

A PROFILE OF
SVENSKA CELLULOSA AB

Written on behalf of the EGF

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1. HISTORY AND ACTIVITIES.

SCA is a relatively young company, established in 1929 as a holding company for a group of independent forest-owning and wood-processing companies operating in northern Sweden. These subsidiaries retained substantially all of their independence until 1954, when operational control was transferred to the holding company. Since the 1970s SCA has followed a long-term strategy of forward integration and diversification to produce a wide range of products.

Today SCA is active in more than 20 countries, 70% of the employees are employed outside Sweden.

SCA entered the 1990s with a product range extending from shipping into soap and from power generation into nappies. This might suggest that SCA is a classic example of an industrial conglomerate. Still there's always been a very clear core in SCA's activities and this core is to be found in the usage of its raw materials supplied by its own forests: wood and (hydro-electric) power. Recently a third raw materials basis has been added to that: recycled paper. SCA's manufacturing activities are fully integrated, felled timber is converted into lumber and various types of pulp which are used in the manufacture of SCA's products. For the last two years, SCA have been selling off many activities, consequently decreasing its product range.

In 1975 SCA acquired Mölnlycke AB, thus starting its forward integration strategy. Mölnlycke started as a textiles manufacturer and was in 1975 a producer of disposable hygiene products for hospitals, consumers and industry and also of shirts from the Melka brand. Mölnlycke's products were ranging from nappies to sailing ships. Now, Mölnlycke is SCA's largest group in terms of net sales. At the end of the seventies Mölnlycke (re-) entered the market of liquid soaps by acquiring Grumma AB. Mölnlycke is the most expansive group within SCA.

The other main activities of SCA are:

- Forest and Paper Products
- Lumber
- Market Pulp
- Linerboard
- Newsprint and magazine paper
- Printing and writing paper
- Timberland and Forest Management
- Office supplies.

SCA wanted to move into Packaging and Hygiene because these activities are less vulnerable to the business cycle than the basic pulp and paper products. They demand only half of the high investment requirements of the basic pulp and paper products (6-7% of sales vs. 12-15% of sales). Also Hygiene consists for a large part of products on which consumers doesn't spend less during recessions. Packaging operates in markets where competition is merely local, whereas pulp and basic paper competition is global and dominated by giant firms from North-America.

After taking over Edet in 1986, the next purchase came in 1988 when SCA's hygiene sector Mölnlycke acquired Peaudouce, the leading French disposable nappy producer for FFr1.962bn. In July of that year Italcarta, Italy's largest corrugated board and recycled paper products group was purchased for SEK 500m by SCA and followed up only three months later with a SEK 1bn majority shareholding in Laakirchen, an Austrian manufacturer of printing paper and hygiene products. In 1988 SCA spent SEK 3.4bn to acquire foreign companies with a combined sales of nearly SEK 7bn and 6,600 employees.

In 1989, the purchase of Reedpack turned SCA into Europe's leading transport packaging company with a 42 per cent growth in its sales as a result to SEK 7.799bn. As a result, the packaging business area is roughly equal in annual sales to the hygiene product activities at about SEK 12bn. However, the company's graphic paper production has a substantially lower turnover figure. Hence, the potential importance acquisition of a large slice of MoDo's stake in 1991.

Reedpack gave SCA a leading share of the European corrugated cases market, took it into newsprint made from waste paper, made it the second largest collector of waste paper in Europe, and brought it into areas such as cartons, plastic packaging and office supplies. SCA is market leader in the promotional area and container board.

Many major companies nowadays take as a rule of thumb, that they will only be active in business fields where they can hold a leading or second position. SCA seems well under way in this respect. SCA claims to be Europe's largest producer of fluff-based hygiene products, to be the largest producer of baby diapers and incontinence care products, and to be market leader in tissue products for some institutional markets.

Besides being the second largest waste paper merchant, SCA also is the biggest European private owner of forest land in Europe. On the other side of the paper chain, SCA is the largest wholesaler of office supplies.

SCA can't be called a forest-industry any more, as more than 80% of sales comes from paper converting. The following indicates the relative weight of SCA's different activities

within the concern:

SCA's Activities

(SEK million)	1990			1991		
	Sales	Earnings	Employees	Sales	Earnings	Employees
Hygiene	11,825	668	11,651	11,628 (32%)	727 (27%)	10,714
Packaging	7,799	673	9,236	9,516 (26%)	624 (23%)	10,663
Graphic Paper	6,378	507	4,331	5,747 (16%)	225 (8%)	5,747
Forest-Timber	3,985	481	2,447	3,688 (10%)	468 (17%)	2,259
Energy	1,099	459	344	1,236 (3%)	520 (19%)	351
Spicers	1,393	77	2,697	2,609 (7%)	85 (3%)	2,604
Corporate Items (*)	-	227	-	-	144 (4%)	-

(*: interests in MoDo, Sunds Defibrator, TFA Transforest)

Sales include internal sales.

Source: Annual report 1991.

2. STRUCTURE AND ACQUISITIONS

The internal structure of SCA's have undergone many changes since the late eighties. It is especially difficult to track all these changes, because SCA's legal structure (parent companies owning daughter companies), doesn't always correspond to its operational structure. To understand all these changes it seems best to start with a detailed account of SCA's two major acquisitions. In annex 1 a more comprehensive list is given.

2.1 The Reedpack acquisition

One of the most vivid comments on the major SCA acquisition came from the 24 June 1990 Sunday Telegraph, which wrote: 'The pounds 1.1 billion sale of Reedpack by its management to paper giant SCA was the largest Scandinavian takeover yet to land on Albion's shores. It was a quick, clinical takeout done without an auction. Indeed, it needed to be completed last Wednesday because the next day was Midsummer's day, which in Sweden means everyone heads for the forests, drinks great quantities of Aquavit while dancing around the maypole, and then settles in for the summer holidays. SCA chairman Sverker Martin-Löf wanted to push the deal through before Stockholm's financial heavyweights dispersed to their lakeside cottages. It was done in time because the buyout team at Reedpack knew the Swedes, who had been underbidders on the original Reed sale. The take over stemmed from discussions about a joint venture between the two companies for a newsprint plant at Aylesford in Kent.

Reedpack's gearing meant it could not expand while SCA's offer was so generous it took less than 24 hours to receive 90 per cent irrevocables. The buyout team have multiplied their 1988 investment 34 times. Chief executive Peter Williams' pounds 150,000 stake is worth over pounds 5 million. Nine other managers take home more than pounds 2 million. For employee and institutional investors, the payback over two years has been 2.5 times.

So have the Swedes paid too much? Not so, they say, pointing to recent paper deals. Reedpack went on an exit multiple of 20 times. In May, Swedish rival Stora paid 22 times for Feldmühle Nobel in Germany, while New Zealand's Fletcher Challenge paid 19 times for UK Paper last December, topping a bid from Metsä Serla of Finland.'

But the deal brought SCA's ratio of equity to debt gearing from 35 per cent to 25 per cent. Some analysts speculated that this risky step from SCA was motivated by fear of missing the tide of consolidation in the European paper industry. The basic reason for the high prices paid for companies like Reedpack by the giant pulp and paper companies is that companies like Reedpack have less need to become part of such a giant company, as

the pulp and paper companies have a need for moving into more sophisticated areas.

SCA had to sell activities to avoid monopoly difficulties including its minority holdings in packaging companies in the UK and Ireland, sold to Jefferson Smurfit, the Irish paper and packaging group, for Pounds 17.5m. Smurfit bought the 49 per cent of Smurfit Corrugated Ireland which it did not already own, and a 24.5 per cent stake in UK Corrugated. SCA will cover the markets supplied by Smurfit Corrugated and UK Corrugated through wholly-owned companies.

In July 1991 'De Hoop' Bos en Zonen (Eerbeek, Netherlands), paper concern subsidiary of Reedpack (UK), had its name changed to SCA De Hoop following its purchase by SCA. De Hoop produces a range of paper grades for the corrugated board industry.

2.2 The stake in MoDo

SCA, number two in Sweden behind Stora acquired in December 1990 a controlling interest in the third-ranking MoDo for SEK 1.4bn. MoDo (Mo och Domsjö) paid \$ 1 billion to take over Hølem Bruk and Iggesund Bruk (which had recently taken over U.K. Thames Board) in 1988 thus becoming a leader in fine papers and the largest European manufacturer of paper and board. MoDo sold its Modø-Holmen (tissue and hygiene products) to Metsä-Serla (Finland) in 1989.

SCA had tried to buy Feldmühle Nobel, the West German forestry group, which was acquired that autumn by Stora. So SCA was looking for SEK another major candidate to take over. Surprisingly perhaps, this turned out not to be an EC-based company, but Swedish MoDo. SCA said the crucial factors in its decision to buy into MoDo were the successful restructuring of MoDo over recent years and signs of an improved investment climate in Sweden following the country's declared intention to join the EC. The company also cited an apparent reprieve for the phase-out of nuclear power in Sweden, which would help keep down costs. The two companies plan close collaboration in printing paper production and possible future co-operative investment in paper mills. If this does happen it would bring graphic papers, the third leg of SCA's core business up to balance with its other two.

SCA said it had been looking at the possibility of a collaborative link with MoDo for the past six months in the printing paper area. SCA ruled out any possibility of a future merger or takeover to form a company comparable in size to Stora.

MoDo's president Bernt Löf explained that there always was a close relation between SCA and MoDo. They are both located in the north of Sweden, 'though that may change'. SCA

and MoDO are competitors in some fields like fine papers, where MoDo is bigger than SCA, magazine paper and NP. MoDo might develop her strong merchandising by taking up paper from SCA.

In a complex deal, SCA is paying SEK 1.4bn for 32 per cent of the voting rights and 16 per cent of the equity capital in MoDo. SCA paid SEK 550 per share compared with a current market value of SEK 170 a share. Both Mr. Bo Rydin, SCA chairman, and Mr. Martin-Löf, chief executive, are to take seats on the MoDo board.

By teaming up with the Kempe family it increases this to 26 per cent of capital and slightly over 50 per cent of voting rights giving it effective control and two seats on the board. SCA paid a premium of over 80 per cent to the market price for its parcel of the higher voting 'A' shares.'

SCA has taken its stake at a time when the paper industry is feeling the force of recession. Therefore many analysts are quite sceptical about this recent move. The Investors Chronicle commented: 'Not content with snatching up every other paper and packaging company in Europe the Swedish paper companies have turned on themselves. The deal appears to have been motivated by little more than the need of MoDo's chairman, Mr. Mats Carlgren, to clear his personal debts and SCA's desire to keep pace with Stora following its takeover of German Feldmühle Nobel earlier in the year. The price of SCA's widely traded B Free class of shares fell by over 6 per cent from SEK 95 to SEK 89 on the news. MoDo's were unaffected.

SCA's acquisition indicated that the group was aiming to develop its operations in the packaging field. Despite protestations to the contrary by SCA, the tie-up with MoDo seems to be a reversal of that policy given that, according to many analysts, there is very little synergy between the two companies. Unlike SCA, MoDo is a large producer and net seller of pulp which means that it is heavily exposed to the recent steep decline in pulp prices.

2.3 Background to the acquisitions

Paper companies have generally always sought to enlarge themselves, because in a capital intensive industry like this, economics of scale are very important. Several mega-deals in the paper industry include beside the already mentioned take-over from Stora of Feldmühle Nobel: Scott Paper of the US setting up a Dollars 250m joint venture to take over Feldmühle's tissue paper interests, Kymmene of Finland's acquisition of Chappelle Darblay, worth around FFr1.3bn - a deal in which Stora originally planned to take a 50 per cent stake but pulled out when it bought Feldmühle, the Dutch Bührmann-Tetterode's Pounds 154m takeover of Robert Horne, of the UK and Fletcher Challenge of New

Zealand's successful Pounds 299m bid to acquire UK Paper. Many groups have also made cross-border investments. Nearly all the new paper-making capacity built in the UK over the last few years, for example, has been financed by Nordic interests.

But it is not only in Europe that deals are being done. Takeovers such as Stone Container buying Consolidated-Bathurst and Georgia-Pacific buying Great Northern Nekoosa were essentially North American deals. There is a worldwide urge to merge as the pulp and paper industry becomes increasingly global.

'In our business, size is very important,' says Mr. Berggren of Stora. Many grades of paper are traded internationally in large volumes and compete heavily on price. This means the lowest-cost producer makes the most money and is best able to withstand the downturns in the paper industry cycle, which can be severe. The industry has just come to the end of the longest upswing in its fortunes that anyone in the business can remember. As profits are beginning to fall, the motivation for mergers is rising. Size brings economies and makes production planning simpler. The international nature of the industry leads to multinational groupings. Size is also vital when it comes to investment. A new paper machine is costly - the one Reedpack has been considering building at Aylesford would cost Pounds 250m. This scale of investment can only be made by a large, financially strong group - which is why Reedpack had originally sought a joint venture partner for the machine. All these motivating factors will become even more pressing in the future, ensuring that competition between the large, aggressive paper groups will grow as the number of likely targets dwindles.

In the 1980s the trend of Nordic paper companies taking over other firms, was amplified by various factors. There are basically four reasons for the recent acquisitions:

- getting out of the volatile pulp market
- enlarging EC presence
- prepare for competition of US firms entering the European market
- paper companies had to find ways of investing the large sums they had earned in the long boom period of the 1980s.

The second reason became less important as the Swedish government applied for EC membership in 1991, but besides because of fear of EC-protectionism, Nordic firms also feel the need to be close to their customers. This even leads to some Swedish companies moving their head quarters out of Sweden. First was Tetrapak and SCA is planning a similar move, according to Paper, 25 June 1991. SCA Packagings headquarter already moved to Brussels.

The merger mania shows the speed of consolidation in paper. The Nordic giants and New World challengers are based near their vast forest heartlands. New waste paper recycling

technology means companies based nearer the markets have an advantage. As they began to work the new 'urban forest', fresh waves of cash-rich predators have emerged from the 'virgin forest' to buy them. This explains why there was creeping in an element of desperation to find target companies at the end of the 1980s.

Some US states have now set minimum recycled-fibre content levels for certain types of paper such as newsprint. Some European governments are considering measures along the same lines. Thus, there is an incentive for newsprint makers to expand into recycling.

SCA has embarked on a divestiture policy to sell off parts of its acquired units that fall outside its core business areas. Moreover, SCA financial position forced it to sell some of its assets. SCA built up a large debt burden in the past few years in a corporate acquisition spree. In an attempt to reduce borrowings, SCA has already sold several subsidiaries. Also, SCA seems to back of some of its aggressive expansion schemes, and this forms a third reason to sell some recently acquired companies. In 1990 alone SCA sold assets valued at SEK. 1 billion, while in 1991 the figure was more than SEK. 3 billion (a comprehensive list is given in annex 1).

2.4 SCA's Structure

In 1986, SCA organised its activities in 5 groups. During 1987 and 1988 these groups were enlarged with new activities, while the 5th group, Sunds Defibrator became in 1987 an associated company due to sale of part of the shares. Associated companies are long term share-holdings where SCA has at least a 20% share, or a lower share with an ownership agreement giving SCA greater influence. They are not included in SCA's group structure.

