

Corporate Governance Report 2006 for Svenska Cellulosa Aktiebolaget SCA (publ)

SCA applies the Swedish Code of Corporate Governance. Information about the Code is available on the website of the Swedish Corporate Governance Board, www.bolagsstyrningskollaget.se. Here foreign investors will find a description of the Swedish corporate governance model in “Special Features of Swedish Corporate Governance.”

This Corporate Governance Report is not a part of the formal annual report and has not been reviewed by the company’s auditors.

Articles Of Association

The articles of association are adopted by the general meeting of shareholders and contain a number of basic mandatory details about the company. The full articles of association are available on SCA’s website, www.sca.com.

SCA’s articles of association stipulate, among other things, that the Board of Directors shall consist of three to twelve members, that Class A shares shall carry ten votes and that Class B shares shall carry one vote.

General Meetings

SCA’s highest decision-making body is the general meeting of shareholders, which all shareholders are entitled to attend. Each shareholder also has the right to have a matter considered at the general meeting.

The company’s Board of Directors is elected at the Annual General Meeting (AGM). Other mandatory tasks of the AGM include adopting the company’s balance sheet and income statement, and deciding on disposition of the earnings from the company’s operations and on discharging the Board members and the President from liability. The AGM also appoints the company’s auditors.

Annual General Meeting 2006

The Annual General Meeting of shareholders in SCA was held on Thursday, 6 April 2006 in Stockholm.

Full details of the 2006 AGM can be found on SCA’s website www.sca.com.

Annual General Meeting 2007

The next Annual General Meeting of shareholders in SCA will be held on 29 March 2007 in Stockholm (see page 113).

Nomination Committee

The Nomination Committee represents the company’s shareholders. The Committee is assigned the task of providing the best possible information on which the AGM can base its decisions and of submitting proposals for decisions on the election of Board members and appointment of auditors, and on their remuneration.

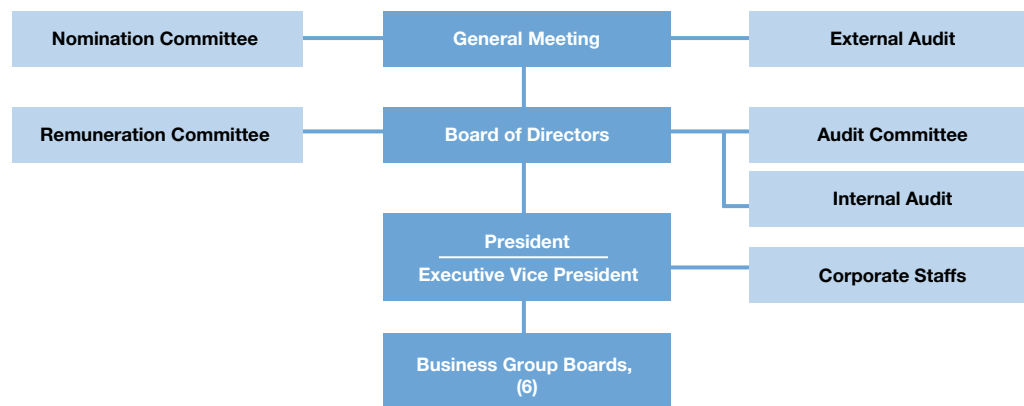
The 2006 AGM decided that the Nomination Committee should, ahead of the 2007 AGM, consist of representatives from the five main shareholders in terms of voting rights and the Chairman of the Board, who is also the convener.

The Nomination Committee ahead of the 2007 AGM

The Nomination Committee ahead of the 2007 AGM has the following members:

- Carl-Olof By, AB Industrivärden, Chairman of the Nomination Committee
- Curt Källströmer, Handelsbanken’s pension foundations and other appointments
- Björn Lind, SEB Funds

Corporate governance at SCA is organized as set out below.



- Carl Rosén, Second Swedish National Pension Fund
- Caroline af Ugglas, Skandia Liv
- Sverker Martin-Löf, Chairman of SCA

All of the shareholders have been invited to submit proposals to the Nomination Committee.

The Nomination Committee has submitted its proposals for the 2007 Annual General Meeting. The proposals are available on the company's website, www.sca.com, with an account of how the Nomination Committee conducted its work.

Board Of Directors

The Board of Directors has overall responsibility for the company's organization and for managing the company's affairs.

Board members

The Board of Directors consists of eight members elected at the Annual General Meeting with no deputies, and three members with three deputies appointed by the employees. The President is a member of the Board.

Detailed information about individual Board members and deputies is provided on page 100–101.

