422	284	–616	102,652
Share of equity in associates	26	6	356	11	13	0	0	412
Unallocated assets								4,292
Total assets	**36,265**	**6,798**	**34,982**	**9,916**	**15,435**	**284**	**-616**	**107,356**
Liabilities	5,781	3,271	5,759	1,037	1,413	1,533	–616	18,178
Unallocated liabilities and equity								89,178
Total liabilities and equity	**5,781**	**3,271**	**5,759**	**1,037**	**1,413**	**1,533**	**–616**	**107,356**
Investments	–3,658	–984	–3,425	–439	–3,508	–19	0	–12,033
Depreciation	–1,650	–825	–1,679	–848	–407	–16	0	–5,425
Write-downs, unallocated								–57
Expenses, in addition to depreciation, not matched by payments	–119	79	–88	0	–320	–289	0	–737

Expenses affecting comparability	2005		2004		2003	
SEKm	Expenses	Write-downs	Expenses	Write-downs	Expenses	Write-downs
Personal Care	199	130	4	48	79	
Tissue	1,057	408	435	68	79	57
Packaging	1,638	1,811	131	55		
Publication papers	9	0				
Pulp, timber and solid-wood products	11	3			–418	
Other	99	0	29		–149	
Total	**3,013**	**2,352**	**599**	**171**	**–409**	**57**
TOTAL		**5,365**		**770**		**–352**

Business segments: The Group is organized 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. Compared with the previous year, the Consumer Tissue segment and the AFH Tissue segment have been merged into one segment, Tissue. This is partly a result of further integrated production, partly a result of ongoing efficiency programmes. Tissue includes toilet paper, kitchen paper and paper handkerchiefs sold to the retail trade. In addition, toilet paper, hand drying products, napkins and products for cleaning for industrial applications are sold to corporate customers in the industrial sector, offices, hotels, restaurants and catering, healthcare and other institutions. Personal care products comprise baby diapers, feminine hygiene products and incontinence 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 contribute to a 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 with timber.

Revenues and expenses: within the Group there is an organization for paper recovery. Revenues and expenses from these operations are allocated among the business segments in proportion to their use of recovered paper. All the other income and expenses are directly attributable to the business segment.

Assets and liabilities: The assets included in each business segment comprise all operating assets used in the business segment, primarily accounts receivable, inventories and fixed 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. The liabilities attributable to the business segments comprise all operating liabilities, mainly accounts payable and accrued expenses. Net operating assets are allocated among the business segments.

Intra-Group deliveries: Revenues, expenses and results for the different business segments are affected by intra-Group deliveries. Internal prices are market-based. Intra-Group deliveries are eliminated on consolidation.

Secondary segments – geographical segments

The Group's operations are divided into three geographical segments: Europe, North America and the rest of the world.

	Sales			Assets			Investments		
SEKm	2005	2004	2003	2005	2004	2003	2005	2004	2003
Europe	70,535	69,730	69,564	121,604	124,805	122,092	–6,795	–9,621	–8,852
North America	12,589	11,283	11,053	17,320	14,104	14,814	–524	–1,128	–2,985
Rest of the world	13,261	8,954	4,721	13,881	11,037	3,047	–614	–5,772	–196
Eliminations				–17,585	–23,795	–32,597			
Total	**96,385**	**89,967**	**85,338**	**135,220**	**126,151**	**107,356**	**–7,933**	**–16,521**	**–12,033**

Sales figures are based on the country in which the customer is located. Assets and investments are reported where the assets are located.

Geographical segments: the Group's operations are mainly conducted in two areas. In Europe, which is the Group's home market, the Group manufactures and sells tissue, personal care products, packaging, publication papers and solid-wood products. In North America, the Group manufactures and sells AFH tissue, incontinence products and packaging, mainly protective packaging.

Note 6 Operating income

Revenue derived from activities outside the normal operations is reported in Other income. This includes recurrent income such as royalties and rental revenue, as well as income of a more temporary nature such as gains from the sale of fixed assets and government grants. In 2005 income from royalties amounted to SEK 148m, rental revenue was SEK 50m and gains from the sale of fixed assets SEK 114m.

Income for 2003 included gains from the sale of shares in Metsä Tissue of SEK 197m and reversal of negative goodwill of SEK 418m.

Note 7 Personnel costs and average number of employees

Personnel costs

SEKm	2005	2004	2003
Salaries and remuneration	15,695	14,346	13,478
of which Boards of Directors, Presidents and Executive Vice Presidents	299	199	271
of which variable salary	32	11	58
Personnel costs[1]	1,162	933	1,348
of which defined benefit pension plans	493	322	775
of which defined contribution pension plans	669	611	573
Other social security costs	3,225	2,767	2,600
Other personnel costs	1,830	1,372	1,071
Total	**21,912**	**19,418**	**18,497**

[1] Of the Group's pension costs SEK 42m (48; 46) pertains to Boards, Presidents and Executive Vice Presidents. Former Presidents and their survivors are also included. The Group's outstanding pension obligations to them amount to SEK 315m (314; 287).

Of total personnel costs, SEK 1,980m (599; 0) is attributable to costs for ongoing efficiency programmes. The 2005 amount includes salaries with SEK 1,235m, pension costs SEK 73m, other social security costs SEK 179m and other personnel costs SEK 493m.

Average number of employees

	2005	2004	2003
Average number of employees	50,916	49,919	44,191
of whom, women	25%	26%	24%
Number of countries	**53**	**54**	**44**

Women comprised 16% (8) of the total number of Board members and senior executives.

Breakdown of employees by age groups

21–30	31–40	41–50	51–60
19%	31%	29%	17%

Approximately 2% (2) of employees are under the age of 20, and approximately 2% (2) are over the age 60.

During 2005, SEK invested approximately SEK 170m (180; 120) or SEK 3,400 (3,600; 3,000) per employee in skills enhancement activities.

The added value per employee in 2005 amounted to SEK 491,000 (489,000; 535,000).

The proportion of university graduates amounts to 12% (12; 10).

In 2005, 5,154 persons (6,037) left SCA while 4,860 (6,529) joined the company. These figures include both voluntary retirement and the effects of rationalization and redundancies. In addition, a significant portion relates to summer jobs for students and seasonal work. The effects of acquisitions and divestments are also included.

The total absence due to illness in the Swedish companies amounted to 5% (6) (women 6% (7); men 5% (5)) .59% (63) of absence due to illness is long term.

Note 8 Depreciation and write-downs of tangible and intangible assets

SEKm	2005	2004	2003
Buildings	1 017	784	716
Land	225	79	119
Machinery and equipment	7 215	5 113	4 504
Sub-total	**8 457**	**5 976**	**5 339**
Goodwill			1 130
Patents, trademarks and similar rights	159	144	134
Capitalized development costs	55	32	9
Sub-total	**214**	**176**	**1 273**
TOTAL	**8 671**	**6 152**	**6 612**

The total amount for tangible fixed assets includes write-downs of buildings with SEK 277m (8;–), land SEK 147m (–;57), and machinery and equipment with SEK 1,934m (172; –).

The total amount for intangible fixed assets includes write-downs for patents, trademarks and similar of SEK 1m (–; –), and SEK 13m (–; –) relating to capitalized development costs.

Write-downs are almost exclusively an effect of ongoing efficiency programmes. See Note 9.

Depreciation is based on the costs and estimated economic lives of the assets provided in the accounting principles section on page 62.

Note 9 Other operating expenses

Operating expenses include R&D costs amounting to SEK 545m (574; 605) in the Group.

Consolidated operating profit includes a net result from exchange differences of SEK 27m (–47; –70). Hedging positions had an impact on operating profit of SEK –237m (13; 254).

Government grants received reduced other operating expenses by SEK 38m (28; 9).

Raw materials and consumables in 2005 include a write-down of inventories by SEK 100m, effected in conjunction with the 2005 efficiency programme.

Write-downs include write-downs in conjunction with ongoing efficiency programmes of SEK –2,352m (–171); 0).

Other operating expenses in 2005 include SEK –933m relating to the 2005 efficiency programme. 2003 includes costs for write-down of shares by SEK –48m and costs for rationalization measures, SEK –158m.

Efficiency programmes

In August 2005, SCA's Board decided on an efficiency enhancement programme to optimize the Group's production structure, combined with investments in technology for increased productivity and quality.

The programme will lead to the closure of approximately 20 plants where staff cutbacks and write-downs of fixed assets and other assets have taken place. The programme will also lead to write-downs of assets and staff cutbacks at other plants where deemed necessary. Total write-downs amounted to SEK 2,321m. Where the intention was to sell the assets, they were written down to fair value minus selling costs., and this exceeded value in use in all cases. Where the intention was to scrap the asset, it was written down to the higher of fair value minus selling costs and value in use. Closure of plants together with other cutbacks led to an estimated reduction of employees amounting to a total of 3,600 FTEs. This reduction has taken place and will take place through natural attrition or the issue of notice and the total cost amounts to SEK 1,586m. Other expenses in connection with the efficiency programme amounted to SEK 933m and were mainly attributable to costs in addition to write-downs and personnel costs related to plant closures. Increased costs for investments for increased productivity together with a write-down of inventories amounted to SEK 100m and are reported under raw materials and consumables.

The supplement to the 2004 efficiency programme is also reported under efficiency programmes. In total this amounted to SEK 425m, of which SEK 394m pertained to personnel costs and SEK 31m to write-downs.

Leasing

Future payment commitments in the Group for non-cancellable operating leases are broken down as follows

SEKm	2005	2004	2003
Within 1 year	926	844	616
Between 2–5 years	2,074	2,039	1,360
Later than 5 years	1,627	1,624	1,425
Total	**4,627**	**4,507**	**3,401**

The costs for the year for operating leases for assets amounted to SEK 921m (947; 807). Leased assets comprise a large number of assets such as energy plants, warehouses, offices, other buildings, machinery and equipment, IT equipment, office equipment and transport vehicles. The assessment is that in reality contracts for a number of assets can be terminated in advance.

Future payment commitments for the Group's finance leases are as follows:

	2005		2004		2003	
SEKm	Nominal	Present value	Nominal	Present value	Nominal	Present value
Within 1 year	218	202	205	180	180	168
Between 2–5 years	645	544	640	524	602	524
Later than 5 years	613	453	669	499	779	590
Total	**1,476**	**1,199**	**1,514**	**1,203**	**1,561**	**1,282**

Total payments for finance leases during the year amounted to SEK 232m (148; 216). During the year SEK 55m (50; 64) was reported as an interest expense and SEK 127m (98; 152) as amortization of debt. Depreciation of finance lease assets during the year amounted to SEK 130m (92; 132). The book value of finance lease assets at year-end was SEK 379m (299; 175) relating to buildings/land and SEK 1,534mm (1,576; 1,777) for machinery.

For information on significant leases, see Note 30 Contingent liabilities. In addition to what is presented there, there is a lease relating to a paper machine in Laakirchen that matures at year-end 2015.

Auditing expenses

Auditing expenses can be specified as follows:

SEKm	2005	2004	2003
Öhrlings Pricewaterhouse Coopers			
Auditing assignments	64	58	40
Other assignments	25	43	39
Other auditors			
Auditing assignments	4	4	1
Other assignments	3	2	1
TOTAL	**96**	**107**	**81**

Other assignments are mainly auditing-related consultations in conjunction with acquisitions, and tax advice.

Note 10 Financial income and expenses

SEKm	2005	2004	2003
Result from shares and participations in other companies			
Dividends	26	42	45
Capital gains	17	178	–
Reversal of earlier negative change in value	3	–	–
Interest income and similar profit/loss items			
Interest income, cash instruments	106	225	286
Other financial income	4	8	213
Total Financial income	**156**	**453**	**544**
Interest expense and similar profit/loss items			
Interest expense, cash instruments	–1,677	–1,509	–1,085
Interest expense, derivatives	56	–	–
Fair value hedges, unrealized	1	–	–
Other financial expenses	–31	–28	–249
Total Financial expenses	**–1,651**	**–1,537**	**–1,334**
TOTAL FINANCIAL INCOME AND EXPENSES	**–1,495**	**–1,084**	**–790**

Other financial income and expenses include net exchange differences SEK 3.7m (7.7; –9.1) and bank charges SEK –30.9m (–27.3; –30.6).

The 2004 capital gains included a gain from the sale of shares in Industrivärden of SEK 170m.

Note 11 Intangible assets

Group	Goodwill			Trademarks, licences, patents and similar rights			Capitalized development costs		
SEKm	2005	2004	2003	2005	2004	2003	2005	2004	2003
Accumulated cost	19,823	17,594	21,279	3,499	3,120	2,773	416	283	91
Accumulated depreciation	–	–	–6,677	–1,432	–1,172	–1,930	–150	–91	–37
Accumulated write-downs	–	–	–16	–	–	–	–14	–	–
Planned residual value	**19,823**	**17,594**	**14,586**	**2,067**	**1,948**	**843**	**252**	**192**	**54**
At 1 January	**17,594**	**14,586**	**16,093**	**1,948**	**843**	**718**	**192**	**54**	**39**
Investments	–	3	14	92	117	74	72	82	25
Sales and disposals	–	–	–	–6	–11	0	–6	–	0
Company acquisitions	162	3,673	852	17	1,196	150	–	17	–
Company divestments	–	–	–	–	–	–1	–	–	–
Reclassifications	–	–5	–43	–25	–5	59	38	76	1
Depreciation for the year	–	–	–1,113	–158	–140	–134	–42	–32	–9
Write-downs for the year	–	0	–17	–1	–	–	–13	–	–
Exchange differences	2,067	–663	–1,200	200	–52	–23	11	–5	–2
Closing planned residual value	**19,823**	**17,594**	**14,586**	**2,067**	**1,948**	**843**	**252**	**192**	**54**

SEKm	Emission allowances 2005
Accumulated cost	112
Accumulated write-downs	
Planned residual value	**112**
At 1 January	–
Emission allowances received	113
Emission allowances sold	–3
Exchange differences	2
Closing planned residual value	**112**

Emission allowances

The market price at 1 January 2005 was used in valuation of emission allowances. The Group has a total allocation of emission allowances that slightly exceeded consumption in 2005. Some of the surplus was sold in 2005. Settlement regarding 2005 emissions will take place in March 2006.

Impairment testing

Goodwill is tested for impairment every year. Goodwill is distributed among cash-generating units as follows:

SEKm	2005	2004
Tissue	7,608	6,867
Personal care	2,753	2,103
Packaging, Europe	6,468	6,071
Packaging, rest of the world	2,071	1,697
Publication papers	246	228
Pulp, timber and solid-wood products	31	30
Other operations	646	598
TOTAL	**19 823**	**17 594**

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 5 years. Assumptions in strategic plans are based on current 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 in order to achieved the said growth are excluded when goodwill is tested for impairment. Anticipated future cash flows according to these plans form the basis of the calculation. Cash flows for the period beyond 5 years is 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 is used. Discounted cash flows are compared with the book value of capital employed per cash-generating unit. Testing for impairment is carried out in the fourth quarter and testing for 2005 showed that there was no impairment.

In addition to goodwill, there are trademarks in the Group that are judged to have an indefinite useful life. The value of these trademarks amounted to SEK 1,057m. The useful life is judged as indefinite when it relates to well established trademarks within their markets that the Group intends to keep and further develop. All trademarks were identified and valued in conjunction with company acquisitions in 2004. Since valuations were finally established in 2005 no additional testing of the recoverable amount was performed during the year. In future the value will be tested for impairment according to a similar model as that applying to goodwill.

Note 12 Tangible assets

Group	Buildings			Land			Land Machinery and equipment			Construction in progress		
SEKm	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Accumulated cost	20,833	19,186	17,747	6,378	6,081	9,012	80,624	73,850	68,304	4,213	2,840	3,234
Accumulated depreciation	–7,413	–6,626	–6,107	–882	–822	–793	–41,741	–36,889	–33,846	–	–	–
Accumulated revaluations	–	–	–	–	–	5,079	–	–	–	–	–	–
Accumulated write-downs	–215	–34	–43	–144	–50	–52	–1,478	–313	–133	–48	–	–
Planned residual value	**13,205**	**12,526**	**11,597**	**5,352**	**5,209**	**13,246**	**37,405**	**36,648**	**34,325**	**4,165**	**2,840**	**3,234**
At 1 January	**12,526**	**11,746**	**11,599**	**5,209**	**4,985**	**10,103**	**36,649**	**34,348**	**35,466**	**2,840**	**3,234**	**1,444**
Investments	508	647	597	147	149	104	3,437	3,413	3,545	3,246	2,783	2,918
Sales and disposals	–134	–157	–84	–153	–129	–98	–117	–44	–114	–23	–40	–39
Company acquisitions	40	854	565	72	256	3,539	349	2,321	725	3	73	81
Company divestments	–	–	–19	–	–	–	–	–	–16	–	–	–2
Reclassifications	320	466	203	6	100	–92	1,583	2,431	757	–2,092	–3,141	–964
Depreciation for the year	–740	–787	–716	–77	–79	–62	–5,278	–4,942	–4,504	–	–	–
Write-downs for the year	–277	–8	–	–147	–	–57	–1,883	–172	–	–51	–	–
Reversed write-down	0	–	–	0	–	–	1	–	–	0	–	–
Exchange differences	962	–235	–548	295	–73	–191	2,664	–707	–1,534	242	–69	–204
Closing planned residual value	**13,205**	**12,526**	**11,597**	**5,352**	**5,209**	**13,246**	**37,405**	**36,648**	**34,325**	**4,165**	**2,840**	**3,234**

During the year SEK 17m (3; 67) pertaining to interest during the construction period was capitalized in machinery, SEK 4m (5; 0) was capitalized in buildings and SEK –m (2; 0) in land, at an interest rate of 3% (4; 4). The total includes cost for machinery of SEK 573m (539; 531), buildings SEK 9m (5; 8) and land SEK 2m (2; 2) in capitalized interest.

Government grants reduced investments for the year for buildings by SEK 0m (5; 0), machinery and equipment by SEK 13m (56; 26) and construction in progress by SE 0m (3; 19). In total, government grants reduced accumulated costs for buildings by SEK 5m (5; 5), land by SEK 1m (1; 1), machinery and equipment by SEK 268m (241; 144) and construction in progress by SEK 0m (0; 19).

Accumulated revaluation of land in 2003 pertains to revaluation of forest assets according to Swedish accounting standards.

Tax assessment values

Tax assessment values relate to assets in Sweden.

SEKm	2005	2004	2003
Buildings	2 417	2 392	2 567
Land	146	143	136
TOTAL	**2 563**	**2 535**	**2 703**

The book value of buildings with tax assessment values in accordance with the above was SEK 1,704m (1,791; 1,692) and land improvements SEK 696m (687; 645).

Note 13 Biological assets

SCA's forest assets are divided up and reported as biological assets, i.e. standing forest and land assets. Standing forest is recognized at fair value in accordance with IAS 41, Agriculture.

The market value of SCA's standing forest at 31 December 2005 was SEK 17,716m (17,383). The total value of SCA's forest assets was SEK 18,616m (18,282). The difference, SEK 900m (899) comprises forest land reported among fixed assets, Land.