In 1989 SCA had acquired so many new businesses, that a new structure was necessary, also to become more flexible and customer-oriented. In 1987 a new sub-group had been created: Wistavarfs (printing and writing paper), followed in 1988 by the new sub-group: SCA Pulp sales International Ltd. (selling from both SCA and other producers)

In Papierfabrik Laakirchen AG was established as a new sub-group, whereas in 1987 the Sunds Defibrator group had become an associated company.

According to the new structure: SCA is divided into five groups with sharply delegated responsibility. Paper was separated from Forest products. Peaudouce and Mölnlycke were completely integrated.

1. Hygiene: Mölnlycke AB

consisting of six divisions:

Health Care

Tissue
Consumer products
Toiletries
Melka/Tenson/Ambizz
Mobility (hospital-type beds, wheel chairs)

In 1990 the Mobility group was sold and the Health Care and Consumer Products groups were reorganized into:

Baby
Feminine Hygiene Products
Incontinence Care Products
(these three have together 2600 employees)
Absorbent Products Supply (4160 employees)

This structure has been changed once again in 1991 as we will see in the chapter on the Hygiene division.

(For the other 4 groups the annual report over 1989 gives confusing information we give the structure as from 1990)

2. Packaging: two business units:

Corrugated board
SCA Packaging AB
Container board
SCA Nordliner AB
SCA Italcarta
SCA De Hoop
SCA Euroliner
Maybank
Transport

3. Graphic Paper

five business units:
SCA Aylesford U.K.
SCA Ortviken AB
SCA Wista-östrand AB
SCA Laakirchen AG
SCA Board and Industrial papers U.K.

4. Forest and Timber

two business units: SCA Timber AB and SCA Skog AB.

5. Energy: BÅKAB and power operations at Svanö AB.

The highly independent business groups are responsible for their own R&D, raw material supplies, and production and marketing of its business products. Central corporate functions are scaled down to long-term capital supplies and R&D, and recruiting. The Shipping, Research and Insurance companies are organized independently, the financial companies are closely tied to the central corporate level.

Also the operational and legal structure are being coordinated. For the new business groups different holding companies are established, all fully owned by the parent company apart from Hygiene operations, which were already organized within the consolidated Mölnlycke company and Energy, which is organized within BÅKAB. New holding companies are SCA Forest and Timber AB, SCA Graphic Paper AB, SCA Packaging Europe B.V. The next table gives the different internal transaction:

SCA: Changes in legal structure

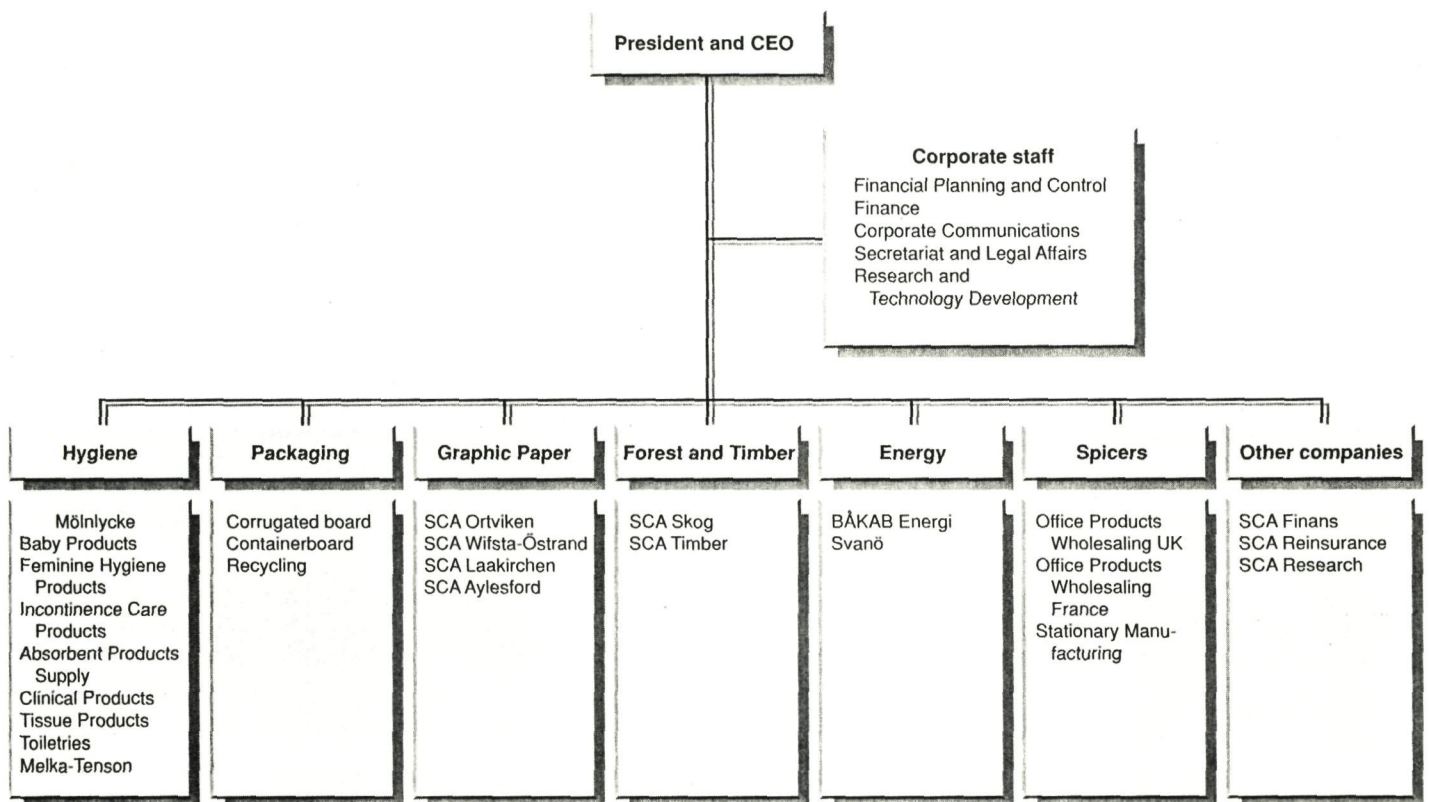
- SCA Forest and Timber AB acquired all stock in SCA Skog, and SCA Timber. SCA Skog acquired all SCA's stock in Sväno.
 - SCA Graphic Paper acquired SCA Ortviken (formerly SCA Paper), SCA Pulp, and takes over operational responsibility for Papierfabrik Laakirchen. SCA Pulp takes over stock in Wifstavarfs AB. From 1990 onwards the operational unit is renamed SCA-Wifsta-Östrand AB.
 - SCA Nordliner acquires all stock in Obbola Linerboard AB. SCA Packaging Europe acquires all stock in SCA Nordliner, (incl.Obbola Linerboard AB), SCA Emballage. The headquarters of SCA packaging is moved to Brussels in 1990, while stock is held by the Dutch holding. SCA's stock in Reedpack was transferred to the different companies owned by SCA Packaging Holding.
 - The business of Spicer-Hallfield, acquired by the Reedpack purchase, constitutes from 1991 onwards as a new business group, directly owned by SCA capital Corporation SCA.
 - SCA Skog, SCA Timber, SCA Ortviken, SCA Pulp, and SCA Nordliner cease operating at the risk of the parent company and become fully independent profit-centres. SCA Timber and SCA Nordliner acquires from SCA all assets and liabilities attributable to their business. SCA Ortviken and SCA Pulp lease the installations at Ortviken and Östrand from SCA parent.
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Source: annual reports.

The de-centralization of SCA seems to be contrary to the idea of vertical integration, which was always a cornerstone of SCA's business strategy. The different groups remain vertically integrated too, for instance 30% of SCA Nordliners linerboard output is delivered to SCA Packaging. Liner integration within SCA rose from 31% to 48% after the Reedpack acquisition.

The next table shows the structure of SCA in 1992:

Organization



Apart from this structure based on product-lines, there is also some kind of regional organization. For instance in 1991 SCA formed a holding company in France to incorporate packaging activities SCA Emballage France, SCA Promotion France (formerly Papeteries Léon Clergeau PLC and Givray).

On central corporate level some important changes occurred too. The R&D department was reorganized, reducing central corporate R&D to basic research in an operation of 110 employees owned by the different SCA business groups. SCA Teknik (Sundsvall) was being re-named SCA Research AB, owned by SCA Packaging and SCA Graphic Paper. Mölnlycke's different divisions R&D centres are being consolidated into a new R&D centre near Gothenburg.

Financial activities are organized on central concern level within the unit Corporate Staff Finance, operating units are AB SCA Finans and SCA Capital Corp. B.V. In 1991 the Förvaltningsaktiebolaget Aeolus (investment company) was merged with parent company SCA.

SCA also has shareholdings in many associated companies. Annex 2 lists these. An important shareholding is the 13% of capital and 17% of the voting rights in Industrivärden, which itself holds 24.47% of the voting rights in SCA.

Through this cross shareholding, SCA is tied to the third large ownership group in Sweden, after the Wallenberg and Volvo/Skanska group: the Handelsbanken sphere. The basis is the investment company Industrivärden which apart from a share portfolio also owns the packaging group PLM and the conglomerate Dacke. The group includes besides the forest industry companies SCA and MoDo, the gas and chemicals company Aga, and Ericsson. Sweden's second largest commercial bank, Svenska Handelsbanken, is within this sphere of influence. Industrivärden holds a 24.5% share of the votes in SCA, the related pensionfund SHB another 5% of the votes. Six smaller shareholders also relate to this sphere, giving it 34.5% of the votes with 14.9% of the shares (1990 figures). On the other hand SCA holds an 16% share in Industrivärden, by its investment company Aeolus. Also the Skanska group (Custos Holding, Öresund) has shares in SCA, with 19.8% of the votes and 10.5% of the share.

In 1990 SCA was split into five vertically integrated business groups: Forest and timber; Energy, which governs its hydro-electric generating stations; Graphic paper; Hygiene;

Packaging, which covers kraft manufacture, recycled paper and corrugated packaging. In 1991 a new group emerged: Spicers, selling office supplies from the U.K. Energy will be sold in 1992. The next chapters will describe these groups with more detail.

3. SCA BY DIVISION

3.1 Hygiene

Basic facts:	1991	(% of group)	1990
Sales	11,628	32	11,825
Profit	727	27	602
Capital expenditures	597	31	668
Employees	10,714		11,651

Major plants:

Division Fluff Products: England, France, Holland, Sweden, Germany, Norway, CzechoSlovakia.

Division Clinical Products: Austria, Belgium, Finland, Ireland, Sweden, Thailand.

Division Tissue Products: Holland, France, Sweden.

Toiletries: Sweden.

Melka-Tenson: Portugal.

About half of Mölnlycke's sales are comprised of fiber-based fluff products, another quarter of tissue products. In 1990 the diaper price war with Proctor and Gamble hurt with a 14 per cent drop in operating profit. As can be seen from the table, profits rose again in 1991.

The hygiene division suffered the largest amount of job losses in 1991, due to the restructuring of the Peaudouce-Mölnlycke operations and the rationalisation of Toiletries. Mölnlycke Heinävesi toiletries plant was closed to concentrate all production in Falun. The division took over the Östrand CTMP pulp mill in 1991 and sold its tissue mill in Roanne (France) in 1990.

Mölnlycke extended its activities in Eastern Europe by raising its share in Sancell Hungary Ltd. from 49 to 83% and the formation of Mölnlycke A.S. in Czechoslovakia, which is for 83% owned by Mölnlycke and 17% by a big Czech manufacturer of sanitary towels, whose activities are taken over by the new company.

In Thailand, Mölnlycke formed a company together with a Thai company, to manufacture surgical gowns. Further new investments included a new sterilization plant in Wareme Belgium and a new non-woven machinery in Friesland plant, the Netherlands.

In 1991 Mölnlycke abandoned the divisional approach and reorganized its activities

according to product areas. Its new strategic plan emphasised product development, concentration of production in larger units, overhead reduction, economies of scale in purchasing, administration, logistics and marketing.

Mölnlycke will concentrate expansion on the institutional and industrial markets and is moving away from commodity areas in the cut-throat competition of tissue. Its Laakirchen (Austria) mill has been sold to the German company Papierwerke Waldhof--Aschaffenburg (PWA). SCA said that as a result of the divestment SEK 1.5bn will be freed over a two-year period. This includes proceeds from the sale and investment in a new tissue machine that is now transferred to PWA as part of the deal.

But it is strengthening its R&D in product led research in hygiene grades. It claims its development at Mölnlycke of super-absorbent polymers has revolutionised fluff-pulp products. Design, shape and surface have given its products a competitive edge and strong market loyalty. 'We see wood fibre as a building block towards product development', said Mr. Martin-Löf. 'This can be costly; in hygiene, product-development research costs can be three times as high as for other paper products. But the rewards can be high also, of course'. 'We must guard our research areas strenuously, because product-led developments inevitably have a short lead time. A strong research base is needed, and it is difficult to compete with us in these areas, as our base is well grounded. We are now growing in Europe, and have a presence outside the Nordic countries, in the UK, France, Benelux and Greece. We have not finished expanding.'

3.2 Packaging

Basic facts:	1991	(% of group)	1990
Sales	9,516	26	7,799
Profit	624	23	673
Capital expenditures	521	27	632
Employees	10,663		9,236

Major plants:

Division Corrugated board: Belgium, Ireland, France, the Netherlands, Italy, Sweden, Great Britain. Employees 7,840.

Division Containerboard: Sweden (Obbola, Munksund), the Netherlands (Eerbeek), Italy (Porcari), Great Britain (Aylesford) Employees 2,150.

Recycling: Great Britain, Italy, the Netherlands. Employees 530.

In 1990, packaging activities increased 47% with some 42% of this growth being

represented by the addition of Reedpack. 1991 saw a 22% growth.

In 1990 SCA's kraftliner production was hit badly by the weakening US dollar and lower prices. There was a positive performance from test liner and corrugated board. In 1991 profits fell further. The main reasons were weak markets for kraftliner and later on in 1991 for testliner.

Also 1991 saw a great deal of excess capacity in bleached kraft market pulp and fierce American competition in kraft liner.

The acquisition of Reedpack added strength to both SCA and the Reedpack corrugated business giving the group clear corrugated market leadership with 9 cent of the Scandinavian and European market. SCA does not operate in Germany, and the company is reticent about its plans. However, given SCA's continual drive to maintain its position as European leader, it would be surprising if this gap were not plugged.

According to Peter Sangster, managing director, SCA Packaging UK, the tangible advantages of the acquisition of Reedpack include raw material supply and the consequent self-sufficiency in kraft liner products, including specialities such as mottled, white top, test liners and specially formulated blonde bleach-free kraft liner. The whole thrust is towards the marketplace, so the paper mills are developing their ranges to satisfy demand from the corrugated businesses.