A majority (Rolf Börjesson, Sören Gyll, Leif Johansson, Anders Nyrén and Barbara Milian Thoralfsson) of the AGM-elected members are independent of the company and senior management. Of these Board members, four (Rolf Börjesson, Sören Gyll, Leif Johansson and Barbara Milian Thoralfsson) can also be considered independent of the company's major shareholders. Only one Board member (Jan Åström) is a member of senior management. All of the Board members understand the requirements a listed company must meet.

The matter of independence has been assessed based on the Swedish Code of Corporate Governance.

The work of the Board

There is no specific allocation of duties within the Board other than the specific duties of the Chairman and the tasks incumbent on the Board's committees.

The Board works according to an annual schedule and rules of procedure established by the Board relating to the allocation of duties among the Board members, its committees and the President. These rules of procedure stipulate the specific content and presentation of the information that management provides to the Board and also state that the Board is to conduct an annual review of its procedures.

The Board has formed an Audit Committee and a Remuneration Committee from within its ranks. SCA's General Counsel is the Secretary to the Board. In 2006 the Board held nine meetings.

Audit Committee

The tasks of the Audit Committee, which is not authorized to make decisions, include making preparations for the Board's quality assurance of the company's financial reporting. The Committee's work involves internal control and compliance issues, checking reported figures, estimates, assessments and other material that may affect the quality of the financial reports. The Committee has assigned the company's auditors the specific task of examining how successfully the overall, as well as the more detailed rules for control are followed within the company. The Committee meets the company's auditors on a regular basis, sets up guidelines for audits and other services, evaluates the auditors and assists the Nomination Committee in the selection of auditors and in matters relating to remuneration.

The Audit Committee, which consists of Anders Nyrén, Chairman, Sören Gyll and Sverker Martin-Löf, held six meetings in 2006.

Board of Directors

	Attendance	Independent ¹⁾	Attendance Audit Committee	Attendance Remuneration Committee	Fees ²⁾
Rolf Börjesson	8/9	■		2/2	430,000
Sören Gyll	9/9	■	5/6		455,000
Tom Hedelius	9/9			2/2	430,000
Leif Johansson	6/7	■			380,000
Sverker Martin-Löf, Chairman	9/9		6/6	2/2 (chairman)	1,265,000
Anders Nyrén	9/9	■	6/6 (chairman)		480,000
Barbara M. Thoralfsson	7/7	■			380,000
Jan Åström, President	9/9				0
Total					3,820,000 SEK

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

²⁾ This amount relates to fees to Board members.

■ = Member can be regarded as independent of the company and its management.

■ = Member can be regarded as independent of the company and its management and of the company's major shareholders.

Members appointed by representative/trade unions, see page 100–101.

Remuneration Committee

The Remuneration Committee handles salaries, pension benefits, incentive programmes and other terms of employment for the President and other senior executives. The Committee is not authorized to make decisions. Senior executives in this context include the Executive Vice President, business group presidents, individuals within the parent company who report to the President, and other executives that the Committee decides to include. The terms of employment for the President and other senior executives are determined by the Board.

The Remuneration Committee, which consists of Sverker Martin-Löf (Chairman), Tom Hedelius and Rolf Börjesson, held two meetings in 2006. In addition, a number of issues were dealt with per capsulam.

Chairman of the Board

According to the Board's rules of procedure, the Chairman of the Board, in addition to presiding over the Board's activities, must communicate with the President in order to monitor the Group's operations and development on a continuous basis. In addition, the Chairman represents the company in ownership matters and ensures that the Board's work is evaluated annually and that the Board continuously updates and increases its in-depth knowledge of the Group's operations.

The 2006 Annual General Meeting decided to appoint Sverker Martin-Löf as Chairman of the Board.

Evaluation of the work of the Board

The work of the Board, like that of the President, is evaluated annually using a systematic and structured process, one purpose of which is to obtain a sound

basis for the Board's own development work.

The Nomination Committee is informed of the results of this evaluation.

Remuneration of the Board

The total fees for AGM-elected Board members were set by the AGM at SEK 3,820,000. The Chairman of the Board received an annual fee of SEK 1,140,000 and the other Board members who are not employees each received SEK 380,000. Members of the Remuneration Committee received an additional SEK 50,000 and members of the Audit Committee, an additional SEK 75,000, and the Chairman of the Audit Committee received an additional fee of SEK 100,000.

Operational Management

The President

The President, who is also the CEO, is responsible for ongoing management of the company in accordance with the Board's guidelines and instructions.

The President is supported by an Executive Vice President, who is also the CFO, a group management team and corporate staffs (see page 102–103).

The Board's rules of procedure and instructions for the President outline, among other things, the allocation of duties between the Board and the President.

Business Group management

Each of the SCA Group's six business groups is headed by a business group board and a business group president.

The business groups have a large measure of independence. The management of each business group has its own corporate staff organization and operational responsibility for their area.