Since a market price or other comparable value is not available for assets of SCA's size, the biological assets are valued at the present value of expected future cash flows, before tax, from the assets. In calculation of cash flow, the following key assumptions were made. Cash flows comprise a production cycle which SCA assesses as amounting to 100 years, the most recent available felling plan is also used (adopted every tenth year). Since statutory replanting is a condition for felling, the cost of this is also included. Price and cost levels only change if such changes are judged to be long-term. The cash flow before tax is discounted by a factor that is regarded as a normal level of weighted average cost of capital (WACC) for forestry operations and amounts to 6.25%.

SCA's forest holdings comprise approximately 2.6 million hectares of forest land primarily in central and northern Sweden, approximately 2.0 million hectares of which is productive forest land. The forest portfolio amounts to 191 million cubic metres of forest (m^3fo) and is divided into pine 45%, spruce 43%, deciduous 10% and contorta 2%. Growth amounts to approximately 3.0 m^3fo per hectare and year and current felling to approximately 4.4 million cubic metres (sub), i.e. approximately 90 percent of growth. Approximately 50% of the holdings comprise forest less than 40 years old while 67% of timber volume in the forests is more than 80 years old.

	Standing forest	
Biological assets, SEKm	**2005**	**2004**
Opening balance	**17,383**	**17,120**
Purchases of standing forest	23	17
Sales of standing forest	–7	–6
Change in fair value	1,079	1,011
Change due to felling	–793	–759
Other changes	31	0
Closing balance	**17,716**	**17,383**

Changes in fair value and changes due to felling are reported net, SEK 283m (252), in the income statement under Change in net value of biological assets.

Note 14 Holdings in associated companies

SEKm	2005	2004	2003
Opening carrying amount	387	412	1,544
Investments	24	4	–
Increase through acquisition of subsidiaries	–	7	15
Divestments	–	–	–70
Net increase in associated companies for the year[1]	14	6	76
Reclassifications to joint-venture companies or subsidiaries	–	–31	–875
Other reclassifications	–1	–7	–255
Exchange differences	30	–4	–23
CLOSING CARRYING AMOUNT	**454**	**387**	**412**

[1] Net increase for the year includes the Group's share of associated companies' profit after tax and any minority interests as well as adjustment for dividends received during the year.

Major changes in the Group's holding of shares in associated companies were as follows:

- Investments in 2005 relate to Cool Logistics.
- Reclassification 2004 mainly relates to SCA Weyerheuser Packaging Holding Co Asia Ltd which is a wholly-owned subsidiary from 2004.
- Reclassification 2003 mainly pertains to Scaninge, which is now a wholly owned subsidiary and Cenpak which in 2003 was a joint-venture company and from March 2004 is a subsidiary.

For specification see Note 52. The Group's total receivables from associated companies at 31 December 2005 amount to SEK 8m (13; 10), of which SEK 8m (9; 6) is interest-bearing. The Group's total liability to associated companies at 31 December 2005 amounts to SEK 3m (10; 12), of which SEK 0m (0; 0) is interest-bearing.

Note 15 Shares and participations

SEKm	2005	2004	2003
Opening carrying amount	309	246	811
Investments	24	4	13
Increase through acquisition of subsidiaries	0	58	1
Divestments	–1	–1	–702
Change in value for the year	–22	–	–48
Reclassifications to joint-venture companies or subsidiaries	–159	–9	0
Other reclassifications	–42	9	189
Exchange differences	10	2	–18
CLOSING CARRYING AMOUNT	**119**	**309**	**246**

Shares and participations pertain to holdings in other companies that are not classified as subsidiaries, joint-venture companies or associated companies. And which are also not classified as financial assets available-for-sale when the holding is of an operating nature. Book value concurs with fair value.

Major changes in the Group's holding of shares and participations were as follows:

- Other companies include shareholding in the French listed company Otor, which is measured at fair value, which led to a negative change in value of SEK 48m in 2003 and a positive of SEK 3m in 2005.
- 2005 write-down pertains to the holding in Belovo, Bulgaria.
- Divestment of other companies in 2003 mainly relates to Metsä Tissue.

The Group's holdings in large subsidiaries, joint-venture companies and associated companies are specified in Note 52.

Note 16 Long-term financial assets

SEKm	2005
Available-for-sale financial assets	1,018
Available-for-sale financial assets, not fair valued	7
Derivative instruments (see Note 2)	417
Loan receivables associated companies	6
Loan receivables other	117
At 31 December	**1,565**
Available-for-sale financial assets:	
At 1 January	641
Reclassification, pension assets	176
Investments	10
Remeasurement for the year taken to equity	191
At 31 December	**1,018**

Total long-term financial assets at 31 December 2004 amounted to SEK 708m and at 31 December 2003 to SEK 958m. These amounts include what in 2005 are classified as Available-for-sale financial assets with SEK 444m and SEK 695m respectively. Valuation of these assets, which in their entirety related to shares in Industrivärden AB, was then carried out at cost. The market value amounted to SEK 641m in 2004 and SEK 838m in 2003. In addition to shares in Industrivärden AB, a surplus attributable to some pension obligations has been classified as available-for-sale assets. These obligations are not included in the normal pension calculations as can be seen in Note 25.

Available-for-sale financial assets, fair value

SEKm	2005
Shares – Industrivärden AB	834
Pension assets outside IAS 19 calculation	184
Total	**1,018**

Note 17 Taxes

Tax expense

SEKm	2005	2004	2003
Current tax expense	1,279	2,113	1,870
Deferred tax expense	–1,300	–720	–51
Tax expense attributable to shares of profits in associated companies			42
Tax expense	**–21**	**1,393**	**1,861**

Tax expense amounted to –4.8% (21.2; 26.7) 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.

	2005		2004		2003	
	SEKm	%	SEKm	%	SEKm	%
Tax expense	–21	–4.8	1,393	21.2	1,861	26.7
Expected tax expense	141	32.6	2,164	32.9	2,209	31.7
Difference	**–162**	**–37.4**	**–771**	**–11.7**	**–348**	**–5.0**
The difference is explained by:						
Permanent effects[1]						
Effects attributable to internal banking operations	–433	–100.0	–344	–5.2	–467	–6.7
Effects of other subsidiary financing	–117	–27.0	–179	–2.7	–152	–2.2
Consolidated amortization of goodwill	–	–	–	–	341	4.9
Negative goodwill recognized in income	–	–	–9	–0.1	–146	–2.1
Other permanent effects	131	30.2	133	2.0	118	1.7
Taxes related to prior periods	30	7.0	–24	–0.4	–84	–1.2
Change in unrecognized deferred tax assets[2]	259	59.9	–179	–2.7	307	4.4
Changed tax rates	–32	–7.5	–169	–2.6	–28	–0.4
Other[3]	0	0	0	0	–237	–3.4
	–162	**–37.4**	**–771**	**–11.7**	**–348**	**–5.0**

1) Permanent effects are attributable to permanent differences between accounting and fiscal result.
2) SEK 228m of the 2005 effect is attributable to full tax effect not being achieved in respect of efficiency programmes. SEK –198m of the 2004 effect is attributable to revaluation of loss carry forwards in Germany.
3) 2003 effect relates to non-recurring effect in conjunction with restructuring in Italy.

Current tax expense

SEKm	2005	2004	2003
Income tax for the period	1,243	2,103	2,020
Adjustments for prior periods	36	10	–150
Current tax expense	**1,279**	**2,113**	**1,870**

Current tax liability

The change during the period of current tax liability is explained below.

SEKm	2005	2004	2003
Opening balance	**327**	**356**	**–296**
Current tax expense	1,279	2,113	1,870
Paid tax	–1,629	–2,088	–1,151
Other changes	41	–63	–70
Exchange differences	–12	9	3
Closing balance	**6**	**327**	**356**

Other changes include tax relating to income statement items recognized directly in equity SEK 7m (–50; 0), and the effects of acquisitions and divestments of SEK 37m (–5; 38). Closing current tax liability comprises tax assets of SEK 525m (564; 655) and tax liabilities of SEK 531m (891; 1,011).

Deferred tax expense

SEKm	2005	2004	2003
Changes in temporary differences	–1,259	–259	–393
Adjustments for prior periods	–6	–36	61
Other changes	–35	–425	281
Deferred tax expense	**–1,300**	**–720**	**–51**

Other changes include the effects of changed tax rates which reduced the deferred tax expense by SEK –32m (–168; –28) and revaluation of deferred tax assets which reduced the deferred tax expense by SEK –3m (–258; 290).

Deferred tax liability

The change during the period of deferred tax liability is explained below.

SEKm	Opening balance	Deferred tax expense	Other changes	Exchange differences	Closing balance
Intangible assets	–130	188	–70	–5	–17
Land and buildings	6,773	–129	–6	98	6,736
Machinery and equipment	6,527	–393	21	433	6,588
Financial assets	–114	86	53	–6	19
Current assets	119	–2	78	17	212
Provisions for pensions	–726	–78	–101	–68	–973
Other provisions	85	–12	19	2	94
Liabilities	–201	–706	–60	–52	–1,019
Tax credits and tax loss carry forwards	–1,405	–475	–89	–266	–2,235
Other	–151	221	89	–32	127
	10,777	**–1,300**	**–66**	**121**	**9,532**

Other changes include deferred tax booked directly in equity according to IAS 19 SEK –50m, IAS 39 SEK –25m and effects of acquisitions and divestments SEK 18m. Opening balance is adjusted for the effects of transition to IFRS rules SEK 2,160m (see Note 33) and changed acquisition balances SEK 174m.

Closing deferred tax liability comprises deferred tax assets SEK 992m (605; 157) and deferred tax liabilities SEK 10,524m (11,382; 9,847).

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 probable that reversal can take place within the foreseeable future.

Loss carry forwards

Unutilized loss carry forwards for which no deferred tax assets are recognized amounted to SEK 1,268m (1,198; 1,871) at 31 December 2005. Of these, SEK 750m have an indefinite life. The remainder expire as follows.

YEAR	SEKm
2006	65
2007	88
2008	90
2009	17
2010 and later	258
Total	**518**

Note 18 Inventories

SEKm	2005	2004	2003
Raw materials and consumables	2,840	2,641	2,216
Spare parts and supplies	1,539	1,411	1,295
Products in progress	776	611	492
Finished products	4,929	4,214	3,773
Felling rights	409	391	288
Advance payments to suppliers	57	51	34
Total	**10,550**	**9,319**	**8,098**

Raw materials and consumables were written down by SEK 100m in 2005, as part of the ongoing efficiency programmes. See Note 9.

Note 19 Accounts receivable, trade

SEKm	2005	2004
Accounts receivable, gross	15,263	12,024
Provisions to reserves for doubtful debts	–235	–299
Fair value of accounts receivable	**15,028**	**11,725**

There is no concentration of credit risks relating to accounts receivable since the Group has a large number of customers spread throughout the world.

In 2004 and 2003, accounts receivable in some European companies were securitized. Sold receivables reduced reported accounts receivable by SEK 1,884m in 2004 and by SEK 1,950m in 2003.

Note 20 Other current receivables

SEKm	2005	2004	2003
Bills receivable	611	681	761
Receivables from associated companies	1	3	5
Accrued financial income	9	214	107
Derivative instruments, operating	116	–	–
Prepaid expenses and accrued income	798	1,013	767
Other current receivables	1,718	2,162	2,155
Total	**3,253**	**4,073**	**3,795**

Note 21 Current financial assets and liquid funds

SEKm	2005
Available-for-sale financial assets, not fair valued	24
Derivative instruments (see Note 2)	54
Loan receivables associated companies	2
Loan receivables other	157
Total current financial assets	**237**

From 2004, 3-month investments and cash and bank balances are included in liquid funds. In 2003, 3-month investments were reported in short-term financial assets.

Note 22 Assets held for sale

SEKm	2005
Buildings	49
Land	8
Machinery and equipment	11
Total	**68**

Buildings, land, and machinery and equipment with a total value of SEK 116m have been reclassified and reported, to the extent they were not sold in 2005, as held for sale. The remainder is expected to be sold in 2006. In this reclassification, assets were measured at fair value with a deduction for selling costs which leads to a write-down of the assets. The write-down totalled SEK 33m and is included as part of the efficiency programme.

Note 23 Shareholders' equity

The bridge between closing equity 2003, which is reported in accordance with Swedish accounting standards, and opening equity 2004, which is reported according to International Financial Reporting Standards, IFRS, is shown in Note 33.

SEKm	Share capital	Restricted reserves	Un-restricted reserves	Total equity
2003				
Opening equity	**2,322**	**15,683**	**29,978**	**47,983**
Exchange difference in translation of foreign operations	–	–1,841	–1,104	–2,945
Exchange difference on hedging instruments	–	1,114	–	1,114
Total changes not recognized in income statement	**0**	**–727**	**–1,104**	**–1,831**
Transfer between restricted and unrestricted equity	–	64	–64	0
Equity shares in associated companies	–	9	–9	0
Net profit for the year	–	–	5,075	5,075
Dividends	–	–	–2,212	–2,212
Conversion of loans	11	277	–	288
Utilized options	17	418	–	435
Sale of own shares	–	–	16	16
Closing equity, 31 December 2003	**2,350**	**15,724**	**31,680**	**49,754**

SEKm	Share capital	Other capital provided	Revaluation reserve[3,4]	Hedging reserve[3,5]	Assets available for sale[3]	Translation reserve[3]	Retained earnings	SCA's owners' equity	Minority interests	Total equity
2004										
Opening equity[1]	2,350	6,829					40,575	49,754		49,754
Changed accounting principles[1]							87	87		87
Adjustment to IFRS rules[2]							2,879	2,879	751	3,630
Opening equity according to IFRS	**2,350**	**6,829**					**43,541**	**52,720**	**751**	**53,471**
Actuarial gains and losses relating to pensions, incl. payroll tax							–334	–334		–334
Exchange difference on foreign operations						–1,191		–1,191	10	–1,181
Result from hedging of net investment in foreign operations						192		192		192
Tax on items recognized directly in/ transferred from equity							90	90		90
Total transactions recognized directly in equity						**–999**	**–244**	**–1,243**	**10**	**–1,233**
Net profit for the period recognized in the income statement							5,164	5,164	28	5,192
Total recognized income and expense for the period						**–999**	**4,920**	**3,921**	**38**	**3,959**
Effect of changes in acquisition balances within window period, net after tax			107					107		107
Revaluation of owned portion at successive acquisitions, net after tax			36					36		36
Conversion of warrants, options		1						1		1
Sale of own shares							15	15		15
Dividend, SEK 10.50 per share[6]							–2,450	–2,450	–21	–2,471
Closing equity 31 December 2004	**2,350**	**6,830**	**143**			**–999**	**46,026**	**54,350**	**768**	**55,118**
2005										
Opening equity	2,350	6,830	143			–999	46,026	54,350	768	55,118
Adjustment to IFRS rules[2]				–11	197		–91	95		95
Opening equity according to IFRS	**2,350**	**6,830**	**143**	**–11**	**197**	**–999**	**45,935**	**54,445**	**768**	**55,213**
Actuarial gains and losses relating to pensions, incl. payroll tax							–238	–238		–238
Available-for-sale financial assets:										
– Result from valuation to fair value recognized in equity					191			191		191
Cash flow hedges:										
– Result from remeasurement of derivatives recognized in equity				64				64		64
– Transferred to income statement for the period				3				3		3
– Transferred to cost of hedged investments				–24				–24		–24
Exchange difference on foreign operations						3,303		3,303	52	3,355
Result from hedging of net investment in foreign operations						567		567		567
Tax on items recognized directly in/transferred from equity				–9	–2		49	38		38
Total transactions recognized directly in equity				**34**	**189**	**3,870**	**–189**	**3,904**	**52**	**3,956**
Net profit for the period recognized in the income statement							430	430	24	454
Total recognized income and expense for the period				**34**	**189**	**3,870**	**241**	**4,334**	**76**	**4,410**
Change in Group composition								0	–50	–50
Sale of own shares							15	15		15
Dividend, SEK 10.50 per share[6]							–2,451	–2,451	–27	–2,478
Closing equity, 31 December 2005	**2,350**	**6,830**	**143**	**23**	**386**	**2,871**	**43,740**	**56,343**	**767**	**57,110**

1) 2004 according to Swedish accounting principles. Changed accounting principles pertain to accounting for payroll tax on pensions.
2) For more information, see Note 33.
3) Revaluation reserve, Hedging reserve, Assets available for sale and Translation reserve are included in the Reserves line in the balance sheet.
4) Revaluation reserve includes effect on equity of successive acquisitions.
5) See also Note 2 for information of when result expected to be realized.
6) Dividend SEK 10.50 (10.50) per share pertains to Parent Company shareholders.

See Parent Company's Note 45 for additional information relating to equity.

Note 24 Financial liabilities

At 31 December 2005, gross debt, including accrued interest, amounted to SEK 38,972m. The interest-bearing gross debt was SEK 38,828m. Distribution of the gross debt is shown in the following tables.

	Book value			Market value	
SEKm	**2005**	**2004**	**2003**	**2005**	**2004**
Short term financial liabilities					
Amortization within one year	263	282	290	263	282
Bond issues	156	0	0	156	0
Derivative liabilities	294	217	106	294	217
Loans with maturities of less than one year	19,477	15,277	9,370	19,477	15,277
Total short-term financial liabilities[1]	**20,190**	**15,776**	**9,766**	**20,190**	**15,776**
Long-term financial liabilities					
Bond issues	13,205	9,518	9,882	13,218	9,866
Convertible loans	–	–	1	–	–
Derivative liabilities	423	–5	–	423	–
Other long-term loans with maturities >1 year <5 years	3,856	8,295	3,060	3,797	8,003
Other long-term loans with maturities >5 years	1,154	1,347	2,557	1,452	1,654
Total long-term financial liabilities	**18,638**	**19,155**	**15,500**	**18,890**	**19,523**
Total financial liabilities	**38,828**	**34,931**	**25,266**	**39,080**	**35,299**
Derivative receivables			–360		
TOTAL FINANCIAL LIABILITIES	**38,828**	**34,931**	**24,906**	**39,080**	**35,299**

[1] Market value of short-term loans is estimated to be the same as the book value. Interest on short-term loans is estimated to equal market rates when they have a short interest term.

Other long-term loans Amount-weighted interest rate by currency	>1 year <5 years		>5 years	
Currency	**Nominal, SEKm**	**Interest, %**	**Nominal, SEKm**	**Interest, %**
CAD	51	3.25		
CLP	20	5.79		
CNY	2	6.34		
COP	1	6.60		
EUR	2,183	2.97	619	2.93
GBP	566	4.92	97	8.14
MXN	50	6.69		
MYR			31	2.63
NOK	1	3.95		
PHP			9	7.04
SEK	84	3.80	48	4.42
TND	10	6.62	2	6.50
TRY	1	5.00		
USD	887	4.43	348	7.18
Total	**3,856**		**1,154**	
MARKET VALUE	**3,797**		**1,452**	

Interest rates are the actual interest rates for the loans and do not reflect the Group's interest net since the Group uses interest-rate derivatives to achieve short interest duration.

Convertible loans			
SEKm	**2005**	**2004**	**2003**
Loan issued by SCA Group Holding B.V. in 1989, ECU 101m at 4.25%	0	0	1
Subordinated bond loan convertible to B shares in SCA between 25 April 1989 and 10 January 2004			
Conversion price was SEK 122.70			
TOTAL LOANS ISSUED BY THE GROUP	**0**	**0**	**1**

Conversion of outstanding portions of the 1989 ECU loan led to issue of 9,155 B shares in January 2004.