After the Reedpack acquisition followed a consolidation phase, both in Sweden were the Gothenburg plant was closed, as in other countries, were SCA sold non-core activities like the non-paper activities included in the Reedpack deal.

In January 1991 SCA announced its intention to sell Pounds 100m worth of UK assets to Mayr-Melnhof of Austria, but in June 1991 Reedpack (UK) was having its cartonboard assets sold to a management group and not to Mayr-Melnhof (Austria). The management group was paying Pounds 109m for the Colthrop board mill and the folding carton convertor of Field Packaging in the UK and Belgium.

Reedpack Plastics Group, the plastic packaging division of Reedpack, was being bought by its management from SCA in February 1991 for Pounds 34m. The plastics business operates from five plants in the UK, employing 900 people.

Besides, SCA sold its share of Colon Emballage to 1991 Danisco, the Danish food, drink and packaging group. Danisco paid Dkr 500m for the 50 per cent of Colon Emballage it did not already own. Colon has annual sales of about Dkr 1.1bn and is Denmark's biggest producer of corrugated cardboard with a market share of 30 per cent.

Besides disposing of non-core plastics and carton activities, SCA Packaging has also

invested. Main investments were in the modernization of the Bruggenhout and Aylesford corrugated board mills, investments in a hardwood pulp mill at Munksund, and nip press at Obbola. SCA Packaging also decided to invest in testliner production at Obbola.

SCA Packaging's Aylesford (Kent) branch has completed a GBP13.5 mil expansion and is now one of the UK's largest and most efficient corrugated plants. The project raised capacity by 40% and improved service capabilities and expanded the Kent plant with 300 employees. Installations included a new GBP4 mil BHS corrugator, a 4-color Martin Midline flexo folder-gluer and a Witron automated materials handling system. Aylesford's main products are apple cases and other types of produce packaging.

Future investment of SCA Packaging in the UK includes a GBP20m 'mega plant' which will be built on a greenfield site in 1993/4 to replace the company's existing two Scottish plants. SCA Packaging claims to hold market leadership in Scotland, and although the two plants are highly successful, the move to the new plant will mean some job losses. However, because the plans are being put in place early, it is hoped that these will come through natural wastage.

In December 1991 SCA Packaging announced to invest GBP10 mil upgrade its corrugated fibreboard transit and display packaging plant in Wigan. The investment will include the installation of a new German-made GBP4m BHS 2450mm corrugator which can produce B and C flute board at speeds of up to 300m/minute. The machine features an SRA-M slitter scorer with a tandem configuration which can run two separate score profiles. The other BHS corrugator at the Wigan plant will be updated as part of the investment. SCA will also be installing a 3-colour Bobst SP160 press at the plant in a bid to extend its present printing service.

Other projects within the UK and Eire will amount to GBP6m. Investment has already included a new BHS corrugator at Thatcham; a GBP13.5m spend at Hartlepool on corrugator conversion equipment and a new factory layout. In 1995, SCA Packaging UK will turn its attention to the Lydbrook plant, thus completing its multi-million pound investment programme to bring all its factories up to Euro-standards, in terms of production and service excellence in all areas of corrugated manufacture.

The investment process will also include developing areas in which SCA Packaging UK is not market leader, such as increased efforts and investment in the group's point-of-sale and display activities. Opportunities for growth within the UK will be much assisted by input from the European companies, particularly France which has a good reputation in the point-of-sale and promotional print areas. Through its Colour Reel operations at Corby, SCA Packaging has UK leadership in the market for flexo pre-print. SCA has a

number of projects on its books like gas flushing and materials for fast food packaging. For the latter, three aspects are of paramount importance: To replicate the performance of competing materials; Improved hygiene within plants and better protected distribution systems; The ability to trace materials used back to source.

SCA research and development projects will be assisted by the group development centre being built at Aylesford. This will examine the economics of corrugated manufacturing methods, material developments and manufacturing processes into the next century. It is to be built alongside the existing Packaging Advisory Centre which offers customers free advice on a range of problems, including the carriage of dangerous goods, machinery usage, distribution, pallet utilisation, graphic and structural solutions to point-of-sale problems, as well as the development of new types of corrugated packaging. All the activities mentioned here are governed by SCA's management philosophy of focusing its businesses and dominating the markets it serves, a system described by Mr. Sangster as 'focused manufacturing and marketing'. A good example of this philosophy is the company's sales methods which, rather than the more traditional method of territorial areas, include teams of product and graphic designers, a member of the production team and a sales person selling into specific business areas.

Besides the U.K., also Sweden receives some major investments. SCA has spent SEK 100 million to boost liner capacity at its SCA Nordliner Obbola mill. The mill has 1 kraftliner machine, a 250,000 t/y kraft pulp line and 115,000 t/y wastepaper unit. A new line will be added so that wastepaper treatment capacity will rise to some 260,000-290,000 t/y. Testliner is made from recycled fibre, and output at Obbola will be some 40,000 t/y at first, a figure that could rise to some 100,000 t/y in a few years.

The current kraftliner manufacturing operations, based on fresh wood fibre, will be partly replaced by the new operations. With a product-mix of both testliner and kraftliner, the plant is extremely flexible, but in the long run it will possibly concentrate on testliner.

3.3 Graphic paper

Basic facts:	1991	(% of group)	1990
Sales	5,747	16	6,378
Profit	225	8	507
Capital expenditures	481	25	2,746
Employees	3,896		4,331

Major plants: Aylesford (newsprint, employees 334), Laakirchen (SC paper, employees 646), Ortvikén (newsprint and LWC, employees 1,133), Wifstra-Östrand (fine paper, market pulp, employees 854).

The table shows the enormous capital expenditures in 1990, like the LWC machine at Ortviken. SCA wanted to convert the NP machine in Ortviken in a LWC/SC grade machine. Later it turned out a new machine was needed. SCA installed a 6.6 meter wide, 1300m/m machine, investing in Ortviken, SEK 2.2bn of which 60mn SEK training costs. An ABB Master system provides single window control where an operator can access any part of the mill operations.

Despite the large capital expenditures, sales fell in 1991 and profits even halved.

The drop in the company's graphic paper profits is mainly due to heavy costs incurred in its Swedish operations with the expense of the new LWC project at Ortviken, lower pulp prices, stagnant newsprint prices and reduced capacity. In 1991 conditions even worsened. Graphic paper profits were halved. So it comes as no surprise that SCA announces in its 1991 annual report tongue-in-cheek: 'In view of the high capital costs involved, SCA is not excluding the possibility of continuing its expansion in this field in cooperation with other companies.'

SCA's pulp operations are divided over the different divisions, also the graphic Papers division contains some pulp activities. Its bleached kraft market pulp suffered from the great excess capacity in the market.

In 1990 one of the Ortviken NP machines was shutdown and replaced by SCA's first LWC machine. The Matfors paper mill was closed. In 1991 SCA Graphic paper sold Spicers Board Mill (wallpaper), Colthrop Board Mill and the Central Power Services Unit at Darwen, Lancashire, to St. Regis Paper Company and closed Lower Darwen mill (envelopes).

Despite the difficult situation which forces SCA into a consolidation phase; SCA still plans expansion of the Graphic division, for instance expanding sheet production at Wifsta Mill, SC paper investment in Laakirchen and a new drying machine in Östrand pulp mill.

Sheet paper and magazine paper are products which are at the centre of SCA's graphic paper strategy. Whether Newsprint also forms a central part of this can be doubted. In France SCA backed out of an NP project in 1989, because SCA came too late after many other companies investing in the same kind of projects. SCA expected over-capacity to arise. This may also form the background to the delays of the Aylesford project.

SCA received in July 1991 permission to quadruple the manufacturing capacity of its

British newsprint plant. If the project proceeds, it would involve an investment of SEK 2.5bn (Pounds 233m). SCA had sought planning permission to increase the capacity of its plant at Aylesford, Kent from 80,000 tonnes a year to 320,000 tonnes by adding a newsprint machine. The Aylesford mill currently houses 1 paper machine and produces newsprint, lightweight newsprint and 75,000 m t/y of de-inked pulp. Aylesford also has a paperboard and converting mill with 3 machines now in operation.

The mill project has been approved, but no construction date has been scheduled. The expansion would reduce the UK's need for newsprint imports, which mostly come from North America and Scandinavia. The UK imported 70%, or 1.3 mil tons, of the 1.85 mil tons of newsprint sold there in 1990.

Mr. Walter Kornfeldt, project director for the newsprint plant, said SCA would decide later on whether to proceed with the expansion. 'The question is should we go ahead now, or a bit later.' He said the plant would mainly supply the London market but was also well situated, close to the Channel tunnel, to export to continental Europe if it chose. SCA acquired the Aylesford plant last year when it bought Reedpack.

Plans are waiting for a market upswing to install a new SC machine at Laakirchen and expand LWC at Ortviken. SCA is Swedens sole producer of LWC.

SCA Wifstra-Östrand will boost A4/A3 copier paper sheeting capacity by 40,000 t/y to a total of 90,000 t/y at its Timra mill. Start-up: 9/92. The total expenditure of SEK 45 mil. will enable the firm to boost capacity to a further 110,000 t/y at a later time, according to SCA. The company claims that A4/A3 sheet is the fastest-growing part of the company's fine paper products. SCA said that growth in the market is 7-10%.

Although SCA's graphics sector has suffered from lowered prices and overcapacity, Mr. Martin-Löf still is confident its move into LWC was the right one. 'There is no competition in Sweden. And our synergy is right, with the paper machine close to the forest and the kraft mill. Excluding short term problems, we are well satisfied with Ortviken.' SCA focuses on product-related manufacture. It is close to industry with its corrugated production, and although kraft and testliner have been affected by the depression its packaging and hygiene sectors have remained stable. SCA's strategy is to become less dependent on the cyclical nature of many paper grades, more keyed in to the 'basic needs' areas.

3.4 Forest and timber

Basic facts:	1991	(% of group)	1990
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Sales	3,688	10	3,985
Profit	468	17	481
Capital expenditures	117	6	119
Employees	2,259		2,447

Major operations:

SCA Skog: woodlands, transport, nursery, machine shops, forest fuel services, employees 1,583.

SCA Timber: sawmills in Tunadal, Lugnvik, Munksund and Holmsund, marketing companies in France, Holland and Great Britain, employees 676.

This division once was the core of SCA's activities, but now it has moved pretty far to the margin of SCA. Still SCA's is Europe's largest private owner of woodland. The future of these activities in general is not very clear. MoDo's CEO Bernt Löf doesn't expect any main new investment in the Swedish Pulp&Paper industry for the years 1992-1996. In addition he states that they can not continue to maintain traditional capacities in Sweden, for instance in pulp. On the other hand, the forest are growing and the companies must find ways to make use of that (Paper, june 1991).

According to forestry specialist Jaakko Pöyry, there is a surplus of forest raw material in Scandinavia. On the other hand he ads that recycling can only be expanded up to a certain degree. Making mechanical pulp out of fir timber needs less energy as from pines from North America.

SCA Skog sold 5,000 hectares of forest land to the Swedish company Camfore, raising SEK 40 million.

SCA Skog increased its holding in Sväno to 100% and buys 10% stake in Charles manson Group Ltd. (sawn timber U.K.).

3.5 Spicers

Basic facts:	1991	(% of group)	1990 (second halve)
Sales	2,609	7	1,393
Profit	85	3	77
Capital expenditures	86	4	50
Employees	2,604		2,697

Major plants:

Stationary manufacturing: U.K. employees 1,187

Office Products Wholesaling, UK and Eire, employees 1,174

Office Products Wholesaling, France, employees 243.

SCA has moved into the business of wholesale office supplies with the acquisition of Reedpack, which also contained the Spicers company, Europe's largest wholesaler in this sector. By making it an independent business group in 1991 and investing in new distribution centres, SCA seems either to have very serious intentions in this field, or wants to make it an attractive asset to sell. According to Mr. Martin-Löf, SCA was still studying the future of Spicers (Paper, June 25 1991). It may be expected that SCA wants to stay in this business, as other main competitors like the biggest paper company in the world International Paper from the U.S. and the Dutch Bühman-Tetterode have also expanded in the field of distribution. This business which is marked by low capital expenditure and high sales counterbalances the paper industries high capital expenditures. However, Spicers return on capital employed didn't reach the 15% target, and its contribution to SCA's profits was only 3%, whereas its share of SCA's capital was 4%.

In 1991 Spicers has build up distribution centres in Dublin, and Garonor, Toulouse and Lyon (France).

3.6 Energy

Basic facts:	1991	(% of group)	1990
Sales	1,236	3	1,099
Profit	520	19	459
Capital expenditures	119	6	256
Employees	351		344

In March 1992 SCA sold its hydroelectric subsidiary Bakab to the Swedish energy group Sydkraft for SEK 11.45bn. The deal will be effective from 1993 onwards. It will substantially reduce SCA's borrowings and strengthen Sydkraft's position in the European power industry. Explaining the background to the disposal, SCA said its need for owning hydroelectric power sources had been reduced as it shifts from energy-intensive raw pulp production to using recycled fibre for its growing range of value-added wood-based products. The need for hydro-electric power sources has diminished, argues SCA, because thanks to Reedpack it now uses as much recycled as virgin fibre direct from the forest. SCA added that it would net SEK 6.7bn from the sale and as a result reduce its long-term debt to SEK 8.69bn from SEK 17.77bn, while increasing its equity/asset ratio from 29 per cent to 47 per cent.

SCA had already mortgaged half of Bakab's assets to the Swedish government-affiliated National Pension Funds. That mortgage will be transferred to Sydkraft as part of the preliminary agreement. The Bakab sale will also enable SCA to renew its acquisitions thrust as well as finance current capital investment programmes. SCA said the deregulation of the electricity market in Sweden and the European Community and the opening of borders within Europe had led 'to a quickly changing situation' in the power sector. Investors were happy with SCA's decision to withdraw from the power business, for it is a marginal player and faces intensifying competition.

3.7 Other activities

Sunds Defribator:

The pulp machinery company Sunds Defribator was acquired in 1978, and subsequently incorporated to further strengthen vertical integration. In 1987 part of the stock was sold and Sund became an associated company. In November 1990 SCA reached final agreement with Finland's Rauma Repola to sell Cellulosa's 33 per cent stake in Sunds Defribator for SEK 520m. SCA said the move was part of a plan to concentrate on expansion in hygiene, packing products and graphic paper. It can also be seen as a move away from an industrial view on vertical integration towards a more market oriented policy.

Transport:

In 1991 SCA has formed a jointly-owned transport company with Bilspedition, the Nordic region's largest private transport group. The jointly-owned venture, which is to be called Interforest Shipping takes over the activities being run by SCA's own shipping division. SCA said the company would 'broaden the base of its operations by seeking additional clients' who could become partners in Interforest Shipping. With share capital of SEK 100m Interforest Shipping will be based in Sundsvall, where SCA has its headquarters. Interforest Shipping will acquire the terminals held by SCA in Hamburg, Rotterdam, Genoa and London. Interforest Shipping will continue all SCA Shipping's activities. Other partners may be found for Interforest Shipping.