Bond issues

Issued-Maturity	Loan description	Nominal	Interest rate	Effective interest[1]	Currency	Book value 31 Dec 2005, SEKm	Maturity	Market value, SEKm
1986 – 2006	Bond loan – Retractable	6	3.15%		SEK	6	2006-03-10	6
1999 – 2006	Medium Term Note due 2006	150	3 M Stibor + 0.45%		SEK	150	2006-04-19	150
2002 – 2007	5.375% Notes due 2007	700	5.38%	5.50%	EUR	6,931	2007-06-25	6,996
2003 – 2015	4.50% Notes due 2015	450	4.50%	4.62%	USD	3,397	2015-07-15	3,390
2005 – 2010	3.60% Notes due 2010	1,500	3.60%	3.62%	SEK	1,500	2010-11-18	1,496
2005 – 2010	Floating Rate Note due 2010	500	3 M Stibor + 0.34%		SEK	500	2010-11-18	464
2005 – 2015	Index linked Interest Note due 2015	300	3.5% Index (CPI) – Linked	1.93%	SEK	329	2015-12-01	327
2005 – 2015	Index linked Interest Note due 2015	500	3.5% Index (CPI) – Linked	1.87%	SEK	548	2015-12-01	545
TOTAL SEKm						**13,361**		**13,374**

[1] For loans with no stated effective interest the actual interest rate corresponds to effective interest.

Interest-bearing gross debt by currency

Taking into account derivatives for hedging of foreign assets, SCA's gross debt has the following currency distribution.

Currency SEKm	2005	2004	2003
SEK	11,026	9,935	1,742
EUR	10,637	6,435	5,480
USD	6,566	7,037	9,310
GBP	3,400	4,934	5,139
MXN	1,803	1,423	0
AUD	1,335	1,049	25
DKK	1,055	1,799	1,878
NZD	505	609	0
SKK	482	304	263
COP	369	99	75
CHF	273	305	321
Other	1,377	1,002	673
TOTAL	**38,828**	**34,931**	**24,906**

Note 25 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	2005	2004	2003
Current service cost, excluding contributions by plan participants	547	461	345
Past service cost	35	32	8
Interest expense	870	850	787
Expected return on plan assets	–822	–765	–653
Amortization of actuarial gains and losses	–	–	308
Pension costs before the effects of curtailments and settlements	**630**	**578**	**795**
Curtailments and settlements	73	–12	–1
Net pension costs after effects of curtailments and settlements	**703**	**566**	**794**

Of the pension costs for defined benefit plans, SEK 210m (244; 19) is recognized as a financial expense which is calculated based 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 63% (64; 63)of the total fair value of the plan assets was invested in equities. The remaining 37% (36; 37) comprised fixed-income investments. The actual return on the plan assets in 2005 was SEK 2,751m (1,601; 1,299).

Pension plans with balance sheet surpluses are reported as an asset in the balance sheet, Surplus in funded pension plans. Other pension plans which in balance sheet terms are not fully funded, are reported 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	2005	2004	2003
Surplus in funded pension plans	470	418	2,289
Provisions for pensions	4,810	4,388	2,569
Provisions for pensions, net	**4,340**	**3,970**	**280**

The summaries below specify the net value of the defined benefit pension obligations.

SEKm	2005	2004	2003
Defined benefit obligations	20,936	16,924	15,181
Fair value of plan assets	–16,513	–12,949	–10,765
Net value	**4,423**	**3,975**	**4,416**
Unrecognized past service costs	–83	–5	–12
Unrecognized actuarial gains and losses, net	–	–	–4,124
Provisions for pension, net value	**4,340**	**3,970**	**280**

Actuarial gains and losses for the year, reported in Consolidated statement of recognized income and expense, are negative and amount to SEK 255m (319). The accumulated gains and losses recognized in this manner thus amount to SEK 574m (319).

In addition to the effect of changed actuarial assumptions such as change of discount rate, etc., actuarial gains and losses arose from adjustment of assumptions based on experience. Experience-based adjustments include unexpectedly high or low figures for employee turnover, early retirement, mortality or salary increases. The percentage effect of such adjustments amounts to 0% (0) for the defined benefit obligations and 12% (6) for the plan assets. This means that the return on the plan assets was better than expected in both 2005 and 2004.

In addition to what is recognized in the net value as plan assets for existing obligations, there are assets in two Swedish foundations amounting to SEK 708m (620; 444) 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 only amounts to a minor amount and because 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 41m (33).

The following table shows the net value distributed taking funded, partly funded and wholly unfunded pension plans into account. The designation partly funded relates to plans that include both funded and unfunded obligations within the same plan as opposed to funded plans where all obligations are funded. The financing level varies depending on the plan.

SEKm	2005	2004	2003
Funded plans			
Defined benefit obligation	18.695	13.526	12.044
Fair value of plan assets	–16,454	–11,893	–10,465
Net value funded plans	**2,241**	**1,633**	**1,579**
Unrecognized past service costs	–75	–4	–12
Unrecognized actuarial gains and losses, net	–	–	–3,803
Provisions for pensions, funded plans	**2,166**	**1,629**	**–2,236**
Partly funded plans			
Defined benefit obligation	257	1,778	1,693
Fair value of plan assets	–59	–1,056	–300
Net value, partly funded plans	**198**	**722**	**1,393**
Unrecognized actuarial gains and losses, net	–	–	–192
Provision for pensions, partly funded plans	**198**	**722**	**1,201**
Unfunded plans			
Defined benefit obligation	1,984	1,620	1,444
Unrecognized non-vested benefits	–8	–1	–
Unrecognized actuarial gains and losses, net	–	–	–129
Provisions for pensions, unfunded plans	**1,976**	**1,619**	**1,315**
PROVISIONS FOR PENSIONS, NET	**4,340**	**3,970**	**280**

The largest pension plan in Germany was reported until year-end 2004 as partly funded, with effect from 2005 it is included in the funded plans, since conditions changed so that funding now covers all obligations. In the partly funded plans, SEK 177m (705; 1,196) of the obligation is unfunded.

As in the previous year, no financial instruments are included issued by the company in the fair value of plan assets at 31 December 2005.

SCA's budgeted contribution for the defined benefit obligations amount to SEK 590m for 2006.

The following table explains the development of the defined benefit obligations and plan assets. Amounts for 2003, however, pertain to development of the net pension liability.

	2005		2004		2003
SEKm	Defined benefit obligations	Plan assets	Defined benefit obligations	Plan assets	Pension liability, net
Opening balance	16,924	–12,949	15,193	–10,765	257
Current service cost	622		530		345
Interest expense	870		850		787
Expected return on plan assets		–822		–765	–653
Past service cost	35		32		8
Acquisitions	45	–24	27		11
Curtailments and settlements	72		60		12
Contributions by plan participants	–75	–75	–69	–69	–72
Contributions by the employer		–823		–1,308	–838
Benefits paid	–816	816	–759	759	
Actuarial gains and losses	2,117	–1,787	874	–562	308
Exchange differences	1,142	–849	186	–239	115
Closing balance	**20,936**	**–16,513**	**16,924**	**–12,949**	**280**

[1] Actuarial gains and losses for 2004 and 2005 are reported via the Consolidated statement of recognized income and expense, while the amount for 2003 pertains to amortization of actuarial gains and losses via the income statement.

Principal actuarial assumptions

%	2005	2004	2003
Discount rate	4.4	5.1	5.4
Expected return on plan assets	5.9	6.2	7.0
Future salary increases	3.6	3.6	3.5
Future cost of living increases	2.4	2.4	2.3

The actuarial assumptions comprise a weighted average of assumptions applied in calculating the defined benefit obligation on the balance sheet date and the pension cost for the following year.

Note 26 Other provisions

SEKm	Acquisitions and divestments	Efficiency programmes	Current operations	Tax risks	Environ-ment	Legal disputes	Other	Total
Opening balance[1]	154	356	68	998	59	10	191	1,836
Provisions during the year	–	2,817	5	31	115	30	29	3,027
Utilization during the year	–81	–908	–43	0	–3	–1	–44	–1,080
Reclassifications	–34	0	37	117	1	2	–128	–5
Dissolved during the year	–2	–23	–24	0	–8	–2	–33	–92
Exchange differences	4	69	11	5	4	0	3	96
Closing balance	**41**	**2,311**	**54**	**1,151**	**168**	**39**	**18**	**3,782**
Provisions comprise:								
Short-term component								2,081
Long-term component								1,701

[1] Opening balance adjusted for changes in acquisition balances in companies acquired in 2004 of SEK 54m. Short-term provisions of SEK 169m were also included this year.

Other provisions amount to SEK 3,782m (1,836; 1,651). This includes SEK 2,311m for the efficiency programmes started in 2004 and 2005 as well as SEK 890m for tax risk in connection with restructuring, acquisitions and divestments.

Of the efficiency programmes' provisions SEK 1,666m is expected to be paid in 2006 and the remaining SEK 645m in 2007.

During the year new provisions were made of SEK 3,027m of which SEK 394m represents a supplement for the efficiency programme started in 2004 and SEK 2,423m the efficiency programme started in the second half of 2005.

Reserves were utilized with SEK 1,080m, of which SEK 908m from efficiency programmes.

Note 27 Other long-term liabilities

SEKm	2005	2004	2003
Derivative instruments, operating	55	–	–
Other long-term liabilities	153	90	163
TOTAL	**208**	**90**	**163**

Of other long-term liabilities SEK 63m (68; 91) falls due for payment later than within 5 years.

Note 28 Other current liabilities

SEKm	2005	2004	2003
Liabilities to associated companies	3	10	12
Derivative instruments, operating	69	–	–
Accrued expenses and prepaid income	5,520	5,415	4,894
Other operating liabilities	2,268	1,940	2,158
Total other current liabilities	**7,860**	**7,365**	**7,064**

Accrued expenses and prepaid income	2005	2004	2003
Accrued social security costs	391	407	314
Accrued vacation pay liability	810	785	672
Other liabilities to personnel	889	795	636
Accrued financial expenses	153	392	270
Bonus and discounts to customers	1,299	1,134	701
Other items	1,978	1,902	2,301
TOTAL	**5,520**	**5,415**	**4,894**

Note 29 Joint venture companies

Joint ventures, that is companies which 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 South America. One joint venture company produces newsprint and has its operations in the UK. Companies in Australia, Mexico and China which in 2004 and 2003 were consolidated according to the proportional method, were consolidated as subsidiaries in 2005 following acquisition of additional shares in the companies.

Income statement and balance sheet items and average number of employees in joint ventures included in the SCA Group, pertain to SCA's share:

SEKm	2005	2004	2003
Income statement			
Net sales	3,828	5,211	3,449
Operating expenses[1]	–3,662	–4,997	–3,181
Operating profit	**166**	**214**	**268**
Financial items	–46	–138	–28
Profit before tax	**120**	**76**	**240**
Tax	–13	–59	–79
Net profit for the yeart	**107**	**17**	**161**
Profit attributable to:			
Parent Company shareholders	107	17	160
Minority interests			1
Reported net profit 2003, excluding minority interests			160

[1] Includes items affecting comparability in connection with efficiency programme of SEK 11m.

SEKm	2005	2004	2003
Balance sheet			
Fixed assets	2,938	2,302	2,775
Current assets	1,484	1,079	1,701
Total assets	**4,422**	**3,381**	**4,476**
Shareholders' equity	2,426	1,909	2,434
Minority interests	0	0	41
Long-term liabilities	721	657	752
Current liabilities	1,275	815	1,249
Total shareholders' equity and liabilities	**4,422**	**3,381**	**4,476**
Average number of employees	2,244	3,119	2,564
of whom, women	28%	23%	26%

Number employees by country

	2005		2004		2003	
		of whom women		of whom women		of whom women
Australia	–	–	36	12%	110	34%
Chile	176	9%	182	8%	162	10%
Colombia	1,037	37%	1,031	27%	1,011	27%
Ecuador	301	23%	286	25%	286	27%
Mexico	–	–	892	18%	180	27%
UK	187	14%	191	13%	195	14%
Tunisia	216	12%	167	13%	166	11%
Turkey	114	6%	–	–	–	–
Other countries	213	46%	334	36%	454	34%
Total	**2,244**	**28%**	**3,119**	**23%**	**2,564**	**26%**

Salaries and remuneration

SEKm	2005	2004	2003
Boards of directors, Presidents and Executive Vice Presidents	9	30	22
of which variable salary	4	0	–
Other employees	308	379	288
Salaries and remuneration	317	409	310
Social security costs	82	110	70
of which pension costs[2]	15	14	20

[2] Of pension costs, SEK 1m (0; –) relates to boards, presidents and executive vice presidents. Former presidents and their survivors are also included. Outstanding pension obligations to them amount to SEK 11m (3; –).

Note 30 Contingent liabilities

SEKm	2005	2004	2003
Discounted bills	0	5	3
Guarantees for			
– employees	8	9	4
– associated companies	39	62	63
– customers and others	36	36	33
Tax disputes	455	356	163
Other contingent liabilities	117	93	59
TOTAL	**655**	**561**	**325**

As of 2004, SCA includes risks related to tax disputes in contingent liabilities. Comparative years have been restated.

A so-called control agreement was established during 1997 between SCA, through its German holding company SCA Group Holding (Deutschland) GmbH, and PWA (name changed to SCA Hygiene Products AG) effective 1 January 1998. The agreement is valid until further notice with a mutual termination period of six months and entails a liability for the German holding company to carry any losses that arise in SCA Hygiene Products AG during the period of the agreement. SCA has provided a surety for the German holding company's commitments pursuant to the Control Agreement. The offer to the minority shareholders to purchase their shares for DEM 281 per share still applies pending legal consideration of the underlying valuation, which may also affect the obligation to pay an annual dividend of DEM 17.15 per share to the remaining minority shareholders. The valuation issue was ruled on in the first instance, which in October 2004 decided to set the value at EUR 188.67 per share and the annual dividend to EUR 17.32 per share (reduced by applicable corporate tax). The minority shareholders and SCA have appealed the ruling, as a result of which there is as yet no legally binding decision.

SCA entered into lease-out/lease-in transactions during 1996 with American 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 effected, the net present value of the leasing amount which SCA has undertaken to pay amounted to about SEK 4 billion or USD 611m . This amount, in accordance with the agreements, is partly deposited in accounts in banks with at least AA rating, and partly in US securities with an AAA rating. SCA carries the credit risk against the depositary banks, but this is considered, as a result of the structure of the agreements, to be insignificant. Should the rating of a depositary bank decline in the future, SCA has the possibility to transfer the deposit to another bank with a better rating. Moreover, SCA is liable to take such action if the depositary bank's rating falls below A. The counterparties have accepted that the deposited funds are applied for the leasing undertakings. The advance payments and deposits were netted during 1996 in the balance sheet. Should SCA as the result of extraordinary events (of a force majeure nature) elect not to 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 lifetime and can amount to a maximum of about 20% of the present value of the leasing amount. The agreements were composed and examined by legal experts in Sweden and the U.S. and are considered to follow the standard practice for lease-out/lease-in transactions.

During 2000, SCA entered into a leasing transaction with American 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 effected, the current value of the leasing amount which SCA has undertaken to pay amounted to about SEK 4 billion or USD 442m. Of this amount, in accordance with the agreement, an amount corresponding to SEK 3.6 billion is partly deposited in accounts in banks, partly in US securities, both with AA ratings. SCA carries the credit risk against the depositary banks, but this is considered, as a result of the structure of the agreements, to be insignificant. Should the rating of a depositary bank decline in the future, SCA has the possibility to transfer the deposit to another bank with a better rating. 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 economic losses that may be incurred as a result. Compensation varies during the lifetime and can amount to a maximum of about 15% of the present value of the leasing amount. 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.

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

In 2005, SCA signing 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.

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

In 1998, the Swedish tax authorities ruled not to permit SCA deduction for a capital loss in conjunction with restructuring of the Group's operations. The ruling resulted in a demand for additional taxes and fees amounting to SEK 470m . SCA appealed the ruling and the county administrative court ruled in December 2004 in the company's favour. This ruling has been appealed in part by the Swedish tax authorities, which is maintaining its demand corresponding to additional tax of about SEK 163m . Based on the opinion of external tax expertise, SCA assesses that the ruling by the county administrative court will not be changed. Accordingly, no provision has been made in the closing accounts.

In a tax dispute, the Spanish authorities have claimed additional taxes amounting to EUR 19.5m , 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 surety for payment of the taxes 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.

The Dutch tax authorities have issued a claim for SEK 90m for which no provision has been made. SCA contests this claim which relates to additional stamp duties. The extent to which legal proceedings will be required is uncertain, but SCA's judgement is that this claim will not be upheld in the event of such proceedings.

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

Note 31 Pledged assets

SEKm	Pledged relating to financial liabilities	Other	Total 2005	2004	2003
Real estate mortgages	502	54	556	706	1,713
Chattel mortgages	36	27	63	150	61
Other	7	34	41	36	37
TOTAL	**545**	**115**	**660**	**892**	**1,811**

Liabilities for which some of these assets were pledged as collateral amounted to SEK 45m (360; 163) at 31 December 2005.

Note 32 Remuneration to senior executives

A fee is paid to the Board Chairman and other members elected by a General Meeting in accordance with the decision of the General Meeting. A separate fee is paid for work carried out in Board committees. Distribution of fees in 2005 is presented in Note 35.

Principles

Remuneration to the CEO and other senior executives comprises a base salary, any variable remuneration, other benefits and pension. Other senior executives include executive vice president, business group presidents and heads of corporate staff units; see page 101–102 for the composition of the Group. Total compensation must be at market rates and competitive in the labour market in which the executive works.

Base salary and variable remuneration shall be in proportion to the executive's responsibility and authority. For the CEO, as well as other senior executives, the variable remuneration is maximized and related to the base salary. The variable remuneration shall be based on the outcome in relation to set targets and, as far as possible, be linked to the value development for SCA shares that accrues to the shareholders. With regard to the company's programme for variable remuneration, see below under Variable remuneration.

In the event of termination of employment a notice period should normally apply of two years, if notice is initiated by the company, and one year, if notice is initiated by the executive. Severance pay should not arise.

Pension benefits are either defined benefit or defined contribution, or a combination, and give the executive the right to receive a pension from the age of 60 at the earliest. Earned pension benefits are contingent on employment being sustained for a long period, currently 20 years. Upon termination of employment prior to retirement age, the executive will receive a paid-up policy for pension from age 60. Variable remuneration does not provide pension entitlement.

Questions relating to remuneration to company management are handled by a Remuneration Committee, and with regard to the CEO, decided by the Board.