4. STRATEGY

The two main strategic decisions which have guided SCA's policy throughout the 1980's still are valid. In the first place SCA doesn't pursue a global strategy but centres on Europe, and secondly SCA is striving for forward integration, moving 'downstream'.

SCA continues in 1990 and 1991 to strengthen its market position with a high value product strategy centred on western Europe that has transformed the company from being essentially a producer of raw materials into a specialist paper group. The company has concentrated its activities into what are administered as three distinctive highly refined product business areas - hygiene goods, packaging and graphic paper. The strategy has sought to establish economies of scale, to develop greater value added products and to spread the risks to avoid the consequences of the traditional cycles of the pulp and paper industry. Moreover, SCA has become much more consumer market than producer driven. SCA has put a lot of money in its efforts to move downstream the paper industry. It decided to do some large graphic paper and newsprint investments just before the economic downturn. For instance 1989-1990 saw large investments in graphic paper production at Laakirchen (SC) and Ortviken (LWC). Now they are coming on stream in a market already characterized by overcapacity. Most big paper companies deliberately take this risks, trusting their new operations to survive during downturns, pushing aside competitors with older production lines (and hence higher costs). But this only makes sense when the capital costs of the new investments are off set by lower 'real' costs. Otherwise, companies with the best financial structure and not companies with the newest technology, are bound to survive. SCA claims it will be investing a lot more in LWC/SC papers. This may be true, but one can never take these companies by their word alone, as part of the poker play between the big paper companies consists of making investment announcements to scare other companies out of investing in the same sector.

The recent financial problems has forced SCA to scale down some of its expansion schemes and focus on its core businesses of packaging, hygiene and graphic paper. For instance in 1988 SCA expanded in non-carton packaging by buying Frånö Industrier AB (plastic shock absorbers), but later on it had to decide to concentrate on carton-based packaging.

'You simply have to expand or you become a target for takeover yourself,' said Mr. Martin-Löf. Large scale is not only important for basic pulp and paper activities. Also in the paper-converting markets size is important, especially for hygiene products and corrugated packagings.

Although the corrugated packagings market is mainly local, SCA sees economics of scale in areas of specialization, R&D, and because of ever more expensive machinery. In the tissue industry, economics of scale are counter balanced by other factors. Wage costs in western Europe are only 3-4% of total costs, but transport costs are high. Therefore and because economies of scale and need for flexibility are machines with a capacity of 15.000-20.000 ton required, and plant capacities 50.000 ton are optimal. In Europe at the moment machines with capacity 5.000-40.000 ton and plants range from 15.000 to 100.000.

The movement into higher refined paper products is general all over the sector. For example, the Reedpack transaction has a certain symmetry: Reed International, which sold Reedpack in the first place, promptly spent the proceeds on the then fashionable consolidation play, publishing assets.

It seems like all companies are moving upstream: pulp makers into papermaking, paper manufacturers into paper converting and packaging, paper converters and printers into publishers. This leaves space for new industries down at the paper chain, mainly pulp and forestry firms from third world countries like Brazil and Indonesia. SCA strives for more control over secondary fibre supplies. The acquisition of Reedpack reduced SCA's dependence on virgin fibres from 70% to 50% of inputs. In the meantime SCA became a net purchaser of pulp in 1989, whereas in the 1970s SCA was Europe largest supplier of market pulp. SCA's objective is to get the same situation for linerboard and fluting. This means that market share in corrugated board will have to rise from 9% to 15%. This can hardly be done by raising its production volume with two-thirds, but it might be that SCA can reach this goal by becoming more of a merchant company.

On the other hand, SCA remains closely tied to the heart of the pulp and paper industry in Sweden. It should not be forgotten that the company retains an estimated 1.8m hectares (4.6m acres) of productive forest land, mainly in northern Sweden with a sales figure of SEK 3.9bn last year and an operating profit of SEK 481m. This does not mean that SCA will continue to be based in Sweden. Last year it moved the headquarters for its packaging business to Brussels. Mr. Martin-Löf says he would like to move the company's headquarters away from Sundsvall in northern Sweden as soon as possible and he does not mean to Stockholm. SCA is thinking and acting in a transnational way. Indeed, as SCA becomes even more sensitive to the changeability of its consumer markets. The FT notes 'it will not be surprising if it does not say goodbye to Sweden at some point in the 1990s' (24-5-1991).

SCA will pursue its strategy of building large integrated industrial blocs, but it might well be that take-overs will become less important compared with joint-ventures and

other forms of cooperation. In the past SCA made advances to PWA and to Feldmühle, but both attempts were in vain. The history of the relation between SCA and PWA shows the changes over time.

In the 1970s SCA held a 26% of Papierwerke Waldheim-Aschaffenburg (PWA), one of the largest EC paper converting companies. In 1980 a joint-venture was created to produce fine paper in the Wistavarfs plant. In the second half of the 1980s however, SCA decided to shed minority interests which gave no strategic control. Instead it started to take over a massive amounts of firms. This resulted in a complicated action concerning PWA: SCA bought 41% of shares in Wistavarfs AB from PWA, raising its share to 91%, and sold a block of 11% shares in PWA. Also it sold halve of its 50% share in Zewalwell to the other owner PWA. The sale of PWA shares was motivated by stating that it was too small to have any strategic significance; the sale of Zewalwell because it proved impossible to become the major shareholder as was the intention of SCA.

Still some cooperation exists with PWA. From 1988 onwards, Wistavarfs AB paper is being handled by Svensk Papper AB instead of PWA and Modo Papper started to handle Wistavarfs AB paper in the U.K. But PWA still serves German and other European markets.

In 1989 PWA provided 40% of the capital for the 600 million FFr investment of Peaudouce in France for a new PME.

So instead of merging PWA or Feldmühle, SCA took to its Swedish partner MoDo. Whether this should be called a joint-venture or merger, remains to be seen. SCA holds amongst 50% of the votes in MoDo, together with the affiliated Kempe family.

SCA's management philosophy pushes responsibility downwards, allowing individual countries to operate according to national needs. However, within this, SCA demands the highest management efficiencies, and service and product excellence. 'Marketing is where companies succeed or fail'. SCA ownership has also given the recently acquired businesses the ability to measure product development against that of their European counterparts, while the exchange of information within the group enables the product development process to be shortened. It also allows the companies to assess the merits of different manufacturing processes, whether board machines or print processes. Despite the recession, which in 1991 caused a downturn of 4 per cent in the corrugated market, and the rationalisation taking place within SCA, the UK investment programme started by Reedpack, has continued. 'We have survived the recession well and have carried on investing, but it has not been as bad for the corrugated industry as it has for others,' states Mr. Sangster. SCA Packaging UK has been cushioned from the worst recessionary effects by its strong position in the food and drink sector, which takes about 50 per cent

of production. The real areas of concern have been in the automotive and consumer durables industries. But the impact has not been as severe as in the manufacturing industry in general.

5. SCA WITHIN ITS SECTOR AND MARKETS

5.1 Regional distribution of the market, and main competitors

SCA still is no 'global player', holding a 12th place amongst the world's paper companies with sales less than halve of the really big ones. This can be seen from the next chart:

Taken together, SCA and MoDo would have had a fifth position with sales of 8,623 \$ million.

The biggest forestry and paper firms in 1990

	Sales \$ mill.	Employees
1 International Paper (US)	12,960	69,000
2 Georgia Pacific (US)	12,665	63,000
3 Stora (Sweden)	11,070	69,700
4 Weyerhaeuser (US)	9,024	40,621
5 Noranda (Can)	8,121	56,000
6 Fletcher Challenge (Nw Zeal)	7,134	40,000
7 Kimberly-Clark (US)	6,448	39,954
8 Repola (Fin)	6,040	33,987
9 Stone Container (US)	5,770	32,300
10 James River (US)	5,423	33,100
11 Scott Paper (US)	5,391	30,800
12 SCA (Sweden)	5,334	30,139
13 Champion International (US)	5,159	28,500
14 Mead (US)	4,796	21,600
15 Oji Paper (Jap)	4,514	n.a.
16 Boise Cascade (US)	4,190	19,810
17 Jujo Paper (Jap)	3,901	7,151
18 Kymmene (Fin)	3,540	17,657
19 Sanyo-Kokusaka Pulp (Jap)	3,333	7,748
20 Mo Och Domsjo (Swe)	3,189	12,961
21 Honshu Paper (Jap)	3,158	6,261
22 Bührmann Tetterode (Neth)	3,052	12,954
23 Union Camp (US)	2,840	19,939
24 Daishowa paper Mfg (Jap)	2,810	7,690
25 Enso-Gutzeit (Finl)	2,778	15,180
26 Abitibi-Price (Can)	2,658	14,300
27 Avery Dennison (US)	2,590	19,000

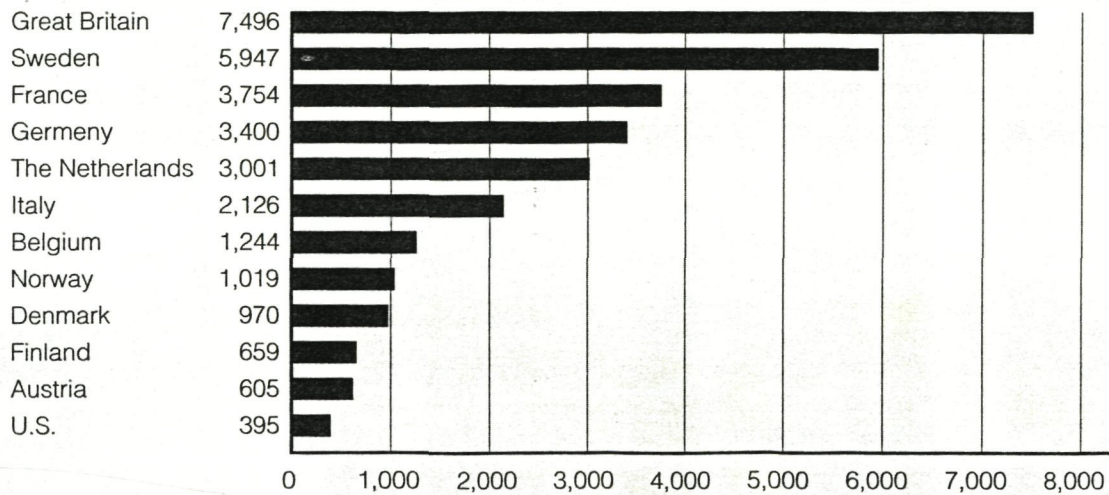
Source; Fortune top 500, July 29, 1991.

SCA concentrates on the European market. Only the Hygiene division is somewhat globally organized, with manufacturing joint-ventures in Colombia, Thailand, Australia and Mexico. By far the biggest market is formed by Great Britain. In 1989 Mölnlycke bought the remaining 50% of Sancell Inc. in Canada from Scott Paper to increase activities on North American health care market.

Taken together, Sweden and Great Britain account for 41% of sales.

As the next chart shows, SCA still is fairly poorly present in Germany, Europe's biggest market and Spain.

The Group's twelve biggest markets, SEK M



Expansion in the packaging sector in Germany and Spain is being studied. Mölnlycke is seeking expansion in Southern and Eastern Europe, mainly Hungary and Czechoslovakia.

This concentration on the European market has an advantage and a disadvantage. The disadvantage being that the European market is very crowded. The European industry has been marked by restructuring and take-overs. Especially American firms, which account for 8 out of the ten biggest P&P companies in the world have sought expansion in Europe as their homemarket became saturated. Also Nordic companies have been seeking a foothold in the EC.

The advantage is that in Europe, biggest growth is to be expected. The industrialised countries account for easily the largest proportion of global paper consumption but the greatest potential is probably to be found in central and eastern Europe, and the new republics of the former Soviet Union, where 350 million people have a low rate of paper consumption. The market potential of this area can only be gauged by comparing paper consumption per capita - 40 kilos per year - with the corresponding consumption in Sweden of 250 kilos. The question is only how rapidly this demand will increase. Despite the great potential in eastern Europe, the Swedish companies have, until now, shown little interest in carrying out direct investments, mainly due to the political uncertainty and financial risk. One of the characteristics of the sector is that investment costs for new capacity are extremely high. The current recession, with associated overcapacity, means that most companies are lying low. Stora is already in a favourable position, following

the purchase of Feldmühle. Moreover, Stora and Feldmühle have had a joint sales organisation in eastern Europe for more than 20 years. Where hygiene products are concerned - an area with particular potential - the investment costs are not as large. This has led to SCA's subsidiary Mölnlycke starting production of hygiene products in both Hungary and Czechoslovakia.

In Hungary, SCA owns 49% of Sancell Hungary Ltd. with a plant in Nagykáta producing feminine hygiene products employing 260 persons. The other part is being owned by Hungarotex and the Inter-Europa Bank. Sancell claims a 70% stake of the market.

5.2 Hygiene

Four companies are dominating the European tissue market:

Tissue market Western-Europe 1991

1 Scott: 18%

2 J/A Mont Group (Feruzzi, James River, Nokia): 14%

3 PWA: 11%

4 Kimberly-Clark: 5%

Total big four: 48%

Source: PPI november 1991

Some companies, like Metsä-Serla and Stora-Feldmühle, have decided not to seek expansion in the EC tissue market as costs are too high and too many others are looking for the same opportunities.

By selling the Laakirchen tissue operations, SCA has made a further step out of the general tissue market. Instead SCA has decided, like other tissue producers in Europe have been concentrating to get out of the squeeze between the large-sized producers of their inputs and the big retail chains which are their main customers. They are targeting 'institutional markets' like hospitals and schools because of higher margins and more stable sales.

In baby nappies, the entrance of Proctor and Gamble on the European market has caused a fierce price war between the few big companies which are important in this segment.

5.3 Packaging

SCA market positions in corrugated packaging are quite impressive:

1st in Sweden (32%) Great Britain (15%), Belgium (28%), Italy (16%), 2nd in the Netherlands (30%), 6th in France (5%).

In contrast to the pulp and paper sector, paper converting is dominated by small and medium sized firms. In this sector a strong market orientation, and thus flexibility, is needed. Also technology determines this smaller scale. A modern corrugator plant has an average capacity of 35,000t/y, compared with 200,000t/y for a paper machine.

SCA position as a large, but market orientated producer is quite a strong one. Cartonage industry has to come to terms with smaller average orders size from for instance in Germany 25 tons 10 years ago, to 14 tons nowadays. Just in time production of their customers, mainly in the food business, means also stricter quality control. Also customers are demanding better printability, higher gloss, etc. (PPI april 1991).

SCA packaging earnings dropped in 1991 because of 'weakening conditions in the containerboard market.' Excess capacity in Germany led to a fall in sales of product based on recycled fibre. Earnings from the kraftliner business also suffered as fierce US competition led to price decreases. Trends in the corrugated board segment were stable, however, although there was some decline in volumes. An SCA spokesman said: 'The economic climate is expected to remain unfavourable during the remainder of the year.'

In the low-value business of kraftliner production, a very international market, SCA is the biggest producer in Europe, with some 24% of production:

Production capacity kraftliner

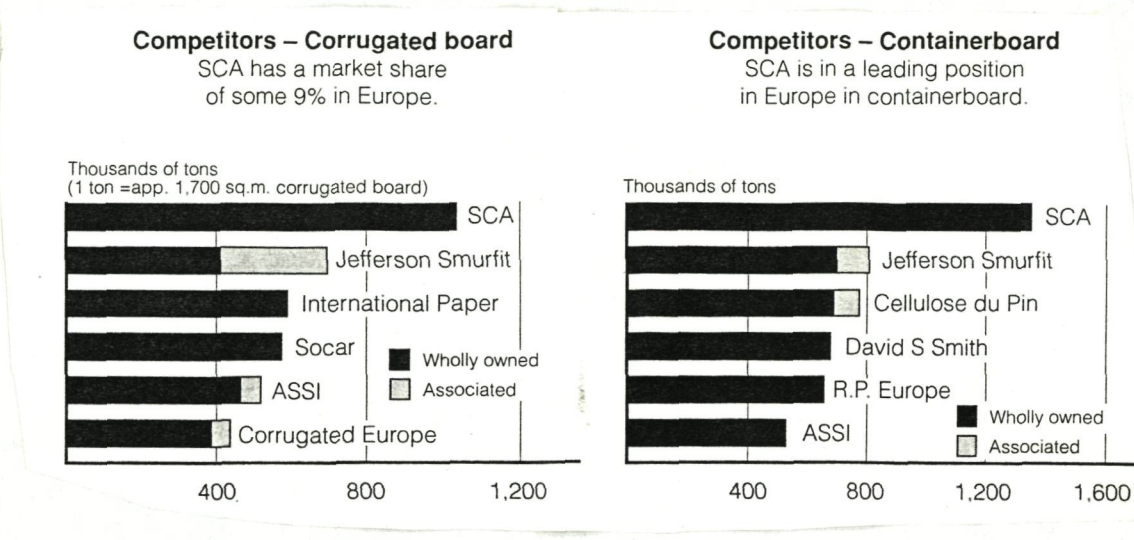
1 SCA	650
2 Assi	540
3 Cellulose du Pin	310
4 Enzo Gutzeit	280
Total European production	2,746

Source: EIU august 1991

SCA share of European testliner production, a product which is slowly replacing kraft-

liner, is much smaller.

The next chart shows SCA position among its main competitors in corrugated board and container board (testliner and kraftliner).



5.4 Graphic paper

At SCA's traditional graphic product, newsprint (NP), SCA has been giving away to competitors. SCA produced 522,000 tons in 1991, only 6.6% of the total European NP production, which is not a very substantial share for a market segment as concentrated as this. The recession in North America is playing a part in the Scandinavian companies' woes. In the newsprint sector in particular falling demand in the US has led to the huge Canadian groups exporting their surplus to Europe. Recycling also looms as a threat to industry profitability since it puts downward pressure on the price of new wood pulp.

The delayed expansion at Aylesford would make SCA the second largest producer of newsprint in Britain behind United Paper Mills of Finland, which has the capacity to produce more than 400,000 tonnes a year at Shotton, north Wales. Sales of newsprint in the UK fell by 6 per cent to 438,000 tonnes during the first three months of this year compared with the corresponding period last year. The decline was due to a reduction in the number of pages being published by national and local newspapers in response to a fall in advertising. Newsprint producers' margins have been hit as price increases have failed to stick because of falling sales and increased competition.

But production of Light Weight Coated (LWC), Super Calendered (SC) and fine papers now almost equals production of NP at SCA. SCA decision to move into this grades came at a difficult time. It will last until 1994-95 for overcapacity in LWC and other

in 1989 probably won't show any signs of recovery until 1993.

6. PERFORMANCE

SCA has not been immune to the recession with hit both the paper industry as the Swedish economy. But profits figures for SCA were not as bad as for the others. SCA reported the lowest decrease of profits over 1990-1991 of the Swedish big three: -22%, whereas Stora and MoDo reported a 29% decrease. The overall profit rate in the Swedish forest industry fell by 30%.

Results of Swedish paper companies 1991 (SEK millions)

Companies	Net Sales 1991	Net Sales 1991 compared 1990 (%)	Earnings after financial items	Earnings 1991 compared with 1990 (%)
Assi	8.100	+2	-145	+362(*)
Korrsnaes	4.200	-2	565	- 9
Rottneros	1.600	-14	- 92	+ 3(*)
Stora	67.100	+8	1.100	- 61
Soedra	4.600	-17	-323	+281(*)
Modo	17.400	- 5,6	221	- 82
SCA	32.760	+ 5,2	1.225	- 42,4
NCB	4.700	- 4	-178	+ 64(*)

(* SEK millions)

However, their US rivals are also experiencing problems and Finland is also losing heavily. The paper pulp price fell 25 to 30%, causing problems for Soedra and Modo. Stora and SCA suffered from the 10 to 15% paper production overcapacity in Western Europe. Light-weight coated paper and newsprint were also affected. The only buoyant sectors of the market are packaging and consumer products, including nappies. However, this is unlikely to last long, in view of environmental concerns.

During the last quarter of 1991, paper companies have fallen markedly on the stock

exchange, especially in Scandinavia, Holland and Italy. Whereas the overall share index fell 8%, some companies fell 40%. In 1991 SCA fell however only 7,1%, whereas for instance MoDo fell 28,4%. The last three months of 1991 Modo fell 25,7%, Stora 25,0% and SCA (B shares) only 1%.

Stora, SCA and MoDo, will show a drop in profits for the third consecutive year in 1992, with an improvement possible in 1993 but a full recovery only set for 1994. The main cause of the gloomy forecasts is great overcapacity, as well as pressure on prices.

The forest industry is in deep recession after an unparalleled seven year boom in the 1980s. There is nothing new in the wide fluctuations in profit levels - the sector is prone to cyclical movements. Concern focuses instead on the depth and duration of the current recession. In the short term it is hard to find any rays of hope and 1992 is likely to be another lost year. Economic recovery looks like being delayed and the industry finds itself operating in an increasingly competitive market. The golden years of the late 1980s saw expansion at too rapid a pace. This has led to overcapacity in practically every product area except cardboard.

A further disadvantage is the weakening of the US dollar which impairs the position of the Swedish companies against the American forest industry which has, in any case, started to penetrate Sweden's traditional European market in response to the economic difficulties it faces at home. And the devaluation of the Finnish markka by just over 12 per cent at the end of 1991 is also eroding Sweden's competitive advantage.

In a longer term perspective, consumption of paper and board is dictated by overall economic development but in the 1980s consumption of these materials actually exceeded GNP growth. Following an increase in demand of 5-6 per cent during 1985-9, this has now declined to 1-2 per cent. According to forecasts by Jaakko Poyry, paper consumption will increase by an average of 2.8 per cent a year until the year 2000. The UN's Food and Agriculture Organization is anticipating growth at about the same rate.

SCA suffered a 42 per cent drop in profits after financial items to SEK 1.23bn in 1991, compared with SEK 2.13bn in 1990. Group sales rose by 5.2 per cent to SEK 32.76bn. Earnings per share fell by 27 per cent to SEK 5.27, and the group proposed keeping the dividend unchanged at SEK 3.2. SCA blamed the sharp drop in profits on its high financial charges and the decline in prices for most of its paper products during the latter part of 1991.

Operating profits fell in three of SCA's divisions - packaging, graphic paper, and forest and timber. A rise of profits was only achieved at Hygiene, the group's largest business area - the hygiene products division (babies' nappies)- and at the Energy division. Despite lower sales of SEK 11.628bn profits in the Hygiene area increased due to the implemen-

tation of a rationalisation programme, but SCA said tougher price competition had limited the improvement. Biggest profits over the last two years came from "corporate items" (such as shareholdings in other companies):

Share of earnings

	1988	1989	1990	1991
Hygiene	43	59	62	73
Packaging	40	53	48	17
Graphic Paper	*	*	-	1
Forest and Timber	*	*	2	2
Forest and paper products	-	3	*	*
Energy	12	16	3	1
Corporate Items	-4	43	227	144

*: division did not exist at that time

Source: annual reports

Last year's profits dip and the uncertainties about 1992 cannot disguise SCA's success in its strategy of balance. The company has become increasingly diverse and selective over the past 10 years or so, reflecting the sophistication of an industry that has been transformed through changing consumer demand and technological breakthroughs.

Profitability has become the principal management tool, whereas in the past the company was more focused on production figures. The financial strategy has as its main object in 1992 a further debt reduction by divesting non-core businesses, keeping capital expenditures at a low level and utilizing capital more efficiently.

SCA demands a total return on capital employed of 15.5-16%. This target has not been reached since 1990. For the different types of capital this is differentiated.

Mölnlycke and packaging show a lower operating margin (measured as profits divided by turnover) than forestry and energy, but because they use less capital, their profitability measured as return to capital is higher.

SCA uses different profitability targets for real and nominal return on capital. There is no un-ambivalent measure of the value of its forest and energy possessions. Real returns are based on the market values of real assets like forest land and hydro-power, nominal returns are based on historical book values. Operating assets like machines and buildings only have a nominal value. As a whole the group is required to have a 15% return on

shareholders equity.

GROWTH OF SCA SINCE 1981 (SEK BN)

	1981	1982	1983	1984	1985	
Profits	660	596	1,009	1,519	1,323	
Sales	7,448	8,359	9,768	11,516	12,611	
	1986	1987	1988	1989	1990	1991
Profits	1,399	2,050	2,603	2,712	2,127	1,225
Sales	15,217	15,679	20,850	24,853	31,122	32,760

Source: annual reports

From 1989 onwards SCA doesn't write off the goodwill of acquired firms at once, but over the useful life of the object with a 20 years maximum. This lowers costs in years of acquisitions, but spreads them over more years.

SCA's published figures have met wide spread criticism by financial analysts. For instance, in 1990, SCA's pre-tax earnings fell - but opinion differs by how much. SCA argues they dropped by 22 per cent to SEK 2.127bn, blaming overcapacity and price competition in the company's consumer business markets for the setback. Independent analysts, however, argue the profit decline was much greater. James Capel argues SCA should not have included the SEK 333m profit made from its disinvestments in its hygiene and packaging areas in its calculation. If the company had done that the fall would have been 34 per cent to SEK 1.794bn.

The october 1991 Investors chronicle made a firm judgement on SCA's figures for the first 8 months of 1991: 'the numbers are still pretty misleading. SCA includes under the catch-all heading 'restructuring measures' both redundancy costs and capital gains on sales of entire businesses, and supplies only a net figure. The company does at least tell us that aside from the impact of these measures pre-tax profit was down by 33 per cent (a slightly greater drop than over at rival Swedish group Stora). The main reason was a doubling of net financial items to minus SEK 966m after the 1990 Reedpack acquisition. Reedpack did make a major contribution to group sales (the entire increase is owed to acquired units) and also saved packaging - facing weak conditions in the market for containerboard - from a slide in earnings. Once this contribution is stripped out, however, packaging looks to be one of three areas where conditions are worsening. The others - graphic paper and timber products - both saw bigger falls in second-tertial earnings than in the first four months of the year. These businesses are very different but suffer from

similar problems: excess supply and falling prices due to recession in major markets and to varying degrees of industry overcapacity. Profitability in hygiene products is improving and SCA's graphic paper plants are relatively efficient.'

The level of indebtedness of Stora and SCA is dangerously high at a time when operating income is declining but, nevertheless, the Swedish forest industry is generally better equipped than it was after the last recession at the end of the 1970s.

SCA's finances weakened in 1990. High investment needs and share acquisitions had to be met. Net debt increased by SEK 13bn in 1990 which cut into the company's debt--equity ratio and interest cover. Interest costs rose to SEK 1.35bn, an increase of SEK 500m while interest cover dropped to 2.6 per cent compared to a 4 per cent company target.

High interest rates have pushed up the cost of acquisitions, and SCA's net financial expenses jumped 52 per cent to SEK 1.42bn in 1991, mainly due to the Reedpack takeover's cost. The SEK 3.4bn asset sales of 1991 should have strengthened SCA's position, but debt management has eroded the gains. A further payment was made on the MoDo 16% share interest, and the final tranche payable on Peaudouce.

Last year the company had a 42 per cent ratio of shareholders' equity to total assets which included forest and power surplus values compared with 55 per cent in 1989. Financial analysts are concerned that in 1990 SCA bit off more than it could chew.

The next table shows the main financial indicators all pointing to very period in prosperous period in 1987-1989 and rising difficulties after 1989.

SCA MAIN FINANCIAL INDICATORS, (SEK Millions)

	1982	1983	1984	1985	1986
Operating margin (%)	9	12	14	11	10
Earnings after financial items	596	1,009	1,519	1,323	1,399
Financial expenses	391	367	368	413	442
Net debt	1,712	1,483	966	1,829	2,397
Debt/Equity ratio	0.44	0.33	0.19	0.33	0.37
Return on capital employed	15	18	24	20	18

	1987	1988	1989	1990	1991
Operating margin	14	14	13	10	8
Earnings after financial items	2,050	2,603	2,712	2,127	1,225
Financial expenses	445	569	839	1,404	1,740
Net debt	551	3,751	5,475	18,407	17,556
Debt/Equity ratio	0.07	0.46	0.49	1.54	1.44
Return on capital employed	21	21	17	13	9

Source: annual report 1991

A positive point of the forestry industry is that it is always one of the first to pick up again once the economy is coming out of a downturn. The first quarter of 1992 showed a marked increase in profits in the US for the forestry industry because of a resurgent building industry and from rising prices stemming from environmental restrictions on supply. But figures for the paper industry (excl. tissue and hygiene) and the paper containers industry were amongst the deepest drops:

Increase 1st quarter 1992 as to 1st quarter 1991

	Sales	Profits
Forestry		
Georgia Pacific	2%	from loss to profit
Weyerhaeuser	6%	81%
Paper		
International Paper	10%	-19%
Bowater	15%	from profits to loss
Kimberly-Clark	4%	13%
Scott-Paper	2%	54%
Champion International	3%	from profits to loss
James River corp.		
Paper packaging		
Stone Container	1%	-9,8%
Temple-Inland	8%	-17%

Source: Business Week 18-5-1992

The final conclusion from this chapter must be that SCA is likely to be strong enough to survive the recent crisis, but that further sales of assets might be expected when industry doesn't pick up in 1992-1993. The main causes of the recent problems are the recession and SCA's too high financial costs stemming from its over-ambitious take-over programme and rising interest rates.

7. RECENT RESTRUCTURING

The firm's initial restructuring program, announced in early-1991, included dismissing 600 Swedish employees. Another 400 workers will be laid off before end-1991, which will increase the number of dismissals to 3,500 worldwide.