Remuneration and other benefits during the year

SEK	Base salary/ Board fees	Variable remuneration	Other benefits	Pension costs	Total
Board Chairman	1,150,000	–	342,131	392,504	1,884,635
CEO	6,047,120	–	337,120	2,764,108	9,148,348
Other senior executives	37,115,981	5,301,292	2,861,625	14,284,987	59,563,885
TOTAL	**44,313,101**	**5,301,292**	**3,540,876**	**17,441,599**	**70,596,868**

Comments to table

- In applying the company's earlier contract with the Chairman of the Board, who was previously President and CEO of SCA, from the date he left employment in 2002 and until he reaches age 65, he will essentially remain at the remuneration level that is comparable to his previous employment benefits (excluding variable remuneration). In addition to contractual pension, he will accordingly receive an annual supplementary amount, which for 2005 amounted to SEK 1,904,484. As shown in the table above he also received fees for serving as SCA's Board Chairman and on the Remuneration Committee and as a member of the Audit Committee totalling SEK 1,150,000.
  A salary increase of 5% was decided for the CEO in 2005 and 3.5% for 2006.
- Variable remuneration covers fiscal 2005 but is paid during 2006. For information about how the variable remuneration is calculated, see below under Variable remuneration.
- Other benefits pertain to housing and a company car (excluding fuel).
- Most of the Group's senior executives have defined benefit pension plans. Pension costs pertain to the costs that affected earnings for

the year, excluding special payroll tax. For additional information about pensions, see below under Pensions and severance pay.

Variable remuneration

SCA's variable remuneration programmes involve executives at the Group and business group level. The programmes for 2005 include a cash flow-related component which can give a maximum remuneration amounting to 50% (60% for North American managers) of the annual base salary. For 2006 the programmes include a cash-flow and a share-related component which can provide a maximum remuneration of 60% (70% for North American managers) of the base salary.

The cash flow-related component is based on an earning period of one year. The outcome, which for 2005 may amount to a maximum of 50% (60% for North American managers) of the base salary and for 2006 to a maximum of 35% (40% for North American managers), is dependent on whether or not the set targets for operating cash flow are achieved. Any result is paid in cash after the close of each earning year. The target for the CEO, Executive Vice Presidents and business group presidents is set annually by the Board of Directors' Remuneration Committee. The targets for other executives are determined by the CEO within the framework of the policy adopted by the Remuneration Committee.

Similarly, the share-related component is based on an earning period of one year, beginning in 2006, however. The result depends on how the value (measured as total shareholders' return) of SCA's series B shares progresses over a three-year period in relation to the value trend among SCA's competitors in Sweden and abroad. The result requires that the real return for SCA Class B shares exceeds the average real return among a comparative group. The maximum annual return is 25% (30% for North American managers) of the base salary during the particular earnings period. Any result is paid in cash.

The CEO, the Executive vice president and heads of central staffs will not receive any variable remuneration for 2005.

For other senior executives, the programme resulted in an average remuneration corresponding to 14% of the base salary, which will be paid during 2006.

Financial instruments, etc.	Employee stock options	
Previous years' programmes	2001/2008 number	2002/2009 number
Board Chairman (formerly CEO)	40,000	40,000
CEO	20,000	35,000
Other senior executives	102,500	141,500
TOTAL	**162,500**	**216,500**

Comments to table

- At 31 December 2005, senior executives held stock options from the 2001/2008 and 2002/2009 programmes. For more detailed terms and conditions for these programmes, see below. Other programmes from previous years have now terminated.
- During 2001 and 2002, about 200 senior executives received stock options at no cost at a value (theoretically calculated) which on the date did not exceed about 20% of the executive's base salary. The total number of stock options for both years allocated to these executives amounted to about 1,800,000. The maturity of the options is seven years and 1/3 of them may be exercised after one year, 1/3 after two years and the remaining 1/3 after three years. When exercising the options, the employee must make payments corresponding to the average latest paid price for Class B shares in SCA during a certain period prior the allocation date. For options allocated in 2001, the exercise price was set at the average share price during a ten-day period in May 2001, SEK 220.00. For the options allocated in 2002, the exercise price was set at the average share price during a ten-day period in May 2002, SEK 347.50. The options have so many entitlement restrictions that they are considered to lack market value. A theoretical value has been calculated based on the Black & Scholes valuation model. Based on analysis of the historical volatility for the company's and comparable companies' market prices, the expected volatility during the lifetime of the options is calculated at 20%. The entitlement restrictions have a value-reducing effect which, among other factors, is calculated based on the company's expected personnel turnover and the probability of exercise before expiration. In total, the estimated value reduction corresponds to 30% in relation to the value calculated for the stock options in accordance with the Black & Scholes valuation model. The theoretical value of the options at 31 December 2005 has been calculated for the 2001 allotted options at about SEK 54 per option and the 2002 allotted options at about SEK 18 per option. The expenses for social security costs at exercise of the stock options have been hedged with regard to increases in the SCA share price. The risk of a downturn in the share price is not hedged. A decline to a price of SEK 200 would result in a financial expense of about SEK 34m. Hedging is conducted in share swaps at a nominal SEK 107m. The market value at year-end was approximately SEK 0m. The hedging transactions will be recognized in income in pace with exercise of the options and subsequently the social security costs arise.
- During 2005, senior executives exercised 2,000 options from the 2001/2008 programme.

Pensions and severance pay

The pension agreement for the CEO, who has a defined-benefit plan, is formulated so that retirement pension (including national pension benefits) is paid from the age of 65 at 70% of salary at retirement (excluding variable remuneration). However, he is entitled to retire at 60, with 70% of salary at retirement (excluding variable remuneration) between the ages of 60 and 65 and subsequently with 50% of salary at retirement (excluding variable remuneration). In both cases, full pension is contingent upon employment being sustained in the Group during at least 20 years from the date the CEO reached 40 years of age. Upon termination of employment prior to age 65, a paid-up policy is received for pension payments from age 65 or 60. This is contingent upon employment being sustained in the Group during at least 3 years from the date the CEO reached 40 years of age. In addition, beneficiaries' pension amounts to about 50% of retirement pension.

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 period of notification. The agreement does not contain any stipulations with regard to severance pay.

In the case of most of the other senior executives in the Group there is a defined benefit pension plan, which grants the executive the right at age 65 to receive a pension (including general pension benefits) at up to 70% of the salary (excluding variable salary). However, they are entitled to retire at 60 with 70% of the 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 having been employed in the Group for 20 years. Upon termination of employment prior to reaching retirement age, a paid-up policy is received for pension payments from age 65 or 60, under the 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.

The applicable pension plan for the CEO and most of the other senior executives has been closed for new entries. Accordingly, during 2004 a new pension plan was established. The new plan is a combination defined benefit and defined contribution pension plan that provides the executives the right at age 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, under the condition that the executive, after reaching the age of 40, has been employed in the Group for at least three years. Survivor's 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.

Between the company and other senior executives a period of notice of termination of 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 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 processes

During the year, the Remuneration Committee submitted to the Board recommendations regarding the principles for remuneration of senior executives. The recommendation contained the proportions 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 proposal and decided based on the committee's recommendations.

The remuneration to senior executives for fiscal 2005 was based on the Remuneration Committee's recommendation, and with regards to CEO decided by the Board. The affected executives 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 amount the composition of the Remuneration Committee, see page 96.

Note 33 Transition to IFRS

In accordance with a decision by the European Union, EU, publicly listed companies are obliged to prepare their consolidated accounts in compliance with international accounting principles established by the International Accounting Standards Board, IASB. These principles are presented in standards called IAS, International Accounting Standards (established before 2002) and IFRS, International Financial Reporting Standards (established from 2003 onwards). In addition to these standards, interpretations have been published and presented in documents entitled SIC and IFRIC, respectively.

The EU must approve IASB's standards and interpretations before they are included in EU regulations. This annual report is prepared in accordance with standards approved by the EU and with the wording approved by the EU at 31 December 2005.

Since the standards applied by SCA until year-end 2004, the Swedish Financial Accounting Standards Council's recommendations (RR),have been successively adjusted to IFRS in recent years, large parts of IASB's rules were already applied by SCA. However, the transition has led to the following more significant or fundamental changes compared with 2004:

- Biological assets, i.e. standing forest, are measured and recognized at fair value. Fair value is calculated as the present value of expected future cash flows from the assets. (IAS 41)
- Goodwill is tested annually for impairment and recognized at cost minus accumulated write-downs (IAS 36). Goodwill amortization is no longer applied. (IFRS 3)
- Indefinite assets can have an indefinite useful life. Such assets, currently only trademarks, are handled in the same manner as goodwill and tested annually for impairment. (IAS 36)
- In acquisitions conducted in stages, the already owned portion of assets and liabilities is remeasured and remeasurement recognized in equity. (IFRS 3)
- Actuarial gains and losses from calculation of pensions are recognized directly in equity. (IAS 19)
- Derivative instruments, as well as financial assets held for trading, are measured at fair value via the income statement. The result of remeasurement is recognized in the income statement in the period in which it occurs. (IAS 39)
- Securities classified as financial assets available for sale are measured at fair value. Unrealized gains or losses from remeasurement is recognized in equity. Realized gains or losses are recognized in the income statement.(IAS 39)
- Changes in fair value of derivative instruments that qualify for hedge accounting relating to cash flows and net investments in foreign operations are recognized in equity. (IAS 39)
- Securitization is not reported net. (IAS 32 and IAS 39)
- Any negative goodwill always affects the income statement in the period it is identified. (IFRS 3)
- Minority shares are included in reported profit for the period and constitute part of consolidated equity. (IAS 1)
- Finance leases are always reported according to the principles for finance leases and cannot, in accordance with the Swedish recommendation, under certain circumstances be reported as operating leases. (IAS 17)
- Share of profits of associated companies is reported on one line and pertain to the Group's share after tax.

IFRS 1 First-time Adoption of IFRS, contains rules for the transition from previously applied rules to IFRS.

According to IFRS 1 only one comparative year needs to be prepared according to IFRS rules. SCA has chosen to apply this rule and all accounts for 2003 will therefore continue to be presented in accordance with Swedish principles. The transition date for accounting according to IFRS is therefore 1 January 2004. Furthermore IAS 32 and IAS 39 do not need to be applied when preparing comparative information for 2004. Accounting for financial instruments is therefore according to Swedish principles for 2004 as well. Therefore, no market valuation of financial instruments was performed for 2004 and securitization of accounts receivable is reported net.

IFRS 1 also does not require historical data to be recomputed and presented according to IFRS. In addition to 2003 all information prior to 2003 is reported according to Swedish principles.

IFRS 1 contains special transitional rules that may be applied the first time a company reports according to IFRS.

- At transition a company can choose to apply the rules in IFRS 3, Business Combinations, from the effective date of the transition. SCA has chosen to apply this transition rule.
- IFRS 1 permits a company to value its fixed assets at fair value from the transition date and to use these values as acquisition cost in future reports. SCA has chosen not to apply this transition rule.
- Accumulated translation differences, including the effects of hedges, must according to IAS 21, Effects of Changes in Foreign Exchange Rates, be attributable to individual companies. IFRS 1 permits translation differences to be assumed as zero at the transition date. SCA has chosen to apply this transition rule.
- According to IFRS 1 no distribution of compound financial instruments is required under certain conditions. This provision is not applicable to SCA due to the significance aspect.
- Rules for different transition dates for companies within a group. Not applicable to SCA.
- Rules for classification of previously reported financial instruments. Not applicable to SCA.
- Share-based payments according to programmes adopted prior to 7 November 2002, are not according to IFRS 1 required to be reported according to the rules in IFRS 2 Share-based Payment. SCA has chosen to apply this transition rule.
- Rules for reporting insurance contracts. Not applicable to SCA.
- IFRIC 1, on change in liabilities for dismantling, restoration and similar will be applied from the transition date
- IFRIC 4, on agreements that contain a lease. Not applicable. IFRIC 4 comes into force on 1 January 2006 and will be applied from that date.

According to an addition to IAS 19, Employee Benefits, approved by the EU in 2005, it is permitted to recognize actuarial gains and losses directly in equity. SCA, which previously applied the corridor rule, has chosen to apply IAS 19 with this addition from the IFRS transition date.

Capitalized actuarial gains and losses at 1 January 2004 were set at zero and contra booked in equity and the change in actuarial gains and losses is thereafter recognized directly in equity.

A reconciliation of accounting according to previously applied principles and accounting according to IFRS is provided below. The transition date for accounting according to IFRS is 1 January 2004. The reconciliation below therefore contains a comparison between the balance sheet at 31 December 2003 according to Swedish principles and the new opening balance sheet at 1 January 2004. In addition a reconciliation between the balance sheet presented in the 2004 annual report and the balance sheet prepared according to IFRS at 31 December 2004 is provided. This reconciliation shows, in addition to the effects of IFRS, re-allocations between lines and the effect of changes attributable to 2004 acquisitions. IAS 32 and 39 are applied from 2005 onwards. The reconciliation below therefore contains a comparison between the balance sheet at 31 December 2004 prepared according to IFRS and presented in the reconciliation for 2004 below, and the new opening balance at 1 January 2005.

A specification of the effects of the transition, line by line in the balance sheet, is provided in the specification on page 88. Here details are given of what the effects on equity and the 2004 result stem from.

The effect of the transition is also presented in the 2004 annual report and in the interim report for March 2005. After the 2004 annual report was adopted, it emerged that one company, previously not consolidated, must be consolidated as a joint-venture company. This adjustment is made in the opening balance presented here.

BALANCE SHEET		1 Jan 2004			31 Dec 2004					1 Jan 2005	
		Previously applied principles	Effect of transition to IFRS	According to IFRS	Previously applied principles, annual report 2004	Effect of transfer to IFRS	Adjustment acquired companies 2004[1]	Reclassification between lines[2]	According to IFRS	Effect of transition to IAS 32 and IAS 39	According to IFRS
ASSETS											
Goodwill	1)	14,586	20	14,606	15,970	1,181	443	–	17,594	0	17,594
Other intangible assets	2)	897	0	897	1,997	28	115	–	2,140	0	2,140
Property, plant and equipment	3)	62,402	–8,067	54,335	65,387	–8,034	–130	–	57,223	0	57,223
Biological assets	4)	0	17,120	17,120	0	17,383	–	–	17,383	0	17,383
Holdings in associated companies				0			–	387	387	0	387
Shares and participations		658	0	658	696	0	–	–387	309	0	309
Capital investment shares		695	0	695	444	0	–	–444	0	0	0
Surplus in funded pension plans	5)			0			–	418	418	0	418
Long-term financial assets	5)	2,552	–2,239	313	2,472	–1,790	–	26	708	712	1,420
Deferred tax assets	6)	157	3	160	605	0	–	–	605	0	605
Other long-term assets	7)	84	0	84	77	0	–	–	77	1	78
Total fixed assets		**82,031**	**6,837**	**88,868**	**87,648**	**8,768**	**428**	**0**	**96,844**	**713**	**97,557**
Inventories		8,098	0	8,098	9,319	0	–	–	9,319	0	9,319
Accounts receivable	8)	10,332	0	10,332	11,725	0	–	–	11,725	1,250	12,975
Current tax assets		655	0	655	564	0	–	–	564	0	564
Other current receivables	9)	3,795	0	3,795	4,166	0	–93	–	4,073	66	4,139
Current financial assets	10)	749	0	749	891	0	–	–763	128	–231	–103
Liquid funds				0		0	–	3,498	3,498	0	3,498
Cash and bank balances		1,696	0	1,696	2,735	0	–	–2,735	0	0	0
Total current assets		**25,325**	**0**	**25,325**	**29,400**	**0**	**–93**	**0**	**29,307**	**1,085**	**30,392**
TOTAL ASSETS		**107,356**	**6,837**	**114,193**	**117,048**	**8,768**	**335**	**0**	**126,151**	**1,798**	**127,949**
EQUITY AND LIABILITIES											
Share capital		2,350	0	2,350	2,350	0	–	–	2,350	0	2,350
Other capital provided				0			–	6,830	6,830	0	6,830
Restricted reserves		15,724		15,724	15,055	62	–	–15,117	0	0	0
Reserves			0	0	0	36	107	–999	–856	182	–674
Retained earnings incl. net profit for the year		31,680	2,879	34,559	28,993	2,583	–	14,450	46,026	–87	45,940
Net profit for the year	11)	**0**	**0**	**0**	**3,639**	**1,525**	**–**	**–5,164**	**0**	**0**	**0**
	12)	**49,754**	**2,879**	**52,633**	**50,037**	**4,206**	**107**	**0**	**54,350**	**95**	**54,446**
Minority interests			751	751		768			768	0	768
TOTAL EQUITY		**49,754**	**3,630**	**53,384**	**50,037**	**4,974**	**107**	**0**	**55,118**	**95**	**55,214**
Minority interests		751	–751	0	768	–768	–	–	0	0	0
Long-term financial liabilities	13)	15,500	68	15,568	19,092	63	–	–	19,155	550	19,705
Provisions for pensions	14)	2,569	1,897	4,466	2,046	2,342	–	–	4,388	0	4,388
Deferred tax liabilities	15)	9,847	2,021	11,868	9,048	2,160	174	–	11,382	–40	11,342
Other long-term provisions	16)	1,204	–51	1,153	1,170	–32	54	–	1,192	0	1,192
Other long-term liabilities	17)	163	0	163	90	0	–	–	90	9	99
Total long-term liabilities		**29,283**	**3,935**	**33,218**	**31,446**	**4,533**	**228**	**0**	**36,207**	**519**	**36,726**
Current financial liabilities	18)	9,766	23	9,789	15,753	23	–	–	15,776	1,009	16,785
Accounts payable		9,280	0	9,280	10,150	0	–	–	10,150	0	10,150
Current tax liabilities		1,011	0	1,011	891	0	–	–	891	0	891
Current provisions				0		0	–	644	644	0	644
Other current liabilities	19)	7,511	0	7,511	8,003	6	–	–644	7,365	175	7,539
Total current liabilities		**27,568**	**23**	**27,591**	**34,797**	**29**	**0**	**0**	**34,826**	**1,184**	**36,009**
TOTAL EQUITY AND LIABILITIES		**107,356**	**6,837**	**114,193**	**117,048**	**8,768**	**335**	**0**	**126,151**	**1,798**	**127,949**

[1] See Note 4.

[2] Reclassifications as set out below have been effected compared with the 2004 annual report:
Value of holding in associated companies, SEK 387m, reclassified from Shares and participations to Holdings in associated companies. Capital investment shares, i.e. holding in Industrivärden SEK 444m, has been reclassified from Capital investment shares to Long-term financial assets. In addition, surplus in funded pension plans, SEK 418m, reclassified from Long-term financial assets to its own line Surplus in funded pension plans. The line Long-term financial assets is therefore affected by a total of SEK 26m (444 – 418). Cash and bank balances SEK 2,735m reclassified to line Liquid funds, where 3-month investments, SEK 763m, reclassified from Current financial assets. Under Equity the line Restricted reserves is removed and Parent Company's Premium reserve, SEK 6,830m reclassified to Other capital provided. Other restricted reserves, SEK 8,287m, transferred to Retained earnings, where Net profit for the year, SEK 5,164m, was also taken. From Retained earnings translation differences of SEK –999m reclassified to Reserves. Total Retained earnings affected by this by SEK 14,450m (8,287 + 5,164 + 999). Reserves also stated effect of equity from staged acquisitions, total SEK 143m (36 + 107).

Transition effects 1 January 2004		Goodwill amortization ceases	Indefinite useful life for trademarks	Acqui-sitions in stages	Biological assets at fair value	Reclassi-fication of operating leases to finance leases	Actuarial gains and losses in pensions to equity	Negative goodwill expensed immediately	Consolidation of additional companies	Total
Goodwill	1)								20	20
Property, machinery and equipment	3)				–8,261	172			22	–8,067
Biological assets	4)				17,120					17,120
Long term financial assets/surplus in funded pension plans	5)						–2,239			–2,239
Deferred tax assets	6)						3			3
Equity, excluding net profit for the year	12)				**5,589**	**50**	**–2,853**	**51**	**42**	**2,879**
Long-term financial liabilities	13)					68				68
Provisions for pensions	14)						1,897			1,897
Deferred tax liabilities	15)				3,270	31	–1,280			2,021
Other long-term provisions	16)							–51		–51
Current financial liabilities	18)					23				23
Total transition effects for 2004										
Goodwill	1)	1,161							20	1,181
Other intangible assets	2)		24	4						28
Property, machinery and equipment	3)			48	–8,272	168			22	–8,034
Biological assets	4)				17,383					17,383
Long term financial assets/surplus in funded pension plans	5)						–1,790			–1,790
Deferred tax assets	6)						0			0
Net profit for the year		1,213	24		252	2	288	–19		1,760
Net profit for the year deferred tax		–68	–7		–71		–89			–235
Total effect on 2004 earnings	11)	**1,145**	**17**	**0**	**181**	**2**	**199**	**–19**	**0**	**1,525**
Equity, excluding net profit for the year				36	5,589	50	–3,098	51	42	2,670
Equity excluding translation difference		–51				–1	63			11
Total effect on equity excluding net profit for the year		**–51**	**0**	**36**	**5,589**	**49**	**–3,035**	**51**	**42**	**2,681**
Total effect on equity 31 December 2004	12)	**1,094**	**17**	**36**	**5,770**	**51**	**–2,836**	**32**	**42**	**4,206**
Long-term financial liabilities	13)					63				63
Provision to pensions	14)						2,342			2,342
Deferred tax liabilities	15)	67	7	16	3,341	31	–1,302			2,160
Other long-term provisions	16)							–32		–32
Current financial liabilities	18)					23				23
Other current liabilities	19)						6			6

Interim effects 1 January 2005, reporting according to IAS 32 and IAS 39		Securitization reversed	Measurement at fair value of Available for sale financial assets	Financial assets at fair value through profit or loss	Fair value hedges for receivables and liabilities	Cash flow hedges	Total
Long-term financial assets	5)		197	1	514		712
Other long-term assets	7)			1			1
Accounts receivable	8)	1,250					1,250
Other current receivables	9)			64		2	66
Current financial assets	10)			–53	–178		–231
Equity, excluding net profit for the year	12)		**197**	**–87**	**–4**	**–11**	**95**
Long-term financial liabilities	13)			1	549		550
Deferred tax liabilities	15)			–34	–2	–4	–40
Other long-term liabilities	17)			7		2	9
Current financial liabilities	18)	1,250		–34	–207		1,009
Other current liabilities	19)			160		15	175

VALUE OF FORESTS

Total value of forests according to IFRS	**2004-01-01**	**2004-12-31**
Biological assets	17,120	17,383
Forest land, included in Property, machinery and equipment	899	899
Total value of forest assets	*18,019*	*18,282*
Deferred tax liability relating to biological assets	4,794	4,865
Deferred tax liability relation to forest land	–102	–102
Total deferred tax on forest assets	*4,692*	*4,763*
Net value after tax of forest assets	**13,327**	**13,519**
Total value of forest according to Swedish standards		
Total book value of forest assets	9,160	9,171
Deferred tax liability	1,422	1,422
Net value after tax of forest assets	*7,738*	*7,749*
Change in net value of forests after revaluation according to IFRS	**5,589**	**5,770**

PENSIONS

Pension liability according to IFRS	**2004-01-01**	**2004-12-31**
Provisions for pensions	4,466	4,388
Surplus in funded pension plans	50	418
Provisions for pensions, net value	*4,416*	*3,970*
Deferred tax liability	–1,283	–1,294
Net value after tax of pension obligations	**3,133**	**2,676**
Pension liability according to Swedish standards		
Provisions for pensions	2,569	2,046
Surplus in funded pension plans	2,289	2,208
Provisions for pensions, net value	*280*	*–162*
Deferred tax liability	0	0
Net value after tax of pension obligations	*280*	*–162*
Net change in pension liability after revaluation according to IFRS	**2,853**	**2,838**

Note 34 Other external costs

2005 other external costs include costs for efficiency programme of SEK 18m.

Fees and remuneration to auditors are included with:

SEKm	2005	2004
Öhrlings Pricewaterhouse Coopers		
Auditing assignments	9	5
Other assignments	11	6
Other auditors	**–**	**–**
TOTAL	**20**	**11**

Leasing

Future payment commitments for non-cancellable operating leases are as follows:

SEKm	2005	2004
Within 1 year	20	20
Between 2-5 years	49	67
Later than 5 years	–	–
Total	**69**	**87**

Cost for the year for leasing of assets amounted to SEK 22m (23). Leasing assets comprise premises rental contracts, IT equipment, company cars benefits and office furniture. In reality, such contracts can be terminated early.

Note 35 Personnel costs and employees

Total personnel costs for 2005 include costs of SEK 93m relate to staff cutbacks in connection with ongoing efficiency programmes within the Group. This amount also includes costs for employees who were previously not employed in the Parent Company.

Salaries and remuneration

SEKm	2005	2004
Boards[1)], Presidents and Executive Vice Presidents	17	18
of which variable salary	0	2
Other employees	73	67
TOTAL SALARIES AND REMUNERATION	**90**	**85**

Of salary total for 2005, SEK 8m relates to efficiency programmes.

1) Board fees decided by the general meeting are included with SEK 2,8m (3,1) distributed with SEK 1,050,000 to the Board Chairman and SEK 350,000 each to the other general meeting elected Board members. In addition, remuneration is paid for committee work of SEK 50,000 to each Board member on the Remuneration Committee and the Audit Committee.

Social security costs

SEKm	2005	2004
Total social security costs	118	66
of which pension costs[2]	87	36

Provisions for pensions

SEKm	2005	2004
Provisions for other pensions	306	242

In social security costs for 2005, SEK 30m pertains to costs for efficiency programmes of which SEK 27m comprises pension costs. Provisions for pensions include SEK 25m attributable to costs for efficiency programmes.

2) Of the Parent Company's pension costs, SEK 37m (27) pertain to the Board, President and Executive Vice Presidents. Former Presidents and Executive Vice Presidents and their survivors are also included. The company's outstanding pension obligations to them amounts to SEK 215m (188).

Average number of employees

	2005	2004
Sweden	89	83
of whom women	53%	47%

Of the total number of Board members and senior executives, 13% (12) are women.

Total absence due to illness amounts to 4% (2) (women 5% (3); men 2% (2). Of absence due to illness, 66% (56) is long-term.

Note 36 Depreciation of tangible and intangible assets

SEKm	2005	2004
Buildings	5	5
Land improvements	36	38
Machinery and equipment	1	1
Sub-total	**42**	**44**
Capitalized development costs	7	6
TOTAL	**49**	**50**

Note 37 Financial items

MSEK	2005	2004
Income from participations in group companies		
Dividends from subsidiaries	1,565	3,179
Capital gains	–	876
Income from participations in other companies		
Capital gains	9	22
Reversed write-down	3	–
Interest income and similar profit/loss items		
Interest income, external	2	2
Interest income, subsidiaries	167	50
Other financial income, external	1	1
Other financial income, subsidiaries	–	5
Interest expenses and similar profit/loss items		
Interest expenses, external	–6	–8
Interest expense, subsidiaries	–914	–738
Other financial expenses, external	–	–5
Other financial expenses, subsidiaries	–	0
TOTAL	**827**	**3,384**

Note 38 Appropriations and untaxed reserves

Of the Parent Company's untaxed reserves, SEK 121m (119) pertains to accumulated depreciation in excess of plan.

Existing tax allocation reserves were dissolved entirely in 2004 (SEK 708m).

Note 39 Taxes

Tax on profit for the year

SEKm	2005	2004
Current tax income (–)	–234	–98
Deferred tax income (–)	–129	–1
TOTAL REPORTED TAX	**–363**	**–99**

Reconciliation percentage tax:

%	2005	2004
Tax expense	–107.6	–2.7
Expected tax expense	28.0	28.0
DIFFERENCE	**–135.6**	**–30.7**

Difference is due to:

Taxes related to prior periods	–4.6	–0.2
Non-taxable dividends from subsidiaries	–129.7	–24.0
Other non-taxable/non-deductible items	–1.3	–6.5
TOTAL	**–135.6**	**–30.7**

The Parent Company participates in the Group's tax pooling arrangement and pays the majority of the Group's total Swedish taxes. Reported current tax revenues represents the portion of the Group's total Swedish taxes attributable to the Parent Company. Other Group companies that participate in the arrangement have current tax expenses totaling SEK 222m (431). The Parent Company's claim on subsidiaries for taxes on their account is reported as current receivables from subsidiaries.

Current tax income		
SEKm	2005	2004
Income tax for the period	–222	–91
Adjustments for prior periods	–12	–7
Current tax income	**–234**	**–98**

Current tax liability (+), tax assets (-)

Change during the period of current tax liability is explained below:

SEKm	2005	2004
Opening balance	251	19
Current tax income	–234	–98
Paid tax	–246	–101
Tax expense other Group companies	222	431
CLOSING TAX ASSET, TAX LIABILITY	**–7**	**251**

Deferred tax income		
SEKm	2005	2004
Change in temporary differences	–126	–1
Adjustment for prior periods	–3	–
Deferred tax income	**–129**	**–1**

Deferred tax liability

Change during the period of deferred tax liability is explained below:

SEKm	Opening balance	Deferred tax income	Closing balance
Buildings and land	1,464	1	1,465
Provisions for pensions	–67	–15	–82
Loss carry forwards	–	–112	–112
Other	–41	–3	–44
TOTAL	**1,356**	**–129**	**1,227**

Note 40 Intangible assets

Capitalized development costs	2005	2004
Opening cost	34	34
Closing accumulated cost	**34**	**34**
Opening amortization	–10	–4
Amortization for the year	–7	–6
Closing accumulated amortization	**–17**	**–10**
CLOSING PLANNED RESIDUAL VALUE	**17**	**24**

Note 41 Tangible assets

	Buildings		Land		Machinery and equipment	
SEKm	2005	2004	2005	2004	2005	2004
Opening cost	147	147	1,276	1,223	16	16
Investments	–	–	69	60	–	–
Sales and disposals	–1	–	–8	–7	–	–
Closing accumulated cost	**146**	**147**	**1,337**	**1,276**	**16**	**16**
Opening depreciation	–54	–49	–425	–387	–15	–14
Sales and disposals	1	–	–	–	1	–
Depreciation for the year	–5	–5	–36	–38	–1	–1
Closing accumulated depreciation	**–58**	**–54**	**–461**	**–425**	**–15**	**–15**
Opening revaluations	–	–	5,079	5,079	–	–
Closing accumulated revaluations, net	–	–	**5,079**	**5,079**	–	–
CLOSING PLANNED RESIDUAL VALUE	**88**	**93**	**5,955**	**5,930**	**1**	**1**
Tax assessment values	**14**	**10**	**9,738**	**8,624**		

Land includes forest land with SEK 5,591m (5,575).

Note 42 Shares and participations

	Subsidiaries		Other companies	
SEKm	2005	2004	2005	2004
Opening cost	45,768	50,534	73	72
Investments	8,106	–	–	129
Divestments	–	–4,766	–3	–128
Closing accumulated cost	**53,874**	**45,768**	**70**	**73**
Closing accumulated revaluations	140	140	–	–
Closing accumulated depreciation	**140**	**140**	**0**	**0**
Opening write-downs	–140	–140	–48	–48
Reversal of earlier write-downs for the year	–	–	3	–
Closing accumulated write-downs	**–140**	**–140**	**–45**	**–48**
CLOSING PLANNED RESIDUAL VALUE	**53,874**	**45,768**	**25**	**25**

Investments for the year comprise a capital contribution to an existing subsidiary. Other companies include the shareholding in Otor SA, which is recognized at fair value, SEK 14m.

Parent Company's holding of shares and participations in subsidiaries, 31 December 2005

Company name	Reg. No.	Domicile	No. of shares	Equity shares, %	Book value, SEKm
Swedish subsidiaries:					
Fastighets- och Bostadsaktiebolaget FOBOF	556047-8520	Stockholm	1,000	100	0
SCA Försäkringsaktiebolag	516401-8540	Stockholm	140,000	100	14
SCA Kraftfastigheter AB	556449-7237	Stockholm	1,000	100	0
SCA Recovered Papers Holding AB	556537-5739	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	45,754
SCA Verwaltungs GmbH	HRB16036	Traunstein		37[1]	8,106
Total book value subsidiaries					**53,874**

[1] Remaining part of SCA Verwaltungs GmbH is owned by another Group company.

Note 43 Current receivables from and liabilities to subsidiaries

SEKm	2005	2004
Current assets		
Interest-bearing receivables	91	337
Other receivables	1,467	1,490
Total current assets	**1,558**	**1,827**
Current liabilities		
Interest-bearing liabilities	37,385	27,188
Other liabilities	3,311	3,686
Total current liabilities	**40,696**	**30,874**

Note 44 Other current receivables

SEKm	2005	2004
Prepaid expenses and deferred income	9	10
Other receivables	106	67
TOTAL	**115**	**77**

Note 45 Shareholders' equity

Change in equity is shown in the financial report relating to Equity presented on page 59. The share capital and number of shares have increased since 1993 with new issues and conversions as set out below:

Year	Event	No. of shares	Increase in share capital	Paid-in amount, SEKm
1993	**Number of shares, 1 January 1993**	**172,303,839**		
1993	Conversion of debentures and new subscription through warrants	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 II B	513	0	0.1
2003	Conversion of debentures	1,127,792	11.3	288.4
	New subscription through warrants II B	1,697,683	17.0	434.5
2004	Conversion of debentures	9,155	0.1	1.1
2005	**Number of shares, 31 December 2005**	**235,036,698**		

SCA's share capital, 31 December 2005

	Number of votes	Number of shares	Nominal amount, SEKm
A shares	10	38,445,535	384
B shares	1	196,591,163	1,966
TOTAL		**235,036,698**	**2,350**

No change in number of shares will occur in the event of utilization of outstanding stock options since these are totally covered by the Parent Company's treasury shares.

The quota value of the Parent Company's shares amounts to SEK 10. Treasury shares at the beginning of the year amounted to 1,653,952 shares and at year end to 1,602,283 shares. Shares are held as part of the employee stock option programme described in Note 32. During the year 51,669 shares were redeemed by employees included in the programme.

Note 46 Other provisions

Total provisions for efficiency programmes amount to SEK 51m. Of these, SEK 24m are long-term and SEK 27m short-term. The short-term provisions are reported under Other current liabilities. Provisions are made during the year and included as part of the Group's ongoing efficiency programmes. The long-term provisions are expected to be paid during 2007.

Note 47 Interest-bearing liabilities

SEKm	2005	2004
Bond loans	6	–
Total current interest-bearing liabilities	**6**	**–**
Bond loans	–	6
Other long-term loans with maturity >5 years	44	123
Total long-term interest-bearing liabilities	**44**	**129**
TOTAL EXTERNAL BORROWING	**50**	**129**

Note 48 Other current liabilities

SEKm	2005	2004
Accrued expenses and prepaid income	63	52
Short-term provision	27	–
Other operating liabilities	4	4
Total other current liabilities	**94**	**56**

Accrued expenses and prepaid income

SEKm	2005	2004
Accrued social security costs	6	7
Accrued vacation pay liability	9	8
Other liability, personnel	–	5
Accrued financial expenses	1	2
Other items	47	30
TOTAL	**63**	**52**

Note 49 Contingent liabilities

SEKm	2005	2004
Guarantees for		
– employees	2	2
– subsidiaries	35,854	30,759
Other contingent liabilities	8	9
TOTAL	**35,864**	**30,770**

In addition to this, the Parent Company has signed subsidiary guarantees for 18 Dutch companies within the SCA Packaging business group. The Parent Company guarantees all the company's obligations as for own debt. The Parent Company is also a guarantor as for own debt for all the subsidiary SCA Graphic Sundsvall AB's obligations according to contracts regarding physical deliveries of electric power in 2005–2013.

Note 50 Pledged assets

SEKm	Owed to credit institutions	Other interest-bearing liabilities	Other	Total 2005	Total 2004
Real estate mortgages	481			481	481
Chattel mortgages		20		20	20
Other			35	35	36
TOTAL	**481**	**20**	**35**	**536**	**537**

Note 51 Adoption of the annual accounts

The annual accounts will be adopted by SCA's Annual General Meeting and will be presented for decision at the Annual General Meeting on 6 April 2006.

Note 52 List of major subsidiaries, associated companies

Group holdings of shares and participations in major companies 31 December 2005.
Companies with sales exceeding SEK 500m in 2005.