In november 1991 SCA accelerated plans to rationalise its graphic papers business in response to falling prices for paper and increasing competition in the European Community. Production cuts were made in the summer, but further restructuring is now to be implemented. SCA said that the graphic paper section would develop a comprehensive EC profile for all its Swedish units. This would involve the creation of minimum levels of performance in productivity and costs to develop long-term competitiveness. The aim is to fill all cost and efficiency gaps as soon as possible, said SCA. The mills affected in Sweden are: Ortviken LWC and newsprint mill; Östrand kraft pulp mill; and Wifsta fine paper mill and the Obbola kraftliner mills and Munksund kraftliner mills: 188 (-19%). About 17 per cent of the company's workforce, or 380 employees, on the graphic paper side will lose their jobs.

SCA's Ortviken 165,000t/y LWC and 500,000t/y newsprint mill will cut some 90 jobs in an effort to save SEK 100 mil in 1992. In December 1990, SCA warned of 200 job cuts during 1991-1992 and so far 110 jobs have been cut. As yet, all jobs have been cut through natural wastage and early retirement.

At Östrand Mills in Timra SCA plans to cut 138 jobs (19%) from its 640-strong workforce. The 300,000t/y bleached pulp and 80,000t/y CTMP mill has been hit by falling pulp prices and expects to report a loss of SEK 100M this year.

In december 1991 SCA announced to be shedding an extra 1,200 jobs from its 33,000--strong payroll. It was only in September 1991 that the company announced it intended to shed 3,500 jobs - nearly 12 per cent of its workforce - by 1993.

SCA is still paying for the legacy of a spending binge that culminated with acquisition of Reedpack in 1990, which purchase came right at the top of the paper cycle. Buying Britain's then biggest independent paper and packaging group strengthened SCA's position as Europe's leading corrugated board company. But the deal also stretched the balance sheet precisely when traditional markets in pulp, containerboard and printing paper went into sharp reverse, interest rates rocketed and major economies slowed down. With profits now covering the income bill less than twice over, SCA is embarking on a sweeping restructuring programme.

Following the Reedpack deal the number of employees at SCA was 36,895. Since

Reedpack came on board, staff numbers have fallen by almost a fifth to 30,300 and several non-core businesses have been sold off. Even the prized hydro power assets have come under the hammer, raising a much-needed SEK 10.6bn to be paid in instalments from next year. Some of the forestry assets themselves - reduced in book value because of lower timber prices - may be next on the block.

In the annual report over 1991, SCA presented new figures for the restructuring scheme, aiming at a reduction of 4,573 jobs in the period 1990-1993. This scheme is additional to restructuring already started before 1990, and is mainly concentrating plants in hygiene and packaging after the massive take-overs in 1988-1989. It involves mostly employees in France and Britain as can be seen from this table:

Reduction in employees by business groups

	Sweden	Outside Sweden	Total
Hygiene	539	986	1,525
Packaging	260	1,841	2,101
Graphic paper	328	76	404
Forest and Timber	316	1	317
Spicers	-	194	194
Other Operations	32	-	32
Total	1,475	3,098	4,573

Source: annual report 1991

This reduction is planned to be spread as follows

	1990-91	1992	1993	Total
Sweden	745	656	74	1,475
Outside Sweden	1,651	906	541	3,098
Total	2,396	1,562	651	4,573

Source: annual report 1991

Job losses for 1990-93 now amount to 4,700 - more than 10% - from a workforce of about 30,000, of which 2,400 were implemented from 1990-91. Around 1,300 more layoffs will take place this year and the rest in 1993.

SCA intends to allocate the SEK 500m achieved in earlier savings to its 1991 accounts to cover the expected costs of its expanded rationalisation programme.

The planned utilization of restructuring reserves, adding up to 1,314 SEK million is divided as follows:

SEK million	1990-91	1992	1993	Total
Sweden	246	283	87	616
Outside Sweden	448	166	84	698
Total	694	449	171	1,314

Source annual report 1991

These costs included redundancy payments, pension provisions, social security, consultation, but also when operations are stopped these costs include write-downs of assets and other shut-down costs.

The Hygiene division is also engaged in a restructuring program of its own, originating from the need to integrate Peaudouce and from the price war in baby nappies in Europe, started by Proctor and Gamble.

Up to 1991 five nappy facilities were closed, at the cost of 600 jobs lost. At the same time Mölnlycke shed 350 administrative jobs. Mölnlycke will concentrate on its core businesses: nappies, incontinence care and other hospital products, feminine hygiene and tissues for bulk users. For the other activities Mölnlycke is 'always open to industrial frameworks better suited to these particular areas of activity' according to Mölnlycke's president Jack Forsgren in October 1991.

Also the confection activities were affected: In 1976 Mölnlycke opened a new shirt factory in the Netherlands, which was closed in 1989. The unions resited this closure, arguing that Mölnlycke wanted to move production to its plant in Portugal.

However, there is good news elsewhere on the employment front: the success of SCA's 15 sheet plant operations in the UK has led to the creation of more than 300 jobs. Not bad considering the company had no such businesses five years ago. SCA's Mr. Sangster said the company was committed to this side of the business, and he would be surprised if the number of sheet plants had not doubled to 30 by 1995. Investment during 1992 will include GBP10m at the Wigan plant.

8. LABOUR ISSUES

Despite the recent restructuring, employment has been growing at SCA:

EMPLOYMENT (average)						
1981	1982	1983	1984	1985	1986	1987
16,015	15,583	15,250	15,417	16,338	18,114	17,020
1988	1989	1990	1991			
21,315	23,862	30,139	32,199			

Source: annual report 1989/1991

The biggest growth of employment has taken place outside Sweden, as in Sweden employment has been in decline since the mid-1980s. Britain and France are the major countries for SCA employment. The Netherlands showed a sharp rise in 1990, bringing it almost to the level of France:

SCA employment by region

	1991	1990	Average salaries 1991 SEK 1,000s (*)
Sweden	9,826	10,689	189.7 (**)
EC			
Great Britain	8,782	6,107	150.4
France	3,505	3,601	149.4
Germany	484	561	235.3
The Netherlands	3,220	2,294	185.1
Italy	886	833	216.8
Belgium	936	949	172.0
Denmark	178	216	275.3
Spain	116	82	181.0
Greece	138	232	101.4
Portugal	1,046	1,043	46.8
Ireland	453	277	94.9
Total EC	19,744	16,915	160.4
Rest of Europe			
Norway	575	631	194.8
Finland	432	532	171.3
Austria	1,413	1,924	199.6
Switzerland	50	40	300.0
Total rest of Europe	2,470	3,127	195.5
Rest of the world			
U.S.	86	69	209.3
Canada	67	51	223.9
Japan	6	-	333.3
Other	-	8	
Total rest of the world	159	128	220.1

* excluding statutory and negotiated social costs

** excluding parent company where salaries are much higher

Source: annual report 1991

The average salary costs by country are strongly influenced by the fact that in countries with little SCA employment, like Switzerland, the U.S., Japan and Canada, almost all employees are highly paid staff workers. But the differences over the manufacturing countries in Europe are remarkable too. It shows that average wage costs in Sweden (a figure still influenced by a high share of staff and laboratory workers) are not as high as employers sometimes seems to suggest. SCA doesn't give information on the associated companies in Thailand, Mexico and Colombia.

The legal structure of SCA implies that almost all employees are employed by subsidiaries instead of the parent company:

Distribution of employees

	Parent company	Subsidiaries	Total	
			1991	1990
Sweden	114	9,712	9,826	10,689
Outside Sweden			22,373	19,450
Total				

Source: annual report 1991

Following the acquisition of Reedpack, the percentage of women employment within SCA experienced a sharp increase. The % of women in Sweden remained 22% in 1991, but outside Sweden it rose from 22% to 27%.

From 1990 onwards, in the annual report information is missing on SCA's employees' profit sharing scheme. Until 1990 SCA was running a scheme whereby 5 million SEK was being paid, 4 million to the Kotten Foundation and 1 million to social costs. A 14% minimum consolidated return on capital is required to pay out profit shares.

Although no mention was made of an employee share, in 1990 dividend paid out per share still rose from SEK 2.90 to 3.20 per share. In 1991 it remained the same.

On behalf of the employees involved, the industrial workers trade union Industriebond FNV was demanding a 1% 'takeover bonus' in the takeover of Reedpack by SCA. At the end of June, SCA announced the takeover of Reedpack for pounds 543 mln, with the Swedish company assuming Reedpack's debts, making the total bid worth about pounds 1 bn. Speaking for other unions in the UK, Belgium and France, Industriebond FNV is demanding that pounds 5.43 mln be placed in a bank account for the employees. This will provide a one-off Dfl. 1,300 bonus for Reedpack's 13,000 employees. Such a bonus

was paid in the past when the Dutch plants were taken over by Reedpack, but SCA resisted to pay any bonus.

The Dutch operations (six paper and cardboard plants and five used paper collection points), which employ 1,360, accounted in 1989 for Dfl. 70 mln of the Dfl 115 mln. earnings, it is reported. The union said that all employees were entitled to profit from the goodwill SCA purchased.

According to the 1989 annual report SCA expects a shortage of well-educated labour to arise in 10-15 years and argues that therefore one should improve the job environment and work organization. It is important to hold onto dedicated co-workers, so SCA should be viewed as an attractive employer.

New developments like TQM and JIT have a large influence on working practices and labour relations. For example, JIT strategies of its customers, forces SCA Timber's French terminals to maintain full stocks and respond swiftly. At the Lugnvik timber mill a new saw line has been installed which can saw any dimension on a single line.

At the Wifsta-östrand plant the ISO 9001 quality assurance standard has been accredited. This resulted in all employees being required to undergo training in 'customer-orientation'.

As in companies process-automatization and information systems are being put on-line, management control increases. Also workers must be trained in computer use. They are becoming more isolated at their job.

Training costs employers around 1.5% of labour costs. training happens on company level. A agreement exists to rise training expenditure in 1988-1991 and to improve facilities for women. A national office coordinates some of the activities. Young persons can get a contract for 50% learning, 50% working. (minutes ICEF paper conference 24-26 april 1989.

SCA signed a training agreement with Metsä-Serla for its new LWC mill worth SEK 60M.

Within SCA's European plants, a lot of shift work is taken place. There is a great deal of variance between shift work schemes, as these examples show:

SCA Packaging Langar (UK) : two shift roster, 6am-2pm, 2pm-10pm.

SCA Packaging Rosa (Italy): three-shift system, 6 am-1.30pm, 1.30pm-8.30pm, 8.30 pm-6am.

SCA Emballage Gasny (Fr.) : three-shift system, 5 am-1pm, 1pm-9pm, 9pm-5am.

9. SCA AND THE ENVIRONMENT

SCA has been confronted with a consumers boycott because of its felling of upland forest. This made SCA schedule a inventory of its forestlands to see which are important for conservational purposes and to study alternative methods of forest management.

Market led environmental pressure is carefully watched. Although SCA no longer uses elemental chlorine as a bleaching agent, some chlorine dioxide is used. Mr. Martin-Löf thinks that, scientifically speaking, 'there are more important things than ridding the world of the last chlorine molecule. But if the market demands alternatives, it will get them.'

In Sweden, SCA, Mölnlycke, owns together with Stora, ASSI, Orebro, Hylte Bruks and Fiskeby Board, the largest waste paper merchant and processor of Scandinavia.

A number of initiatives have been launched by UK companies and organisations in response to German legislation for the recycling of transit packaging which comes into force on December 1 (Euro Matters, page 18). SCA Packaging claims to be the first UK corrugated fibreboard manufacturer to register with the RESY packaging waste collection system.

Additionally a working group, set up by the British Fibreboard Packaging Association, alongside the Corrugated Case Materials Association, waste paper associations and paper makers, is to set up a recycling and recovery system compatible with German legislation for implementation in 1992.

Annex 1: Major investments, acquisitions and divestures since 1985.

1985

- New NP at Ortviken.
- Additional 25% share in Obbola Linerboard AB, now 75%.
- 75% shares in Svanö AB.
- Mölnlycke buys Edet AB.
- Mölnlycke buys 26% of Cederöth Nordic AB, in 1987 raised to 33%, in 1988 to 38%.
- Mölnlycke buys 4 small operations in the home health care sector in Sweden and Denmark.
- Mölnlycke sets up associated companies in Thailand and Hungary.

1986

- Sunds Defribator buys Jylhävaara of United Paper Mills and starts negotiations to merge with Ingersoll Rands' Imco division (US).
- SCA buys additional shares in Industrivärden AB.
- Båkab buys 15% of Gulsele AB.
- SCA buys 75 % of Sväno AB.

1987

- SCA sells 50% of its shares in Sunds Defribator to Rauma Repola Oy. Sunds Defribator acquires Repola's machinery plant in Bjöneborg.
- SCA buys 41% of shares in Wifstavarfs AB from PWA, now 91%, and sells 11% in PWA and 25% shares in Zewelwell to the other owner (PWA).
- Mölnlycke buys Ancilla BV.
- SCA sells Mölnlycke's sewing thread division.
- New corrugated board machine in Colon.
- AB SCA Finans listed as 100% parent company shareholding (0.1 mill SEK, raised by SEK 50 million in 1988).
- Aeolus investment company increases share in the main owner of SCA: AB Industrivärden, partly through internal purchase from shares of SCA parent company.

1988

- SCA buys for 7 billion SEK and sells for 325 million SEK of stock. It plans another 2.5 billion SEK investment in its Swedish operations. These activities contain:
- SCA Packaging buys Bowater Containers' packaging companies in Belgium and

France (Givray S.A.), for SEK 260 million.

- SCA Packaging buys family owned Italcarta, Europe's biggest plant for SEK 320 million.
- SCA Emballage buys Frånö Industrier AB (plastic shock absorbers).
- Mölnlycke buys Peaudouce for SEK 2,052 million.
- For SEK 900 million Papierfabrik Laakirchen AG in Austria is bought by taking over 74.9% of holding company Mill Holding AG, owning 76% of Laakirchen.
- Mölnlycke buys Verbandstoffabrik Ortman from Papierfabrik Laakirchen AG in Austria.
- Mölnlycke acquires oral hygiene products from Novokoncernen of Denmark, skin care products from Pharmacia Leo of Sweden and skin care and cleaning products marketed in Finland from a Dutch company.
- New LWC PM at Ortviken.
- Östrand CTMP mill will be expanded and integrated with Wifstavarf plant.
- Wifstavarf plant is expanded with a production line for sheet-size paper.
- Saw mill capacity is reduced in Holmsund.
- Melka pants and short production reduced in Finland and Holland.
- SCA Timber buys a 25% share from MoDO in AB Iggesund's French wood products sales company with an option for another 25%.
- Wistavarfs AB buys 10% of Svenskt Papper AB.
- 2% shareholding of AB Custos sold.
- Svenska Cellulose Finance B.V. in Holland (book value 328.2 SEK million) changed into SCA Capital corp. B.V., book value 1,298.2 SEK million.