Company name	Reg. no.	Registered office	No. Of shares	Capital, %	Book value SEKm
Subsidiaries					
SCA Hygiene Products GmbH, Mannheim	HRB3248	Mannheim		100	
SCA Hygiene Products GmbH, Wiesbaden	HRB5301	Wiesbaden		100	
SCA Hygiene Products AG	0203917992-8	Regensdorf		99	
SCA Hygiene Products GmbH, Vienna	FN49537z	Vienna		100	
SCA Hygiene Products SA-NV, Belgium	Verviers 038415	Stembert		100	
SCA Hygiene Products S.A., France	475581948	Linselles		100	
SCA Hygiene Products (Fluff) Ltd	577116	Dunstable		100	
SCA Hygiene Products Nederland B.V.	30135724	Zeist		100	
Uni-Charm Mölnlycke B.V.	330631	Hoogezand		40	
SCA Hygiene Products S.r.l.	3318780966	Busto Arsizio		100	
SCA Hygiene Products S.A., Spain	A28451383	Madrid		100	
SCA Hygiene Paper España SL	B61534731	Valls		100	
SCA Hygiene Products spol.s.r.o.	31723837	Gemerska Horka		100	
SCA Hygiene Products AB	556007-2356	Härryda		100	
SCA Hygiene Products A/S, Denmark	30877	Alleröd		100	
SCA Hygiene Products A/S, Norway	915620019	Tönsberg		100	
SCA Hygiene Products Kft	13-09-063186	Budapest		100	
OY SCA Hygiene Products AB	FI01650275	Helsinki		100	
SCA Incontinence Care Inc	23-2832852	Delaware		100	
SCA Tissue North America LLC	58-2494137	Delaware		100	
Tuscarora Inc	25-1119372	Pennsylvania		100	
Alloyd Co.Inc	36-3723056	Delaware		100	
SCA Hygiene Products Incontinence Care	421987	Ontario		100	
ooo Svetogorsk Tissue	4704031845	Svetogorsk		100	
SCA Hygiene Australasia Limited	1470756	Auckland		100	
SCA Hygiene Australasia Pty Ltd	62004191324	South Yarra		100	
Sancella Pty Ltd	55005442375	Springvale		100	
SCA Consumidor México, SA de CV	SCM931101 3S5	Mexico City		100	
Sancela, SA de CV	SAN-790424-8Ki	Mexico City		100	
Papeles Higiénicos del Centro SA de CV	PHC 970421DZ0	Mexico City		100	
SCA Graphic Sundsvall AB	556093-6733	Sundsvall		100	
SCA Timber AB	556047-8512	Sundsvall		100	
SCA Timber (UK) Ltd	2541468	Scunthorpe		100	
SCA Skog AB	556048-2852	Sundsvall		100	
SCA Transforest AB	556431-6965	Sundsvall		100	
SCA Graphic Laakirchen AG	FN171841H	Laakirchen		100	
SCA Emballage France SAS	B352398796	Nanterre		100	
SCA Packaging Nicollet SAS	B766500011	Neuilly sur Seine		100	
SCA Packaging Belgium NV	RPR0436-442-095	Gent		100	
SCA Packaging Switzerland AG	400.3.006.269-5	Oftringen		100	
SCA Packaging Ltd	192236	Aylesford		100	
SCA Packaging Benelux BV	8046917	Eerbeek		100	
SCA Packaging Stiftung & Co KG	HRA 3009	Mannheim		100	
SCA Packaging Containerboard Deutschland GmbH	HRB7360	Aschaffenburg		100	
SCA Packaging Denmark Holding AS	A/S220103	Grenå		100	
SCA Packaging Finland Oy	8615544	Tampere		100	
SCA Packaging Obbola AB	556147-1003	Umeå		100	
SCA Packaging Munksund AB	556237-4859	Piteå		100	
SCA Packaging Sweden AB	556036-8507	Värnamo		100	
SCA Packaging Fulda GmbH	HRB902	Fulda		100	
SCA Packaging Ceska republica S.R.O	44222882	Jilove u Decina		100	
SCA Packaging Italia SpA	MI6562/1999	Milan		100	
SCA Recycling Deutschland GmbH	HRB 12280	Traunstein		100	
SCA Recycling UK Ltd	214967	Aylesford		100	
Joint Ventures					
Aylesford Newsprint Holdings Ltd	2816412	Aylesford		50	
Productos Familia S.A., Colombia	Sharecertif. 1260	Medellin		50	
Associated companies					
Staper Ltd	1130403	Aylesford	100,000	50	6
Lantero Carton SA	A-81907701	Madrid	10,000	25	283
Cartografica Galeotti SPA	1333330464	Lucca	16,666	33	11
Herrera Holding Inc	A200100676	Makati City	12,832	40	2
Papyrus	FN124517p	Vienna	1	32	13
GAE Smith	1075198	Leicester	44,300	50	73
Sundsvallshamn AB	556015-8072	Sundsvall	27,000	45	18
Tianjin China Packaging Group SCA Packaging Products Co Ltd	014887	Tianjin	99	25	12
Cool Logistics Ltd	04065521	Bedfordshire	5,000	25	25
STAG-Frischholz GmbH	FN113626y	Steyrermühl	1	33	4
Other associated companies					7
Book value associated companies					**454**

Proposed distribution of earnings

ANNUAL ACCOUNTS 2005

Distribution of earnings Parent Company

Distributable equity in the Parent Company:	
retained earnings	13,203,883,281
net profit for the year	701,457,187
TOTAL	**13,905,340,468**
The Board of Directors and the President propose:	
to be distributed to shareholders a dividend of SEK 11.00 per share	2,567,778,565[1]
to be carried forward	11,337,561,903
TOTAL	**13,905,340,468**

Stockholm, 6 March 2006

Sverker Martin-Löf
Chairman

Rolf Börjesson

Sören Gyll

Tom Hedelius

Lars Jonsson

Lars-Erik Lundin

Anders Nyrén

Örjan Svensson

Indra Åsander

Jan Åström
President and CEO

Our audit report was submitted on 6 March 2006

Robert Barnden
Authorized Public Accountant

1) Based on number of outstanding shares at 31 December 2005. The dividend amount could change due to any treasury share transactions carried out prior to the record date, 11 April 2006.

Audit report

Svenska Cellulosa Aktiebolaget SCA (publ)
Corporate identity number 556012-6293

I 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 2005. 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 the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and 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 my opinion concerning discharge from liability, I 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. I 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. I believe that my audit provides a reasonable basis for my 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 IFRSs 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. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the annual 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 administration report and that the members of the board of directors and the president be discharged from liability for the financial year.

Stockholm 6 March 2005

Robert Barnden
Authorized Public Accountant

Corporate governance report for Svenska Cellulosa Aktiebolaget SCA (publ)

CORPORATE GOVERNANCE

Corporate governance refers to the regulations and structures built up to guide and manage the operations of a limited company in an efficient and controlled manner. Corporate governance is ultimately intended to meet owners' return requirements and to give all stakeholders adequate and accurate information about a company.

Management of a Swedish limited company is divided in a specific manner between the shareholders at general meetings, the board of directors and the president. The Swedish model for corporate governance is based on the Swedish Companies Act.

Swedish Code of Corporate Governance

SCA is listed on the Stockholm Stock Exchange's A list and is therefore obliged to implement the Swedish Code of Corporate Governance by the 2006 Annual General Meeting.

The purpose of the Swedish Code of Corporate Governance includes creating conditions for the exercise of an active and responsible ownership role, ensuring that owners are able to protect their interests in relation to the company's management, clarifying the division of roles and responsibility between management and control bodies, and ensuring maximum transparency towards owners and capital markets.

The report below shows how SCA applied the code in 2005.

This corporate governance report has not been reviewed by the company's auditors.

ARTICLES OF ASSOCIATION

The articles of association are adopted at a general meeting and must contain a number of basic mandatory details about the company. For example, they must state the nature of the company's business, the share capital, the number of shares issued, the size of the board, and how general meetings are to be convened.

SCA's articles of association state, among other things, that the board of directors shall comprise 3 to 12 members, that Class A shares carry 10 votes and Class B shares one vote.

The complete articles of association are available on SCA's website, www.sca.com.

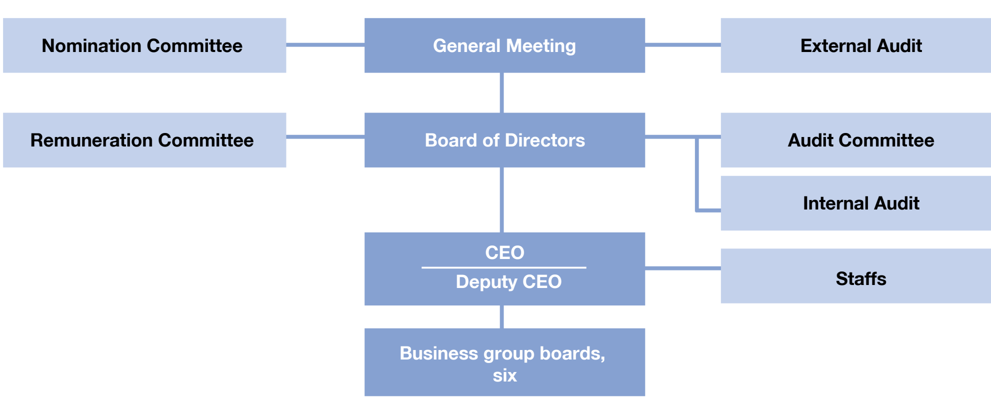
In view of changes to the Swedish Companies Act, the 2006 Annual General Meeting will be asked to decide on certain amendments to the articles of association. The proposal can be accessed on SCA's website, www.sca.com.

GENERAL MEETINGS

SCA's highest decision-making body is the general meeting, where all shareholders are entitled to attend, personally or through a proxy. The meeting can decide on all matters that do not legally expressly fall under the exclusive authority of another corporate body. Any shareholder is entitled to have a matter considered by general meeting.

The company's board is selected at the annual general meeting (AGM). Other mandatory tasks at the AGM include adopting the company's balance

Corporate governance at SCA is organized as set out below.



sheet and income statement, deciding on disposition of the earnings from the company's operations, and deciding on discharge of liability for board members and the president. The AGM also elects the company's auditors.

A general meeting – AGM or extraordinary general meeting – can also decide on amendments to the articles of association, an increase or decrease in the share capital, and other matters.

2005 Annual General Meeting

SCA's AGM was held on Thursday, 5 April 2005 in Stockholm.

Full details of the 2005 AGM are provided on SCA's website www.sca.com

2006 Annual General Meeting

The next AGM of SCA shareholders will be held in Stockholm on 6 April 2006 (see page 108).

NOMINATION COMMITTEE

The Nomination Committee represents the company's shareholders. The committee is tasked with creating as good a basis as possible for the AGM's decisions, by submitting proposals for decisions on the composition of the board and auditors as well as their remuneration.

The 2005 AGM decided that the Nomination Committee ahead of the 2006 AGM should comprise representatives of the company's five largest shareholders, together with the Chairman of the board, who is also the convener.

Nomination Committee ahead of the 2006 AGM

The Nomination Committee ahead of the 2006 AGM has the following members:

- Carl-Olof By, AB Industrivärden, Chairman of the Nomination Committee
- Curt Kallströmer, Handelsbanken pension foundations and others
- Björn Lind, SEB funds
- Björn Franzon, Fourth Swedish National Pension Fund
- Caroline af Ugglas, Skandia Liv
- Sverker Martin-Löf, Chairman of SCA

All shareholders have been invited to submit proposals to the Nomination Committee.

The Nomination Committee has submitted its proposal ahead of the 2006 Annual General Meeting. The proposal can be accessed on SCA's website, www.sca.com, together with an account of how the Nomination Committee conducted its work.

BOARD OF DIRECTORS

The Board of Directors has overall responsibility for the company's organization and for management of the company's affairs.

Board members

The Board of Directors comprises seven members elected at a general meeting and three members, with three deputy members, appointed by the employees. The President is a member of the Board.

More detailed information about Board members and deputies is provided on page 98.

A majority (Rolf Börjesson, Sören Gyll, Anders Nyrén and Indra Åsander) are independent in relation to the company and the company's management. Of these board members, three (Rolf Börjesson, Sören Gyll and Indra Åsander) can also be regarded as independent in relation to the company's major shareholders. Only one board member (Jan Åström) is a member of senior management.

The work of the Board

The Board does not have within itself a different allocation of duties than those derived from the Chairman's special tasks and the tasks incumbent on the Board's committees.

The work of the Board adheres to an annual schedule and is regulated in the procedures adopted by the Board relating to the allocation of work between the Board, its committees and the President. The procedures prescribe a specific content and presentation of the information that management provides to the Board and also ensures that the Board annually examines its own routines. The boards of the different business groups have similar procedures.

The Board has appointed an Audit Committee and a Remuneration Committee from among its members.

SCA's General Counsel is the Secretary to the Board.

The Board held nine meetings during 2005.

Audit Committee

The tasks of the Audit Committee include preparing the Board's quality assurance of the financial reporting but with no right of decision. This includes questions relating to internal control, compliance with regulations, control of reported figures, estimates, assessments and other material that can affect the quality of the financial reports. The committee has assigned the company's auditors to examine especially how well the overall, as well as the more detailed internal control activities are complied with in the company. The committee meets the company's auditors on a regular basis, sets up guidelines for audits and other services, evaluates the auditor and assists the Nomination Committee in the selection of auditors and matters relating to remuneration.

The Audit Committee comprises the Board members elected by the general meeting with the exception of the President.

The Audit Committee was established in April 2005 and subsequently held three meetings during the year.

Remuneration Committee

The Remuneration Committee handles salaries, pension benefits, incentive programmes and other terms of employment for the President and other senior executives. The Committee has no powers of decision. Senior executives include the Executive Vice President, business group presidents, persons within the Parent Company who report to the President, and other executives that the committee decides to include. Terms of employment for the President and other senior executives are decided by the Board.

The Remuneration Committee met on two occasions in 2005. In addition a large number of matters were dealt with per capsulam.

Chairman of the Board

According to the Board procedures the Chairman of the Board, in addition to leading the work of the Board, must continuously through contacts with the President monitor the Group's operations and development. In addition, the duties of the Chairman include representing the company in ownership matters, ensuring that the work of the Board is evaluated annually and that the Board continuously updates and deepens its knowledge of the Group's operations.

The 2005 Annual General Meeting decided to appoint Sverker Martin-Löf as the Chairman of the Board.

Evaluation of the work of the Board

The work of the Board like that of the President is evaluated annually using a systematic and structured process the purpose of which includes obtaining a good basis for the Board's own development work.

The Nomination Committee is informed of the results of this evaluation.

Remuneration of the Board

The total fee to Board members elected by the general meeting was decided by the 2005 AGM at SEK 3,250,000, of which SEK 1,050,000 to the Chairman and SEK 350,000 to each Board member who is not an employee. Committee member receive an additional fee of SEK 50,000.

OPERATIONAL MANAGEMENT

President

The President, who is also the CEO, is tasked with responsibility for ongoing management of the company in accordance with the Board's guidelines and instructions.

The President is supported by an Executive Vice President, also the CFO, and eight group staffs, see pages 99–100.

The Board's procedures clarify the allocation of work between the Board and the President.

Business Group management

Each of the Group's six business groups is headed by a business group board and a business group president.

The business groups have a large measure of independence. The management of each business group has its own staff organization and operational responsibility for the operations within their area.

The work procedures for the business group boards ensure that

Board of Directors

	Attendance	Independent[1]	Attendance Audit Committee	Attendance Remuneration Committee	Fees[2]
Rolf Börjesson	9/9	■ (blue)	3/3	2/2	450,000
Sören Gyll	9/9	■ (blue)	3/3		400,000
Tom Hedelius	9/9		3/3	2/2	450,000
Sverker Martin-Löf, Chairman	9/9		3/3	2/2 chairman	1,150,000
Anders Nyrén	9/9	■ (orange)	3/3 chairman		400,000
Indra Åsander	8/9	■ (blue)	2/3		400,000
Jan Åström, President	9/9				0
Total					3,250,000 SEK

■ (orange) = Member can be regarded as independent of the company and its management.

■ (blue) = Member can be regarded as independent of the company and its management and of the company's major shareholders.

Members appointed by representative /trade unions, see page 100.

[1] As defined in the Swedish Code of Corporate Governance.
[2] This amount relates to fees to Board members.

significant matters within each business group are handled by the business group board, where the Group CEO is normally the chairman. The different work procedures in the Group are also coordinated in such a manner that a number of significant issues must be submitted to the board of the Parent Company.

REMUNERATION TO MANAGEMENT

SCA's shareholders will be asked at the 2006 AGM to adopt principles for remuneration and other terms of employment for the company's management. The proposal can be accessed on SCA's website, www.sca.com. Regarding salary and remuneration and other benefits to the President and other senior executives, see Note 32.

Outstanding stock and share-price related incentive programmes

During 2001 and 2002, about 200 senior executives received stock options at no cost to a value (theoretically calculated) which on the date did not exceed about 20% of the executive's base salary. The total number of stock options for both years allotted to these executives amounted to about 1,800,000. For additional information, see Note 32.

AUDIT

Auditors

The 2004 Annual General Meeting appointed the audit firm PricewaterhouseCoopers AB as the company's auditors. In conjunction with this appointment the firm appointed Robert Barnden, Authorized Public Accountant, to be senior auditor. Barnden has been senior auditor since 2000.

Barnden is also auditor of Nobia AB and Seco Tools AB, and deputy auditor of Telefonaktiebolaget LM Ericsson and Acando Frontec.

Barnden has no shares in SCA.

Audit work

International Financial Reporting Standards (IFRS) are used in the preparation of the Group's accounts from 2005.

The Group's nine-month report was reviewed by the company's auditors. The review complied with the recommendation issued by FAR (the institute for the accounting profession in Sweden).

The audit of the annual accounts, consolidated accounts and the accounting records, as well as the administration of the company by the Board and the President is conducted in accordance with generally accepted auditing standards in Sweden.

Remuneration to auditors

Remuneration has been paid to the company's auditors for audits and other prescribed reviews as well as for advice and other assistance resulting from observations from such audits. Remuneration has also been paid for separate advisory services. Most of the advice relates to audit-related consultations on accounting and tax issues in conjunction with restructuring.

According to its instructions, the Audit Committee must set guidelines for which services other than auditing the company may purchase from the company's auditors.

Remuneration paid to the auditors in 2005, is specified in Note 9.

FINANCIAL REPORTING

Financial reporting to the Board

The schedule in the Board's work procedures specifies which reports and what information of a financial nature should be presented to the Board at every ordinary meeting.

The Board's instruction to the President enjoins him to make sure that the Board receives the reports required for the Board to be able to continuously assess the financial position of the company and the Group. The instruction also specifies which types of reports the Board must receive at every meeting.

External financial reporting

The quality of the external financial reporting is ensured through a number of different measures and routines.

The company's internal control function is tasked, among other things, with examining accounting matters that are critical for financial reporting and communicating their observations to the Audit Committee and the Board.

The Board's Audit Committee, as already stated, is tasked with quality assurance of the financial reporting.

Remuneration to auditors (PWC)

	Group			Parent Company		
MSEK	2005	2004	2003	2005	2004	2003
Remuneration for audit assignments	64	58	40	9	5	2
Remuneration for other consultations	25	43	39	11	6	3

In addition to the annual accounts, the auditors also examine the closing accounts for the third quarter.

The President is also responsible, supported by his staffs, for ensuring that the financial information otherwise provided, for example in press releases with a financial content, presentation material for meetings with media representatives, owners and financial institutions, etc., in all respects are correct and of good quality.

Communication with the company's auditors

The Audit Committee in accordance with its instruction regularly meets the company's auditors in order to obtain information as to the focus and scope of the audit and to discuss the coordination between the external audit and the internal control function as well as an opinion on the company's financial risks.

In addition, the Board in accordance with its work procedure meets the auditors as at least three ordinary board meetings during the year.

At these meetings the auditors, among other things, present and receive opinions on the focus and scope of the planned audit and deliver verbal audit and review reports.

In addition, at the Board's third ordinary autumn meeting, the auditors deliver a in-depth report concerning the audit for the current year. The work procedure specifies a number of obligatory matters to be reported. These include important matters that have led to observations or discussions during the audit, business routines and transactions where differences of opinion can be thought to exist regarding the choice of accounting technique, as well as accounting for consultancy assignments given to the audit firm by SCA and for its overall dependence on the company and its management.

On each occasion, Board members have an opportunity to ask the auditor questions and some in-depth discussion of the accounts takes place without representatives for the company's management being present.

A similar regulation of the company's contacts with the auditors is provided in the work procedures for the boards of the business groups.

INTERNAL CONTROL

With reference to a pronouncement from the Swedish Corporate Governance Board, the Board provides below a description of how internal control is organized. Both according to the Swedish Companies Act and according to the Swedish Code of Corporate Governance, the Board is responsible for ensuring that the company has satisfactory internal control. Responsibility for maintaining an effective control environment and the ongoing work with internal control and risk management are delegated to Group management.

Managers at different levels in the company also have this responsibility within their area of responsibility.

The Group's internal audit function has its own corporate staff and reports to the Audit Committee on internal audit matters and to the CFO on other matters.

The key tasks of staffs and their employees are to implement, further develop and maintain the Group's control routines, and to carry out internal controls focused on business critical matters. The internal control function reports directly to the chairman of the Board's Audit Committee.

CONTROL ENVIRONMENT

SCA's internal control structure is based on:

- allocation of work between the Board, its committees and the President
- the Group's organization with well-defined areas of responsibility and delegation
- control documents such as policies and guidelines, including a Code of Conduct for SCA's employees
- a management system based on a number of well-defined planning, implementation and support processes

Risk assessment

SCA's risks inherent in financial reporting comprise the risk that a material error can arise in reporting of the company's position and results. The company's accounting instructions and manuals as well as established follow up routines are designed to minimize these risks.

Information and communication

SCA has information and communication channels that ensure that instructions and manuals are available to those who need access to them, and that information about news and updates is communicated within the Group.

Regular reporting and examination of financial results is carried out both in the operating units management and in the established board structure.

Board of Directors and Auditors


Sverker Martin-Löf


Rolf Börjesson

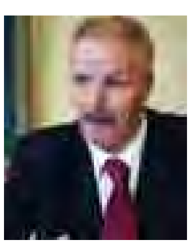

Sören Gyll


Tom Hedelius


Anders Nyrén


Indra Åsander


Jan Åström


Lars Jonsson


Lars-Erik Lundin


Örjan Svensson

ELECTED BY THE ANNUAL GENERAL MEETING

Sverker Martin-Löf (1943)
Tech. Lic., Honorary PhD
Chairman since 2002, formerly President and CEO of SCA. Board Chairman of SSAB and Skanska. Vice Chairman of Industrivärden. Board member of Ericsson, Handelsbanken and the Confederation of Swedish Enterprise.
Elected 1986.
A shares: 1,000
B shares: 25,941
Options: 80,000

Rolf Börjesson (1942)
MSc Eng
Board Chairman of Rexam Plc and Ahlsell AB. Board member of Avery Dennison.
Elected 2003.
B shares: 5,950
Independent of the company and SCA's major shareholders.

Sören Gyll (1940)
Honorary PhD Engineering
Board Chairman of Gyttorp Cartridge Company. Board member of Fenix Outdoor, SKF, Skanska and Medicover Holding. Member of the Royal Academy of Engineering Sciences (IVA).
Elected 1997.
B shares: 1,619
Independent of the company and SCA's major shareholders.

Tom Hedelius (1939)
Honorary PhD Economics
Board Chairman of Bergman & Beving, Industrivärden and Anders Sandrews Foundation. Vice Chairman of Addtech and Lagercrantz Group. Board member of LE Lundbergföretagen and Volvo. Honorary Chairman of Handelsbanken.
Elected 1985.
B shares: 1,940

Anders Nyrén (1954)
MSc Econ, MBA
President and CEO of Industrivärden. Vice Chairman of Handelsbanken. Board member of SSAB, Sandvik, Ernströmsgruppen and SNS. Chairman of the Stock Market Company Association and the Association for Good Securities Trading Practice.
Elected 2001.
B shares: 400
Independent of the company.

Indra Åsander (1956)
MSc Eng
Senior Vice President, Responsible for Consumer Segment, TeliaSonera Sweden. Elected 2003.
B shares: 400
Independent of the company and SCA's major shareholders.

Jan Åström (1956)
MSc Eng
President and CEO of SCA. Formerly Executive Vice President and Deputy CEO. Board member of Strålfors. Elected 2002.
B shares: 5,659
Options: 55,000

APPOINTED BY THE EMPLOYEES

Lars Jonsson (1956)
Chairman Swedish Paper Workers Union dept. 167 at SCA Graphic Sundsvall AB, Östrand pulp plant, Timrå. Member of the Swedish Trade Union Confederation (LO).
Appointed 2005.
Shares: 0

Lars-Erik Lundin (1948)
Maintenance Technician at SCA Packaging Obbola AB. Member of the Federation of Salaried Employees in Industry and Services (PTK).
Appointed 2005.
Shares: 0

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.
Shares: 0

DEPUTIES

Bert-Ivar Pettersson (1955)
Works Manager at SCA Graphic Sundsvall AB, Ortvikens paper mill, Sundsvall. Member of the Federation of Salaried Employees in Industry and Services (PTK).
Appointed 2005.
Shares: 0

Anders Engqvist (1958)
Machine Operator at SCA Packaging Sweden AB, Värnamo. Member of the Swedish Trade Union Confederation (LO).
Appointed 2005.
Shares: 0

Harriet Sjöberg (1946)
Chairman, SIF local union, SCA Hygiene Products AB, Göteborg. Member of the Federation of Salaried Employees in Industry and Services (PTK).
Appointed 2001.
B Shares: 580

SECRETARY TO THE BOARD

Anders Nyberg (1951)
Bachelor of Law
Senior Vice President, Secretariat, General Counsel
Shares B: 10,132
Options: 24,000

AUDITORS

PricewaterhouseCoopers AB
Senior Auditor: Robert Barnden, Authorized Public Accountant

HONORARY CHAIRMAN

Bo Rydin
MSc Econ, Hon PhD Econ, Hon PhD Technology

Information at 30 December 2005.
One option corresponds to one share.

Senior Management


Jan Åström


Lennart Persson

CEO AND DEPUTY CEO

Jan Åström (1956)
President and CEO
MSc Eng.
SCA employee since 2000.
B shares: 5,659
Options: 55,000

Lennart Persson (1947)
Executive Vice President
and CFO
Econ.
SCA employee since 1987.
B shares: 13,755
Options: 32,000


Gunnar Johansson


Ole Terland

BUSINESS GROUP PRESIDENTS

Gunnar Johansson (1956)
President, SCA Personal Care.
MSc Econ., MBA.
SCA employee since 1981.
Shares: 0
Options: 24,000

Ole Terland (1958)
President, SCA Tissue Europe
Tech. Lic.
SCA employee since 1987.
B shares: 22,547
Options: 24,000

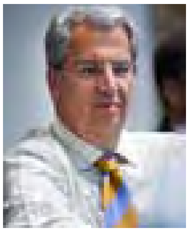

John D. Williams


Kenneth Eriksson

John D. Williams (1954)
President, SCA Packaging Europe
BA
SCA employee since 2000.
Shares: 0
Options: 10,000

Kenneth Eriksson (1944)
President, SCA Forest Products
Mechanical Engineer
SCA employee since 1979.
B shares: 5,791
Options: 40,000


Thomas Wulkan


Rijk Schipper

Thomas Wulkan (1961)
President, SCA Americas
Econ.
SCA employee since 2000.
Shares: 0
Options: 16,000

Rijk Schipper (1952)
President, SCA Asia Pacific
MSc Econ.
SCA employee since 1980.
Shares: 0
Options: 21,000


Karin Eliasson


Bodil Eriksson

CORPORATE STAFFS

Karin Eliasson (1961)
Senior Vice President, Human Resources
BSc.
SCA employee since 2003.
B shares: 100
Options: 0

Bodil Eriksson (1963)
Senior Vice President, Communications and Investor Relations.
Business Administration DRMI
SCA employee since 2005.
Shares: 0
Options: 0

Senior Management


Jan Friman


Tomas Hedström

CORPORATE STAFFS, CONTINUED

Jan Friman (1954)
Senior Vice President, Taxes.
Bachelor of Law.
SCA employee since 1991.
B shares: 2,368
Options: 15,000

Tomas Hedström (1960)
Senior Vice President, Finance
MSc Econ.
SCA employee since 1984.
B shares: 4,057
Options: 14,000


Anders Nyberg


Carl-Axel Olson

Anders Nyberg (1951)
Senior Vice President, Secretariat, General Counsel.
Bachelor of Law.
SCA employee since 1988.
B shares: 10,132
Options: 24,000

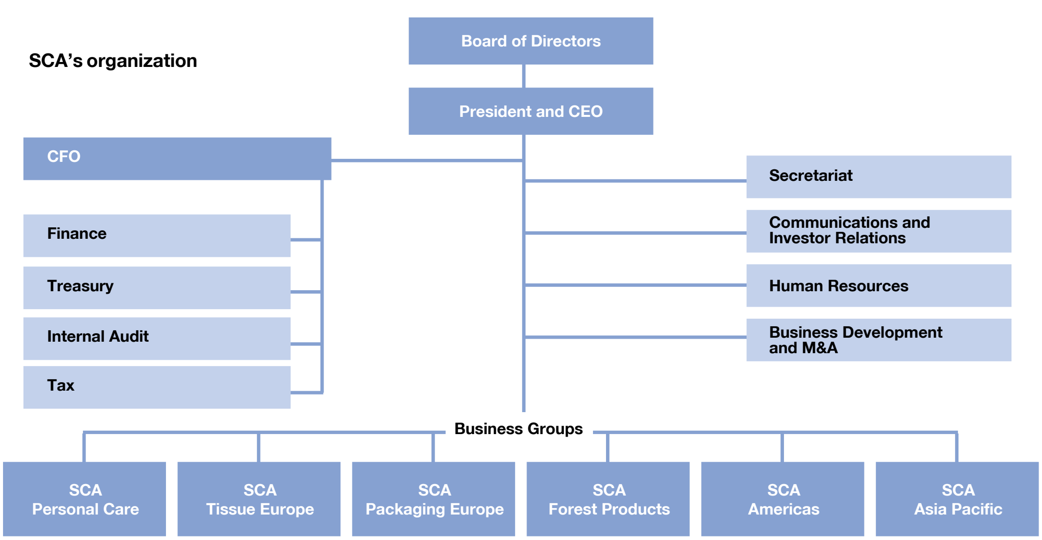
Carl-Axel Olson (1948)
Senior Vice President, Treasury.
MSc Econ.
SCA employee since 1975.
B shares: 17,281
Options: 24,000


Thomas Wulkan

Thomas Wulkan (1961)
Senior Vice President, Business Development and M&A.
Econ.
SCA employee since 2000.
Shares: 0
Options: 16,000

Nils Lindholm (1954)
Senior Vice President,
Internal Audit
From 1 April 2006

SCA's organization



Ten-year summary

SEKm	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
INCOME STATEMENT										
Net sales	96,385	89,967	85,338	88,046	82,380	67,157	64,896	61,273	58,595	55,405
Operating profit [1]	**1,928**	**7,669**	**7,757**	**9,101**	**9,492**	**10,534**	**6,733**	**6,428**	**5,568**	**4,581**
Personal Care	2,474	2,429	2,403	2,588	2,080	–	–	–	–	–
Tissue	1,577	2,026	2,418	2,899	2,393	–	–	–	–	–
Hygiene Products	–	–	–	–	–	2,909	2,613	2,463	2,611	2,277
Packaging	1,775	2,604	2,482	3,065	3,286	2,977	2,216	1,510	1,219	939
Forest Products	1,886	1,777	1,559	1,986	2,976	2,720	2,123	2,046	1,259	1,352
Fine paper and wholesale	–	–	–	–	–	644	491	528	438	–235
Other operations [2]	–5,784	–1,167	25	–300	–233	2,013	–108	288	413	536
Goodwill amortization	–	–	–1,130	–1,137	–1,010	–729	–602	–407	–372	–288
Financial income	156	453	544	409	380	531	322	280	280	319
Financial expense	–1,651	–1,537	–1,334	–1,432	–1,782	–1,738	–1,534	–1,539	–1,391	–1,327
Profit after financial items	**433**	**6,585**	**6,967**	**8,078**	**8,090**	**9,327**	**5,521**	**5,169**	**4,457**	**3,573**
Taxes	21	–1,393	–1,861	–2,341	–2,444	–2,133	–1,849	–1,680	–1,337	–1,144
Minority interests	–	–	–31	–44	–59	–46	–70	–110	–361	–312
Net profit for the year [3]	**454**	**5,192**	**5,075**	**5,693**	**5,587**	**7,148**	**3,602**	**3,379**	**2,759**	**2,117**
BALANCE SHEET										
Fixed assets (excluding financial receivables)	101,840	96,162	77,885	75,462	76,967	60,962	61,065	55,147	50,351	48,599
Receivables and inventories	29,424	25,681	22,880	24,765	23,338	21,765	18,311	18,790	16,726	15,461
Financial receivables	2,035	682	4,146	6,151	3,888	3,497	1,278	1,485	1,370	1,072
Short-term investments	237	128	749	306	406	502	2,930	1,132	676	1,469
Cash and bank balances	1,684	3,498	1,696	2,520	2,189	1,440	1,630	1,819	1,582	1,393
Total assets	**135,220**	**126,151**	**107,356**	**109,204**	**106,788**	**88,166**	**85,214**	**78,373**	**70,705**	**67,994**
Shareholders' equity	56,343	54,350	49,754	47,983	45,983	39,898	34,133	28,404	24,653	22,906
Minority interests	767	768	751	687	736	612	587	1,386	1,496	3,331
Provisions [5]	17,035	16,962	13,620	14,773	14,870	13,242	8,632	10,906	10,452	9,441
Interest-bearing debt	39,036	35,021	25,429	27,498	27,746	18,694	28,881	25,806	22,647	21,396
Operating and other non-interest bearing liabilities	22,039	19,050	17,802	18,263	17,453	15,720	12,981	11,871	11,457	10,920
Total liabilities and shareholders' equity	**135,220**	**126,151**	**107,356**	**109,204**	**106,788**	**88,166**	**85,214**	**78,373**	**70,705**	**67,994**
Capital employed [4]	95,341	87,208	71,687	71,863	67,878	57,501	54,616	47,400	44,840	43,311
Net debt, incl. pension liabilities	–39,826	–34,745	–22,306	–23,899	–23,861	–15,880	–24,073	–24,756	–22,254	–20,615
CASH FLOW STATEMENT										
Operating cash flow	7,471	8,837	10,102	12,421	14,206	9,005	8,707	6,678	6,631	5,959
Cash flow from current operations	4,362	5,688	8,134	8,620	11,249	6,652	6,740	3,875	4,850	4,210
Cash flow before dividend	1,768	–6,276	901	–855	–4,254	10,609	–3,760	345	482	2,006
Current capital expenditures, net	–4,859	–4,270	–3,902	–3,523	–3,479	–2,245	–2,046	–2,058	–2,207	–2,489
Strategic capital expenditures	–2,086	–2,398	–2,949	–2,823	–1,469	–1,121	–2,615	–2,248	–983	–1,126
Acquisitions	–428	–9,340	–4,808	–6,483	–13,286	–2,349	–10,400	–2,793	–3,431	–1,558
KEY RATIOS [5]										
Equity/assets ratio, %	42	44	47	45	44	46	41	38	37	39
Interest coverage, multiple	1.3	7.1	9.8	8.9	6.8	8.7	5.6	5.1	5.0	4.5
Debt repayment ability incl. pension liabilities, %	27	35	54	47	51	49	33	32	33	30
Debt/equity ratio, incl. pension liabilities, multiple	0.70	0.63	0.44	0.49	0.51	0.39	0.69	0.83	0.85	0.79
Return on capital employed, %	2	9	11	13	14	18	12	14	12	11
Return on equity, %	1	10	10	12	13	20	12	13	12	10
Operating margin, %	2	9	9	10	12	16	10	11	10	8
Net margin, %	0	6	6	6	7	11	6	6	5	4
Capital turnover rate, multiple	0.99	1.00	1.19	1.23	1.21	1.17	1.19	1.29	1.31	1.28
Operating cash flow per share, SEK	18.67	24.35	34.98	37.12	48.38	28.49	31.23	18.36	23.01	19.97
Earnings per share, SEK	1.84	22.12	21.84	24.54	24.05	30.64	16.73	16.03	13.11	10.05
Dividend per share, SEK	11.00 [6]	10.50	10.50	9.60	8.75	7.75	6.80	6.14	5.43	4.96

1) Operating profit distributed pro forma for 1996–1999.

2) 2005 and 2004 include restructuring costs of SEK 5,365m and SEK 770 respectively, 2000 includes capital gain from sale of Modo Paper of SEK 2,031m, 1998–1996 include capital gains from sale of group companies of SEK 3.29 and SEK 100 respectively.

3) Profit in Sweden charged with 28% deferred tax 1996–2003.

4) Calculation of average return on capital employed and return on equity is based on five measurements.

5) Key ratios are defined on page 109.

6) Board proposal.

Comments to the ten-year summary

INCOME STATEMENT

Sales

SCA's sales decreased by approximately SEK 10bn in 1996 as a result of the divestment of parts of the PWA acquisition. In addition to divestments, 1996 sales were also affected adversely by currency movements.

Through to 2000, sales rose by about 5% annually and increased in 2001 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 acquire companies and sales rose by a further 17% including 2005. The effect of acquisitions, which included the Carter Holt Harvey and Copamex tissue operations, was limited due to the weakening of the USD. During the reported period, the Group's sales rose by 6% annually (CAGR).

Operating profit

In 1996, the Group's operating profit fell 38%. Lower prices and the weakening of the SEK resulted in operating profit for packaging and forest products falling by about 50%. The fine paper operations were also hit by lower prices; operating profit declined 76% and the business area reported a loss. Hygiene products, however, increased its operating profit by 82%, due among other factors to the acquisition of the tissue mill in Prudhoe and the sale of the unprofitable baby diaper operations in France.

During the next four years, the development for hygiene products was positive and operating profit rose about 10% annually, with the exception of 1998 when operating profit declined. Packaging also developed favourably during the 1997–2000 period and operating profit increased by an average of 33% annually, which was mainly due to acquisitions. Forest products increased operating profit during the same period by an average of 19% annually. In addition, the capital gain from the sale of the fine paper operations is added to operating profit in 2000. The capital gain, combined with the strong operating profit from the other business areas, meant that the Group reported record high operating profit.

Operating profit rose 54% in 2001 for hygiene products, which is partly attributable to the acquisition of Georgia-Pacific Tissue. Packaging and forest products also continued to develop positively during 2001, which meant a new record-high operating profit, adjusted for non-recurring effects, could be reported. The increase for hygiene products continued during 2002, when it amounted to 23%, attributable to the acquisition of Carto-Invest and lower raw material and production costs. Operating profit for packaging and forest products declined due to lower prices.

In 2003–2005, operating profit declined in all business areas. Within hygiene products, additional company acquisitions failed to compensate for lower prices and negative currency movements. Packaging's operating profit declined, mainly due to lower prices, while operating profit for forest products fell as a result of lower prices and negative currency movements. In response to the decline in earnings, an efficiency enhancement programme was initiated in 2004 followed by an additional programme in 2005. These programmes are expected to provide annual savings of SEK 2,750m with full effect in 2008.

CASH-FLOW STATEMENT

A total of SEK 75bn has been invested in expansion during the reported period, of which SEK 55bn is attributable to company acquisitions. Maintenance investments amounted to SEK 31bn and have been at a steady level, about 4%, in relation to sales.

KEY RATIOS

During the reported period, the Group's dividend rose from SEK 4.96 to SEK 11.00, an increase of 9% annually.