1989

- Asset totalling SEK 582 million bought by the parent company.
- SCA buys Reedpack, a U.K. packaging firm.
- Holmsund and Munksund plants concentrates on pine lumber and Lugnvik on spruce.
- Cooperation with PWA to sell Wistavarfs products scaled down to Germany.
- Increase of interest in Svanö AB to 78%.
- Sale of the 40% holding in Pronova Data AB.
- Sale of 3% of minority interest Mill Holding AG.
- SCA buys remaining 9% of shares in Wifstavarfs AB from PWA.
- Mölnlycke buys the remaining 50% of Sancella Inc. in Canada from Scott Paper to increase activities on North American health care market.
- Mölnlycke increases its holding in Cederroth Nordic AB to 34%.
- Melka plants in dutch Hoogezand, and Finnish Puumela and St. Michel closed, production concentrated in Portugal complemented by contract-sewing.
- SCA Packaging acquires Scatolificio Fratelli Ronca S.P.A. in Verona (Italy), conver-

sion companies Tallineau Embalage Service and Cartonnerie Norembal S.A. (France), polystrene company Runsvan Förpackings AB (Sweden), Helna Verpakking B.V. in the Netherlands.

- Remaining 25% share in Zewawell sold.
- SCA acquires a 5% stake in Feldmühle Nobel.
- Aeolus (SCA) increased its net holding in Industrivärden AB to 20.1% of voting rights. AB Industrivärden shareholding is created as separate associate company.

1990

- Asset totalling SEK 1.3 billion sold. A value of 6,060 million bought by the parent company plus 1,714 stock in associated companies.
- SCA sells 5% stake in Feldmühle Nobel.
- 1,460 million stock in MoDo bought by SCA.
- Mölnlycke's Mobility division sold.
- Roanne Paper Mill sold (formerly Peaudouce)
- Sale of minority interests in Smurfit, Zewawell and UK Corrugated, for 180 million SEK.
- Parent company sells SEK 29 million shares in SILA.
- Sale of minority interests in Sunds Defibrator for SEK 824 million.
- Acquisition of Cartonneries de Jura and EMN (Lille)
- SCA Laakirchen tissue operations sold.
- NP production at Matfors phased out.
- Reedpack Colthorp Board Mill divested.
- Båkab takes over district heating.
- Oberlin Holdings Ltd. established in Ireland as a financing company.
- SCA Skog increases 75% interest in Sväno AB to 83%.
- SCA Capital corp. increases share in Mill Holding AG to 80%, Mill Holding increases share in Papierfabrik Laakirchen to 83%.
- SCA acquires a large stake in MoDo.
- PME Normande (40% owned by German PWA) took over the domestic papers activities of Mölnlycke. Now it produces 60.000-85.000 tons a year (worth 850 millions francs). It plans to invest 600 millions francs in new technologies.

1991

- Mölnlycke raises its share in Sancell Hungary Ltd. from 49 to 83%
- Mölnlycke A.S. formed in Czechoslovakia, 83% owned by Mölnlycke and 17% by a big Czech manufacturer of sanitary towels, whose activities are taken over by the new company.
- In Thailand, Mölnlycke formed a company together with a Thai company, to manufac-

ture surgical gowns.

- Mölnlycke Heinävesi toiletries plant closed to concentrate all production in Falun.
- Mölnlycke new sterilization plant in Waremmе Belgium.
- Mölnlycke new non-woven machinery in Friesland plant, the Netherlands.
- SCA Packaging investments in hardwood pulp mill at Munksund, corrugated board mills in Bruggenhout and Aylesford and nip press at Obbola. Decision to invest in testliner production at Obbola.
- SCA Packaging disposed of the non-core carton and plastic activities and of its 50% in Colon Emballage.
- SCA Packaging closed Gothenburg plant and transfers machinery to Mariestad and Värnamo.
- SCA Packaging creates SCA Recycling, based on SCA Maybank operations.
- SCA Graphic paper sells Spicers Board Mill (wallpaper), Colthrop Board Mill and closes Lower Darwen mill (envelopes).
- SCA Graphic takes decision to expand sheet production at Wifsta Mill.
- SCA Skog increases holding in Sväno to 100% and buys 10% stake in Charles manson Group Ltd. (sawn timber U.K.).
- Spicers builds up distribution centre in Dublin, and Garonor, Toulouse and Lyon (France)
- SCA Shipping sold to a new joint venture with Bilspedition.
- SC paper investment in Laakirchen.
- New drying machine in Östrand pulp mill.
- Aeolus merged with parent company SCA.
- Energy operations are being sold bit by bit in a period stretching to 1998 to Sydkraft AB.

Annex 2: SCA shareholdings

Parent company shareholdings in subsidiaries	Par value in millions	Interest %	Book value SEK M
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Swedish subsidiaries

Mölnlycke AB	SEK	121.2	100	1,246.6
Båkab Energi AB	SEK	100.0	100	750.0
SCA Graphic Paper AB	SEK	50.0	100	700.0
SCA Forest and Timber AB	SEK	10.0	100	350.0
Förvaltnings AB Aeolus	SEK	1.0	100	177.4
SCA Packaging AB	SEK	50.0	100	72.0
AB SCA Finans	SEK	42.1	100	50.0
Nikab Energi AB*	SEK	-	1	1.0
SCA Shipping AB	SEK	1.0	100	1.0
SCAs Aktiesparfondförvaltning AB	SEK	0.3	100	0.2
SCA Bostads AB	SEK	0.1	100	-
6 non-operating subsidiaries	SEK	0.4	100	0.4

* Total voting rights within the Group 50.7%.
Further information provided on page 26.

Foreign subsidiaries

SCA Packaging Holding B.V.	NLG	1,871.0	100	6,088.1
Oberlin Holdings Ltd.	NLG	296.8	100	4,719.7
	GBP	349.4		
SCA Capital Corp. B.V.	NLG	195.5	100	1,807.3
Swedish Cellulose Co. (New York) Inc.	USD	0.2	100	2.5
Svenska Cellulosa (Suisse) S.A.	CHF	-	100	-

Parent company shareholdings in subsidiaries **15,966.2**

Group shareholdings in other companies	Par value in millions	Interest %	Book value SEK M
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Associated companies

<i>Parent company</i>				
Mo och Domsjö AB (2,503,559 shares)	SEK	250.4	16	1,390.9
Convertible participating notes (102,209 Series A notes) are reported as interest-bearing receivables amounting to SEK 57 (57) M.				
TFA Transforest AB.	SEK	50.0	50	50.0

Mölnlycke AB

Sancela S.A. de C.V.	MXP	653.5	49	66.5
Sancellia S.A.	COP	48.0	49	20.9
Thai Sancellia Co. Ltd.	THB	42.3	49	2.2
Sancellia Ltd.	GBP	0.5	50	5.1
Sancellia Pty. Ltd.	AUD	0.5	50	3.5
Thai Clinipro Co. Ltd.	THB	29.4	49	4.7

Båkab Energi AB

Gulsele AB	SEK	3.6	15	139.7
Bergeforsens Kraft AB	SEK	2.2	40	34.5
Stensjöns Kraft AB	SEK	11.0	50	16.9
Edsele Kraft AB	SEK	0.5	50	15.5
Harrsele AB	SEK	2.6	13	14.6
Nikab Energi AB	SEK	8.0	8	10.0
Hjälta AB	SEK	3.2	15	13.2
Blåsjöns Kraft AB	SEK	6.0	50	7.4
Oskarshamns Kraft AB	SEK	4.5	5	5.5
Brännälvens Kraft AB	SEK	1.9	19	1.9

	Par value in millions	Interest %	Book value SEK M
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SCA Packaging Holding B.V.

Kasto	ITL	300.0	80	0.2
GAE Smith (Holdings) Ltd.	GBP	-	50	13.1
Colbank Paper & Subsidiaries	GBP	-	50	2.3
Central Waste Co Ltd.	IEP	0.1	25	3.8
Staper Ltd.	GBP	0.1	50	1.4
SCA Research AB	SEK	-	50	-

SCA Graphic Paper AB

SCA Research AB	SEK	-	50	-
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SCA Laakirchen Holding AG

Bunzl & Biach GmbH	ATS	0.2	50	5.4
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SCA Skog AB

Energiproduktion i Norrbotten AB	SEK	-	40	1.6
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SCA Timber AB

Les Bois de la Baltique S.A.	FRF	5.0	25	11.1
UNI Timber	SEK	1.0	25	1.0

Förvaltnings AB Aeolus

AB Industrivärden (6,255,204 shares, 29,063 convertible debt securities)	SEK	125.1	16	873.4
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Other associated companies 1.6

Adjustment on consolidation of associated companies -10.0

Book value of shares in associated companies before re-assessment pursuant to equity method 2,707.9

Surplus value (Båkab Energi AB) carried to asset entry Land and other property -204.6

Non-distributed earnings at associated companies 195.9

Book value associated companies **2,699.2**

Other companies

<i>Parent company</i>				
SILA (300,000 shares)	SEK	15.0	1	-

Mölnlycke AB

Cederroth Nordic AB (1,771,463 shares)	SEK	17.7	34	105.9
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Total Group shareholdings in other companies 36.9

Book value other companies **142.8**

Total Group shareholdings **2,842.0**

Market capitalization 1991-12-31 2,028.6

Annex 3: Production capacities and addresses

Production Capacities

An important element of SCA's corporate strategy is a sharp focus on meeting the needs of end-users through higher levels of product value-added.

PRODUCTION CAPACITIES 1 JANUARY 1991

Lumber	cu.m.	bd.ft.
Tunadal	240,000	101,866,000
Lugnvik	125,000	53,055,000
Holmsund	75,000	31,833,000
Munksund	125,000	53,055,000
Total	565,000	239,809,000

Market pulp, tons

<i>Östrand</i>	
Bleached kraft pulp	320,000
CTMP pulp	80,000
Total	400,000¹

Graphic paper, tons

<i>Ortviken</i>	
Newsprint	480,000
LWC	165,000
<i>Aylesford, England</i>	
Newsprint (recycled)	70,000
<i>Laakirchen, Austria</i>	
SC paper	330,000 ²
<i>Wifstavarf</i>	
Printing and writing paper	150,000
Total	1,195,000

¹⁾ About half of which supplied to Group companies.

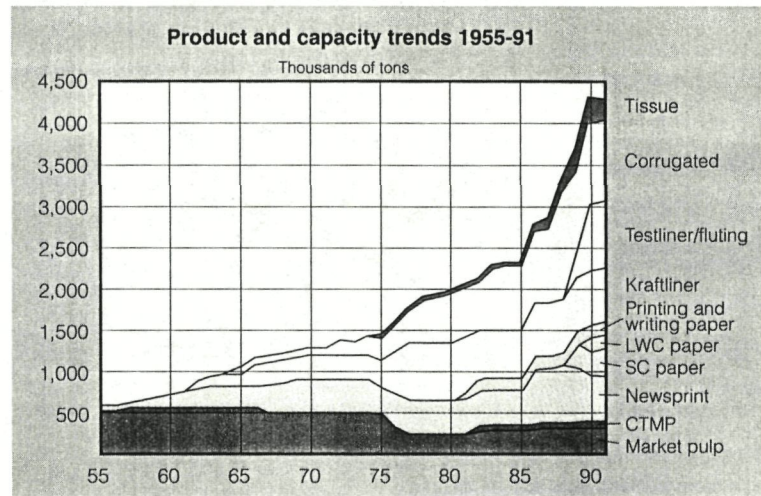
²⁾ Includes capacity increase of 55,000 tons on 1 July 1991.

Corrugated board

Corrugated board production of 2,000 million sq.m. at wholly-owned and associated companies, corresponding to paper consumption of 1.1 million tons distributed across 30 plants.

Containerboard, tons

<i>Munksund</i>	
Kraftliner	330,000
<i>Obbola</i>	
Kraftliner	330,000
<i>Porcari, Italy</i>	
Testliner	190,000
Fluting	100,000
<i>Aylesford/Sun, England</i>	
Testliner	127,500
Fluting	114,200



De Hoop, the Netherlands

Testliner	125,000
Fluting	135,000
Total	1,451,700

Tissue, tons

<i>Sweden</i>	
Lilla Edet	70,000
Nättraby	30,000
<i>The Netherlands</i>	
Tilburg	30,000
Friesland	25,000
<i>France</i>	
Croisset	25,000
Gadagne	15,000
Total	195,000

DEFINITIONS

Kraft pulp. Chemical pulp produced by digesting wood in a solution containing the active chemicals sodium hydroxide and sodium sulfide.

CTMP. Chemi-Thermo-Mechanical Pulp. A high yield pulp produced by refining chemically pretreated and warmed thermo-mechanical pulp.

LWC. Light Weight Coated. Coated supercalendered paper with high mechanical pulp content. Used in periodicals and print advertisements requiring high-quality color reproduction.

SC. Supercalendered. High-glaze printing paper used mainly in periodicals and print advertisements.

Printing and writing paper. High-quality paper produced from bleached chemical pulp with low or no mechanical pulp content.

Kraftliner. Outer layer of corrugated board produced from unbleached kraft pulp.

Testliner. Outer layer of corrugated board produced from recycled fiber.

Fluting. Middle layer of corrugated board produced from semi-chemical pulp or recycled fiber.

Tissue. Tissue paper for sanitary and household use. Used for paper towels, bathroom tissue and napkins.

SCA in the world

Business group Hygiene

Australia

- ● Joint ventures

Belgium

- Sterile products
- Consumer Products, Health Care, Tissue, Melka, Tenson, Ambizz

Canada

- Fluff products
- Health Care, Tissue

Colombia

- ● Joint ventures

Denmark

- Consumer Products, Health Care, Tissue, Toiletries, Melka, Tenson, Ambizz

Finland

- Toiletries, sterile and fluff products
- Consumer Products, Health Care, Melka, Tenson

France

- Fluff products, tissue
- Consumer Products, Health Care

Germany

- Fluff products
- Consumer Products, Health Care, Tissue, Melka, Tenson

Greece

- Fluff products
- Consumer Products, Health Care

Ireland

- Sterile products
- Consumer Products, Health Care

Italy

- Tissue, Health Care

Japan

- Health Care, Tissue, Melka

Mexico

- ● Joint ventures

Norway

- Fluff products
- Consumer Products, Health Care, Tissue, Toiletries, Melka

Portugal

- Clothing
- Health Care, Melka

Spain

- Fluff products
- Health Care, Tissue

Sweden

- Fluff products, tissue, toiletries
- Consumer Products, Health Care, Tissue, Toiletries, Melka, Tenson, Ambizz

Thailand

- ● Joint ventures

The Netherlands

- Fluff products, tissue
- Consumer Products, Health Care, Tissue, Melka, Tenson, Ambizz

U.K.

- Fluff products
- Consumer Products, Health Care, Tissue, Melka, Tenson

U.S.