Quarterly data – Business areas

	Full year	2005				Full year	2004			
SEKm	**2005**	**IV**	**III**	**II**	**I**	**2004**	**IV**	**III**	**II**	**I**
NET SALES										
Personal Care	19,351	5,136	5,026	4,727	4,462	17,763	4,568	4,512	4,497	4,186
Tissue	30,701	8,109	7,917	7,531	7,144	27,596	7,336	7,249	6,652	6,359
Packaging	32,359	8,272	8,351	8,094	7,642	31,501	7,804	7,928	7,939	7,830
Forest Products	15,935	4,071	3,986	4,116	3,762	14,954	3,814	3,586	3,741	3,813
Publication papers	7,998	2,067	2,034	1,965	1,932	7,609	2,005	1,909	1,790	1,905
Pulp, timber and solid-wood products	7,937	2,004	1,952	2,151	1,830	7,345	1,809	1,677	1,951	1,908
Other	1,068	301	247	288	232	1,087	298	265	268	256
Intra-Group sales	–3,029	–748	–787	–770	–724	–2,934	–692	–728	–757	–757
Total net sales	**96,385**	**25,141**	**24,740**	**23,986**	**22,518**	**89,967**	**23,128**	**22,812**	**22,340**	**21,687**
OPERATING SURPLUS										
Personal Care	3,429	983	889	809	748	3,287	805	822	853	807
Tissue	3,720	941	999	892	888	3,975	907	1,056	1,028	984
Packaging	3,558	841	900	919	898	4,409	1,036	1,172	1,138	1,063
Forest Products	3,259	910	853	758	738	3,095	800	773	782	740
Publication papers	1,540	456	420	330	334	1,328	354	340	317	317
Pulp, timber and solid-wood products	1,719	454	433	428	404	1,767	446	433	465	423
Other	–3,390	–86	–2,710	–103	–491	–963	–642	–110	–105	–106
Total operating surplus	**10,576**	**3,589**	**931**	**3,275**	**2,781**	**13,803**	**2,906**	**3,713**	**3,696**	**3,488**
OPERATING PROFIT										
Personal Care	2,474	719	655	571	529	2,429	590	598	630	611
Tissue	1,577	379	428	391	379	2,026	408	495	556	567
Packaging	1,775	418	444	455	458	2,604	580	706	697	621
Forest Products	1,886	553	516	416	401	1,777	457	446	457	417
Publication papers	662	222	206	113	121	470	137	127	104	102
Pulp, timber and solid-wood products	1,224	331	310	303	280	1,307	320	319	353	315
Other	–5,784	–94	–5,046	–114	–530	–1,167	–823	–116	–109	–119
Total operating profit	**1,928**	**1,975**	**–3,003**	**1,719**	**1,237**	**7,669**	**1,212**	**2,129**	**2,231**	**2,097**
MARGINS										
Gross margin										
Personal Care	18%	19%	18%	17%	17%	19%	18%	18%	19%	19%
Tissue	12%	12%	13%	12%	12%	14%	12%	15%	15%	15%
Packaging	11%	11%	10%	11%	12%	14%	13%	15%	14%	14%
Forest Products	20%	22%	21%	18%	20%	21%	21%	22%	21%	19%
Publication papers	19%	22%	21%	17%	17%	17%	18%	18%	18%	17%
Pulp, timber and solid-wood products	22%	23%	22%	20%	22%	24%	25%	26%	24%	22%
Operating margin										
Personal Care	13%	14%	13%	12%	12%	14%	13%	13%	14%	15%
Tissue	5%	5%	5%	5%	5%	7%	6%	7%	8%	9%
Packaging	5%	5%	5%	6%	6%	8%	7%	9%	9%	8%
Forest Products	12%	14%	13%	10%	11%	12%	12%	12%	12%	11%
Publication papers	8%	11%	10%	6%	6%	6%	7%	7%	6%	5%
Pulp, timber and solid-wood products	15%	17%	16%	14%	15%	18%	18%	19%	18%	17%

Quarterly data – Group

SEKm	Full year 2005	2005 IV	2005 III	2005 II	2005 I	Full year 2004	2004 IV	2004 III	2004 II	2004 I
PROFIT										
Net sales	**96,385**	**25,141**	**24,740**	**23,986**	**22,518**	**89,967**	**23,128**	**22,812**	**22,340**	**21,687**
Operating surplus	**10,576**	**3,589**	**931**	**3,275**	**2,781**	**13,803**	**2,906**	**3,713**	**3,696**	**3,488**
Depreciation and write-downs, fixed assets	–8,673	–1,622	–3,937	–1,564	–1,550	–6,152	–1,696	–1,588	–1,473	–1,395
Share of profits of associated companies	25	8	3	8	6	18	2	4	8	4
Operating profit	**1,928**	**1,975**	**–3,003**	**1,719**	**1,237**	**7,669**	**1,212**	**2,129**	**2,231**	**2,097**
Financial items	–1,495	–401	–393	–358	–343	–1,084	–241	–330	–299	–214
Profit before tax	**433**	**1,574**	**–3,396**	**1,361**	**894**	**6,585**	**971**	**1,799**	**1,932**	**1,883**
Taxes	21	–377	985	–355	–232	–1,393	111	–465	–540	–499
Profit after tax	**454**	**1,197**	**–2,411**	**1,006**	**662**	**5,192**	**1,082**	**1,334**	**1,392**	**1,384**
Earnings per share, SEK	1.84	5.06	–10.31	4.27	2.82	22.12	4.62	5,67	5,94	5,89
MARGINS										
Gross margin	11.0%	14.3%	3.8%	13.7%	12.4%	15.3%	12.6%	16.3%	16.5%	16.1%
Operating margin	2.0%	7.9%	–12.1%	7.2%	5.5%	8.5%	5.2%	9.3%	10.0%	9.7%
Financial net margin	–1.6%	–1.6%	–1.6%	–1.5%	–1.5%	–1.2%	–1.0%	–1.4%	–1.3%	–1.0%
Profit margin	0.4%	6.3%	–13.7%	5.7%	4.0%	7.3%	4.2%	7.9%	8.7%	8.7%

Group by country

	Net sales				Average no. of employees				Salaries	
	2005	%	2004	%	2005	of whom, women,%	2004	of whom, women,%	2005[1]	2004
Sweden	**6,851**	**7**	**6,985**	**8**	**6,288**	**23**	**6,362**	**22**	**2,265**	**2,200**
EU excl. Sweden										
Germany	11,986	12	12,014	13	5,125	18	5,622	18	2,234	2,166
UK	11,919	12	11,687	13	5,463	18	5,565	18	1,473	1,908
France	7,756	8	7,981	9	2,771	25	3,180	25	852	898
Italy	6,241	6	5,806	6	2,283	18	2,384	17	665	626
Netherlands	4,509	5	4,481	5	2,210	12	2,356	13	898	956
Spain	3,417	4	3,408	4	761	31	867	27	220	222
Denmark	3,134	3	3,200	4	1,575	20	1,709	24	678	685
Belgium	2,215	2	2,300	3	1,070	20	1,105	20	415	403
Austria	1,717	2	1,761	2	1,470	11	1,489	13	644	645
Finland	1,453	2	1,310	1	418	34	433	32	117	119
Greece	1,034	1	981	1	430	15	494	14	101	99
Hungary	981	1	1,015	1	544	38	438	36	55	47
Poland	855	1	770	1	360	27	277	30	41	35
Czech Republic	852	1	786	1	957	51	991	51	75	66
Portugal	781	1	787	1	150	56	44	52	27	12
Ireland	628	0	624	1	75	21	11	18	27	8
Rest of Europe	718	1	708	1	788	30	728	29	60	45
Total EU excl. Sweden	**60,196**	**62**	**59,619**	**67**	**26,450**	**21**	**27,693**	**21**	**8,582**	**8,940**
Rest of Europe										
Norway	1,650	2	1,476	2	235	26	104	33	94	63
Switzerland	1,026	1	1,124	1	329	22	349	22	157	154
Other	812	1	526	0	150	–	–	–	27	0
Total rest of Europe	**3,488**	**4**	**3,126**	**3**	**714**	**24**	**453**	**24**	**278**	**217**
Rest of world										
US	11,474	12	10,200	11	4,896	30	5,410	33	1,872	1,981
Australia	2,713	3	1,647	2	815	24	566	69	386	337
Mexico	2,311	2	1,142	1	2,446	18	1,222	24	194	119
Canada	1,115	1	1,083	1	269	29	98	44	96	16
China	1,072	1	631	1	2,784	36	3,006	34	89	56
Russia	1,068	1	746	1	1,073	47	1,000	47	137	54
New Zealand	981	1	658	1	700	24	418	76	242	119
Colombia	923	1	646	1	1,037	37	1,031	27	85	66
Malaysia	564	1	446	0	1,298	52	870	40	66	50
Japan	449	1	470	1	57	69	58	71	25	24
Rest of Asia	440	1	383	0	–	–	–	–	–	–
Indonesia	302	0	317	0	91	40	98	34	2	2
Singapore	281	0	217	0	255	57	252	41	38	30
Chile	211	0	266	0	176	8	184	9	32	23
Other	1,946	2	1,385	2	1,567	31	1,198	37	81	112
Total rest of world	**25,850**	**27**	**20,237**	**22**	**17,464**	**32**	**15,411**	**36**	**3,345**	**2,989**
GROUP	**96,385**	**100**	**89,967**	**100**	**50,916**	**25**	**49,919**	**26**	**14,470**	**14,346**

1) Excluding SEK 1,225m relating to 2005 for efficiency programmes.

Production capacity

Capacity is stated in thousands of tones unless otherwise indicated.

Tissue

Mill	Country	Tissue
Box Hill	Australia	51
Ortmann[1]	Austria	122
Stembert[1]	Belgium	70
Santiago[2]	Chile	50
Medellin [2]	Colombia	40
Bogota[2]	Colombia	32
Lasso[2]	Ecuador	22
Le Theil[1]	France	62
Roanne[1]	France	32
Mannheim[1]	Germany	263
Mainz-Kostheim[1]	Germany	106
Lucca 1	Italy	140
Collodi	Italy	39
Lucca 4[3]	Italy	29
Pratovecchio	Italy	21
Ecatepec	Mexico	67
Monterrey	Mexico	58
Uruapan	Mexico	38
Tilburg[3]	Netherlands	31
Friesland[5]	Netherlands	8
Drammen	Norway	29
Kawerau	Nya Zealand	58
Cavite	Philippines	14
Benavente[3]	Portugal	7
Svetogorsk	Russia	43
Mediona[1]	Spain	45
La Riba[1]	Spain	26
Valls	Spain	60
Lilla Edet[1]	Sweden	100
Jönköping	Sweden	21
Prudhoe	UK	90
Oakenholt	UK	68
Chesterfield	UK	31
Skelmersdale	UK	30
Menasha	USA	204
Barton	USA	100
South Glens Falls	USA	74
Alsip	USA	55
Flagstaff	USA	50
Total		**2,386**

Packaging

Production plant	Country	Corrugated board	Kraftliner	Testliner/ fluting	Total
Corrugated board					
	Asia	310			310
	Austria	55			55
	Belgium	164			164
	Czech Republic	50			50
	Denmark	120			120
	Estonia	17			17
	Finland	60			60
	France	205			205
	Germany	457			457
	Greece	60			60
	Hungary	45			45
	Ireland[4]	8			8
	Italy	495			495
	Lithuania	35			35
	Netherlands	150			150
	Norway	5			5
	Poland	45			45
	Romania	10			10
	Russia	52			52
	Switzerland	40			40
	Slovakia[4]	2			2
	Spain	170			170
	Sweden	135			135
	UK	400			400
	Turkey	80			80
Containerboard					
Djursland[1,3]	Denmark			215	215
Lucca[1]	Italy			330	330
Castelfranco[1]	Italy			70	70
De Hoop[1]	Netherlands			350	350
Witzenhausen[1]	Germany			325	325
Aschaffenburg[1]	Germany			300	300
Munksund[1]	Sweden		340		340
Obbola[1]	Sweden		300	125	425
New Hythe[1]	UK			240	240
Total		**3,170**	**640**	**1,955**	**5,765**

Forest Products

Mill	Country	Newsprint	SC and LWC paper	Market pulp	CTMP pulp	Total pulp and paper	Solid-wood products 1 000 m³
Laakirchen	Austria		500			500	
Ortviken	Sweden	375	465			840	
Östrand	Sweden			400	70	470	
Munksund	Sweden						390
Bollsta	Sweden						380
Tunadal	Sweden						310
Rundvik	Sweden						220
Vilhelmina	Sweden						100
Holmsund	Sweden						95
Graningebruk	Sweden						30
Aylesford[2]	UK	410				410	
Total		**785**	**965**	**400**	**70**	**2,220**	**1,525**

1) Certified according to ISO 14001 and/or EMAS certified (European Union's Eco Management and Audit Scheme).
2) Capacity details correspond to plant's whole production while SCA's stake is less than 100%.
3) Scheduled for closure.
4) Converting plants only.
5) Non-woven production.

Personal Care

Production plant	Country
Melbourne	Australia
Drummondville	Canada
Santiago JV	Chile
Cauca	Colombia
Rio Negro JV	Colombia
Linselles	France
Selangor	Malaysia
Ecatepec	Mexico
Gennep	Netherlands
Hoogezand	Netherlands
Henderson	New Zealand
Cavite	Philippines
Olawa	Poland
Gemerska Horka	Slovakia
Falkenberg	Sweden
Mölnlycke	Sweden
Johannesburg JV	South Africa
Ksibet el Mediouni JV	Tunisia
Bowling Green	USA

Annual General Meeting and Nomination Committee

The Annual General Meeting of Svenska Cellulosa Aktiebolaget SCA will be held at 15.00 CET on Thursday, 6 April 2006, in Aula Magna, Stockholm University, Frescati, Stockholm.

Directions from central Stockholm:

- Underground ”röda linje” (the red line) towards Mörby Centrum, station ”Universitetet”.
- Bus 40, 540 or 670, ”Universitetet” stop.
- Parking by ”Södra huset”.
- Taxi drop off and collection point (Stockholm University No. 6) at Aula Magna's taxi entrance on level two. The address is Frescativägen 6.

Notification

Shareholders who wish to attend the Annual General Meeting must

- be listed in the shareholders' register maintained by VPC AB as of Friday, 31 March 2006,
- not later than 16.00 CET on Friday, 31 March 2006 give notice of their intention to attend the Annual General Meeting.

Notification may be given in one of the following ways:

- by telephone +46 8 788 51 39
- by fax +46 8 788 53 32
- via the Internet website: www.sca.com
- by post to Svenska Cellulosa Aktiebolaget SCA, AGM, Box 7827, SE-103 97 Stockholm

To attend the Annual General Meeting, shareholders with custodian-registered shares must have such shares registered in their own name. Temporary registration of ownership, voting rights registration, should be requested well in advance of Friday, 31 March 2006, from the bank or portfolio manager holding the shares.

Name, personal or corporate identify number, address and telephone number should be stated when notification is given. Shareholders represented by proxy should submit a proxy form prior to the Annual General Meeting. Anyone representing a legal entity must produce a copy of the registration certificate or equivalent authorization document listing authorized signatories. This information will only be used to prepare the list of voters and to issue admission/voting cards.

Shareholders or their proxies may be accompanied by a maximum of two persons at the Annual General Meeting. Accompanying persons will only be admitted if the shareholder notifies Svenska Cellulosa Aktiebolaget SCA of their attendance in the manner set out above in respect of notification of shareholders' attendance.

Dividend

Tuesday, 11 April 2006 is proposed as the record date for the right to receive dividends. It is expected that dividend payments will be made effected through VPC AB on Tuesday, 18 April 2006. The Board of Directors and the President propose that the Annual General Meeting declares a dividend for the financial year 2005 of SEK 11.00 per share.

Nomination Committee

- Carl-Olof By, Industrivärden, Chairman of the Nomination Committee
- Björn Franzon, Fourth National Swedish Pension Fund
- Curt Källströmer, Handelsbanken's Pensions Foundation, among others
- Björn Lind, SEB funds
- Caroline af Ugglas, Skandia Liv
- Sverker Martin-Löf, SCA

The Nomination Committee prepares proposals for the election of members of the Board of Directors.

FINANCIAL CALENDAR 2006

6 April 2006
Annual General Meeting

27 April 2006
Interim report for the period 1 January–31 March 2006

25 July 2006
Interim report for the period 1 January–30 June 2006

31 October 2006
Interim report for the period 1 January–30 September 2006

30 January 2007
Year-end report 2006

March 2007
Annual Report 2006

Reports are published in Swedish and English and can be downloaded from SCA's website www.sca.com. Reports can also be ordered from:

Svenska Cellulosa Aktiebolaget SCA
Communications and Investor Relations
Box 7827,SE-103 97 Stockholm, Sweden
Tel +46 8 788 51 00

The Annual Report is published in Swedish and English. In the event of differences between the English translation and the Swedish original, the Swedish Annual Report shall prevail.

DEFINITIONS AND KEY RATIOS[1]

CAPITAL DEFINITIONS

Net operating assets The Group's and the business areas' net operating assets are calculated as an average of fixed assets according to the balance sheet and net working capital reduced by long-term liabilities.

Capital employed Net operating assets reduced by tax liabilities (net).

Shareholders' equity The shareholders' equity reported in the consolidated balance sheet consists of taxed shareholders' equity increased by the equity portion of the Group's untaxed reserves. (Deferred tax liability in untaxed reserves has been calculated at a 28% rate for Swedish companies and at the applicable tax rate for foreign companies in each country outside Sweden.)

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

FINANCIAL MEASUREMENTS

Equity/assets ratio The equity/assets ratio corresponds to shareholders' equity plus minority interest expressed as a percentage of total assets.

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

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

Cash earnings Cash earnings are calculated as earnings before tax, with a reversal of depreciation of tangible and intangible assets, share in earnings of associated companies and nonrecurring items, reduced by tax payments.

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

Operating surplus Operating surplus is expressed as operating profit before depreciation/amortization of tangible and intangible fixed assets and share in earnings of associated companies.

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

Cash flow from current operations Cash flow from current operations comprises 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 expenditures Current capital expenditures are investments to maintain competitiveness, such as maintenance, rationalization and replacement measures or investments of an environmental nature. They may also include product upgrades in the existing machine park.

MARGINS, ETC.

Gross margin Operating surplus as a percentage of net sales.

Operating margin Operating profit as a percentage of net sales.

Net margin Net earnings as a percentage of net sales.

Capital turnover Net sales divided by average capital employed.

RATES OF RETURN

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

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

OTHER MEASUREMENTS

Value added per employee Operating profit plus salaries, wages and payroll expenses divided by the average number of employees.

Earnings per share in SEK Earnings per share Calculated after tax and dilution as shown below:

SEKm	2005	2004	2003	2002	2001
Net profit for the year (attributable to Parent Company shareholders)	430	5,164	5,075	5,693	5,587
Reversal of interest expense, after tax on option and convertible loans	0	0	5	6	6
TOTAL	**430**	**5,164**	**5,080**	**5,699**	**5,593**
Million shares after full dilution, average	233.5	233.5	232.5	232.2	232.5
Earnings per share after tax and full dilution, SEK	1.84	22.12	21.84	24.54	24.05

GLOSSARY

AFH Away-From-Home. Tissue sold to bulk consumers such as hotels, restaurants, industry, offices and healthcare facilities.

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. Also known as primary packaging.

Consumer tissue Includes napkins, paper handkerchiefs, toilet and kitchen paper.

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 (also called sheet feeder) Produces corrugated board in sheet form that is then converted into finished packaging at -another plant.

CTMP (Chemical thermo mechanical pulp) A high-yield pulp (90–95% yield from the wood) produced through the mechanical defibration in a refiner of preheated, chemically pretreated softwood.

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

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

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

FSC Forest Stewardship Council, an international organization 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 labeling of wood products from FSC certified forest.

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

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

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

Personal Care Here defined as incontinence products, baby diapers and feminine hygiene products. (See fluff.)

Point-of-sale packaging 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 meter 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.

Recycled fibre Fibre based on recovered 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 periodicals 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 used material is corrugated board.

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

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

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SCA

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