- Tissue

Business group Packaging

Belgium

- ● Containerboard, corrugated board

France

- ● Corrugated board
- Containerboard

Germany

- Containerboard

Italy

- ● Containerboard, corrugated board

Sweden

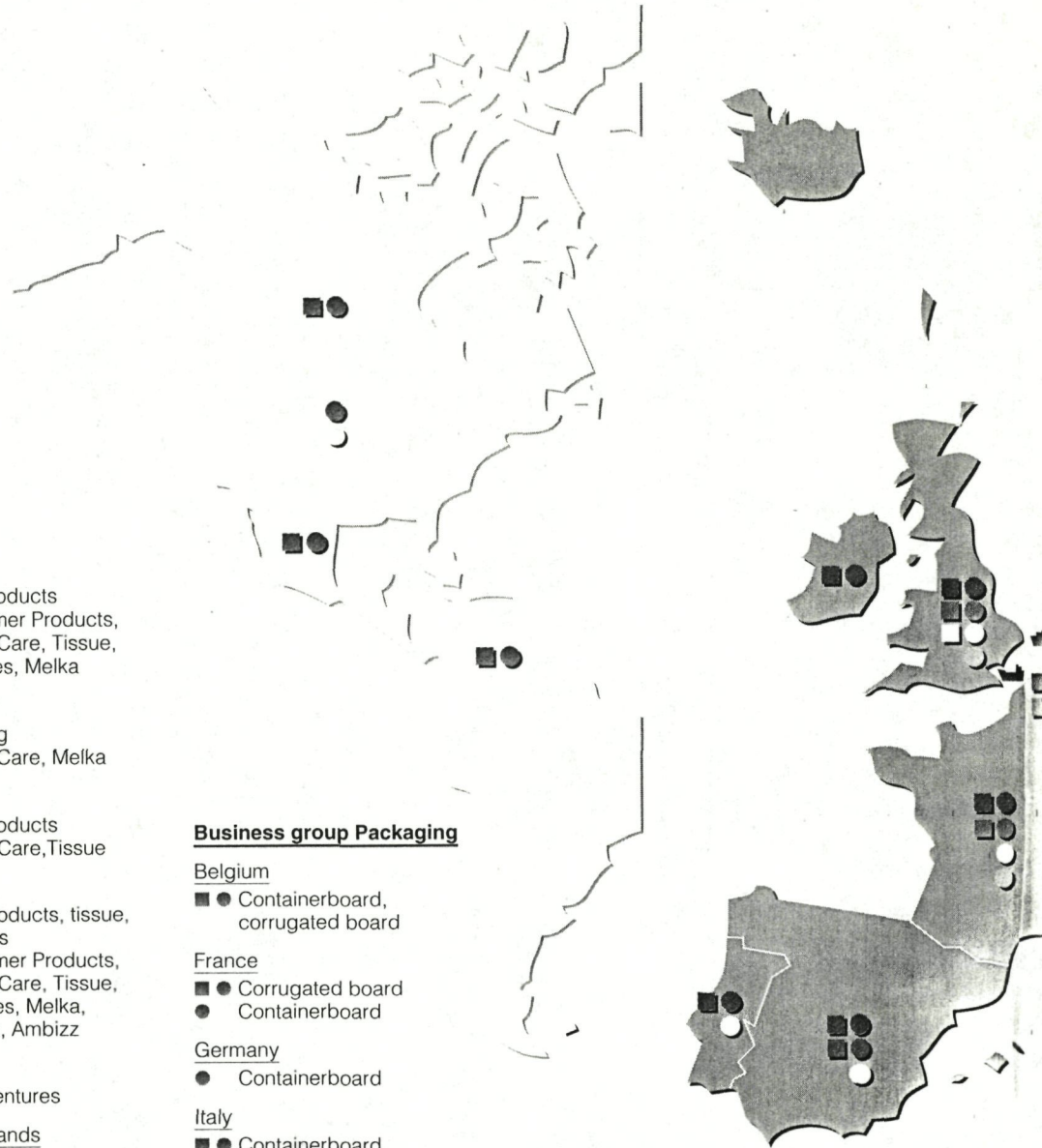
- ● Containerboard, corrugated board

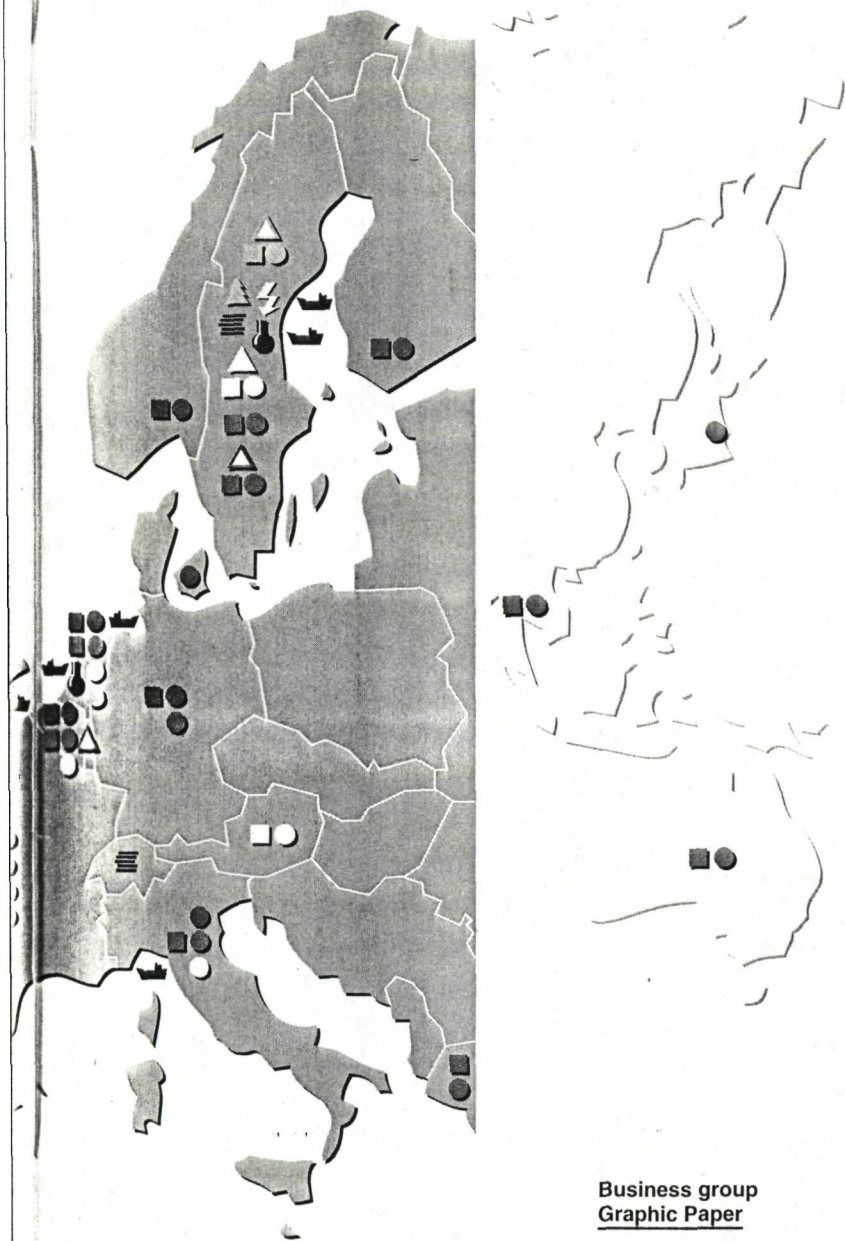
The Netherlands

- ● Containerboard
- Corrugated board

U.K.

- ● Containerboard, corrugated board





- ▨ Hygiene
- ▨ Packaging
- ▨ Graphic Paper
- ▨ Forest and Timber
- ▨ Energy
- ▨ Other operations
- △ Headquarters
- Production
- Sales
- ▲ Forest assets
- ⚡ Power
- ⚓ Terminals
- ≡ Financial operations
- 🔬 Research centres

Business group Forest and Timber

France

- Sawn timber

Sweden

- ▲ 1.8 million hectares (4.6 million acres) productive forestland
- ● Sawn timber

The Netherlands

- Sawn timber

U.K.

- Sawn timber

Business group Energy

Sweden

- ⚡ 1,200 MW power in approx. 40 wholly-owned and partly-owned power plants.

Other operations

Shipping terminals in

- ⚓ Sweden
- U.K.
- The Netherlands
- Germany
- Italy

Financial operations in

- ≡ Sweden
- Switzerland

Research centres in

- 🔬 Sweden
- The Netherlands

Business group Graphic Paper

Austria

- ● SC paper

Belgium

- Graphic papers

France

- Graphic papers, pulp

Germany

- Graphic papers, pulp

Italy

- Graphic papers, pulp

Portugal

- Graphic papers

Spain

- Graphic papers

Sweden

- ● Newsprint, LWC, printing and writing paper, bleached kraft pulp

The Netherlands

- Graphic papers, pulp

U.K.

- Newsprint, special papers
- Graphic papers, pulp

U.S.

- Graphic papers

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Annex 4: Background to Sweden

Industrial relations in Sweden.

Swedish labour is divided into three different central organisations. White collar workers belong to TCO, college graduates to SACO and blue collar workers to LO. LO consists of 23 unions.

Ever since 1956, LO and the Employers Federation SAF have most years reached a central agreement on wages and other working conditions. They have kinds of 1, 2, or 3 years' framework agreements which form the basis for union agreement. The union agreement in turn forms for the local agreement.

The union agreement does not contain any wages. Wages are up to the local agreement. The most important bargaining body is the bargaining conference which consist of members from each mill.

The last major conflict dates from 1980, when 34,000 members of the Paperworkers union were affected and 28,000 were locked out.

(Based on a report by the Swedish Paperworkers Union, 1988)

Sweden possesses a centralised system of collective bargaining. A well-established system of co-determination exists, in which the trade-unions play a pivotal role. This is based on the 1976 Co-determination at Work Act and the 1974 Act on the position on of Trade Unions Representatives.

Trade union representation.

The 1974 law covers all trade union activities at the workplace, but it applies exclusively to workplaces covered by collective agreements. Shop stewards (facklig förtroendeman) are appointed by the local trade union organisation. Their rights includes consultation about production and productivity. The shop steward is entitled to the time off work required by the performance of his duties, the amount of time must be discussed between the local union and management.

Works Councils

According to the law, all workers are granted, through their representative organisations, expanded information and co-determination rights. This should be done by co-operative negotiations and bargaining. The law does not include the establishment of joint bodies such as works councils, but doesn't prevent parties from using such bodies whenever it

seems appropriate. The employer is obliged to negotiate in certain cases and also to request negotiations on its own initiative in important matters. A decision, or at least its implementation, should be postponed until negotiations have taken place.

The employer must give the unions information and assistance to investigate decisions.

Health and Safety Committees

The Working environment Act of 1977 states that in workplaces with more than 5 employees, safety representatives should be elected. If there is an established trade union it is up to that union to elect delegates, otherwise the employees elect them. The delegates have rights of information but can also stop production under certain conditions. In companies with more than 50 employees a safety committee must be set up consisting of management and employee representatives. The committee is responsible for planning and supervising work designed to promote industrial health, safety and good environment.

Employee representatives are elected in the same way as safety representatives. They have the same rights as other trade union representatives with regard to paid time off for their duties and extended employment security. They are also bound by the same rules of confidentiality.

Supervisory Boards

The Co-determination Act (medbestämmande) aims to provide employees participation at all levels, not especially at top level management. This is more specifically arranged in the Act on Supervisory Board Representation of 1987. According to this law, employees are entitled to appoint through their unions, two representatives in the supervisory board and one deputy for each of them. They have the same rights and duties as other members of the board.

(Based on ETUI: The social dimension of the internal market part III, The representation of workers in the workplace in Western Europe. 1990.)

The end of the Swedish model.

For a long time, the Swedish model of an expansive welfare state, strong political commitment to a full employment policy and cooperative labour relations, seemed to be an inspiration for many trade-unionists in Europe. To understand changing labour relations at SCA, we first must look at the rapid changes in Swedens social-economic system.

In a country where unemployment was a low 1.7 per cent in 1990, employers complain about the wheels of the economy moving uneasily and wage increases being too high.

Combined with high interest rates and an underlying rate of inflation approaching 10 per cent, Swedish industrialists have long since decided that it makes more sense to invest their cash flows abroad as organic growth at home becomes more difficult. Since Swedish exchange controls were relaxed, there has been a growing flow of investment abroad.

Some analysts state that an approaching battle similar to that fought by Mrs Thatcher in the UK in the mid-1980s cannot be ruled out. The opportunities for confrontation are many and the issue is likely to prove a hard test for the government. 1991 has gone down as the year when Sweden started the reform process, symbolized by the application for membership of the EC.

The most controversial EC issues are welfare and environmental policies, and the lack of clarity over future neutrality and national security. The implementation of the new pro-business government's program has been marked by a deluge of new and proposed legislation over the past few months. The mid-January budget was a tight one. It was approved by most economists and by industry as a whole. The unions, closely allied with the Social Democratic party, branded it as an anti-worker budget set to increase social divisions. The aim is primarily to stimulate national growth, which will be negative for the second year running. The government believes it will be 1993, at the earliest, before Sweden sees positive GNP growth. Lower taxes have been a guiding star for the new government. For the small business sector (a particularly cherished group nowadays) tax on working capital has dropped, property tax eased and the controversial turnover tax on shares has been abolished, to take just a few examples.

Discontent is now starting to emerge, the main target being the deterioration in the sickness insurance system with compensation in the case of absence from work being reduced from 90 per cent of salary for the first two days to 65 per cent. In addition, from 1993, the government plans to introduce a two-day qualifying period for benefit. This proposal is expected to lead to a bitter political controversy. Privatisation is a cornerstone of the new government's policies and the sale of 35 state-owned companies has already been announced. The programme has been described as even more wide-ranging than the UK's. Small savers and employees will be encouraged to take part. The task of leading the privatisation commission has been assigned to the Grand Old Man of Swedish business, Curt Nicolin, chairman of Asea Brown Boveri. Foreign investors will be able to participate in this 'sale of the century'. The list of companies involved includes Procordia, the power company Vattenfall, the steel giant SSAB and the forest industry companies Assi, Ncb and Domanverket (which owns 20 per cent of Sweden's forests). The timetable for the sell-offs will be announced during 1992.

Corporate concentration and the domination of the home market by a few large corporations have been another important part of the 'Swedish model'. There are few nations

which have such a high level of ownership concentration as Sweden. Moreover, nothing indicates that the power of these groups will be weakened. Their power seems to be strengthening in the current recession. Not even the EC threat of prohibition against shares with different voting rights appears as a major threat - especially since it seems doubtful that it will ever be implemented.

It is hardly an exaggeration to describe the forest industry as the most important export industry in Sweden. Net exports of just over dollars 50bn correspond to one half of the country's total net exports. The forest and paper companies are also important for sub-contractors, not least within the transport area. The industry has certainly undergone wide-ranging restructuring during the 1980s. This has led to three companies - Stora, MoDo and SCA - securing a dominant position. But this process of restructuring is set to continue. Between 1987 and 1990 Swedish companies spent around SEK 30 billion abroad.