The rules of procedure for the business group boards ensure that all matters of importance within each business group are handled by the business group's board, of which the Group CEO is normally the chairman. The various rules of procedure that exist within the Group are coordinated such that a number of issues of significant importance must be referred to the parent company's Board of Directors.

Remuneration to Management

Principles for remuneration to senior executives

The 2006 Annual General Meeting adopted the following principles for remuneration to senior executives.

“Remuneration to the CEO and other senior executives comprises a fixed salary, variable remuneration, other benefits and pensions. Other senior executives include the Executive Vice President, business group presidents and the Senior Vice Presidents in charge of the corporate staffs. Total remuneration must be in line with market rates and competitive in the field in which the executive works. Fixed salary and variable remuneration shall be in proportion to the executive's responsibilities and authority. For the CEO as well as other senior executives, the variable remuneration is maximized and related to the fixed salary. The variable remuneration shall be based on results in relation to set targets and, as far as possible, be linked to the growth in value of SCA shares that accrues to the shareholders. In the event of termination of employment, a notice period of two years should normally apply if notice is initiated by the company, and one year if notice is initiated by the executive. There should be no severance pay entitlement.

Pension benefits are either based on defined benefit or defined contribution plans, or a combination of both, and give the executive the right to receive a pension from the age of 60 at the earliest. Earned pension benefits are contingent on employment being sustained for a long period, currently 20 years. Upon termination of employment prior to the retirement age, the executive will receive a paid-up policy for pension from age 60. Variable remuneration is not pensionable. Questions relating to remuneration to senior management are handled by the Remuneration Committee, and in the case of the CEO, are determined by the Board of Directors.”

Under the Swedish Companies Act, the shareholders must now establish principles for remuneration and other employment terms for senior executives at each Annual General Meeting. The Board’s proposals in this regard for the 2007 AGM are available at the company’s website: www.sca.com.

Salaries and other remuneration for the President and other senior executives

For information about salaries and other remuneration and benefits for the President and other senior executives, see Note 32.

Outstanding stock and share-price related incentive programmes

In 2001 and 2002 some 200 senior executives received stock options at no cost to a value (theoretically calculated) that, on the date of allocation, did not exceed

about 20 % of each executive’s base salary. The total number of stock options for both years allocated to these executives amounted to around 1,800,000. For additional information, see Note 32.

Audit

Auditors

The 2004 Annual General Meeting appointed the accounting firm PricewaterhouseCoopers AB as the company’s auditors. In conjunction with this appointment, the firm appointed Robert Barnden, Authorized Public Accountant, to be senior auditor. Barnden has been a senior auditor since 2000.

Barnden is also auditor for Nobia AB and Seco Tools AB, and deputy auditor for Telefonaktiebolaget LM Ericsson and Acando AB.

Barnden has no shares in SCA.

Audit work

The International Financial Reporting Standards (IFRS) are applied in the preparation of the Group’s financial reports.

The Group’s nine-month report was reviewed by the company’s auditors. This review was conducted according to recommendations issued by FAR (the institute for the accounting profession in Sweden).

Audits of the annual accounts, consolidated accounts and the accounting records, as well as the administration of the company by the Board and the President are conducted in accordance with accepted auditing standards in Sweden.

Remuneration to auditors

The company’s auditors have received remuneration for audits and other required reviews as well as advice and other assistance resulting from observations made during such audits. Auditors have also received remuneration for separate advisory services. Most of the advice relates to audit-related consultation on accounting and tax issues in connection with restructuring processes.

According to its instructions, the Audit Committee must draw up guidelines stipulating which services, other than auditing, the company may purchase from its auditors.

Remuneration paid to auditors in 2006 is specified below.

Financial Reporting

Financial reporting to the Board

The Board’s rules of procedure and schedule specify which reports and what information of a financial nature should be presented to the Board at each of the regular meetings.

The Board’s instructions for the President require him to ensure that the Board receives the necessary reports in order to continuously assess the financial position of the company and the Group. The instructions also specify which types of reports the Board must receive at every meeting.

External financial reporting

The quality of the external financial reporting is ensured through a variety of measures and routines.

Remuneration to auditors (PWC)

SEKm	Group			Parent Company		
	2006	2005	2004	2006	2005	2004
Remuneration for audit assignments	62	64	58	9	9	5
Remuneration for other consultations	29	25	43	2	11	6

The tasks assigned to the company's internal control unit include examining accounting processes critical for financial reporting and communicating any observations to the Audit Committee and the Board.

In addition to the annual accounts, the auditors examine the third quarter closing accounts.

The President, supported by his corporate staffs, is responsible for ensuring that all other financial information provided, for example, in press releases with a financial content and presentation material for meetings with media representatives, owners and financial institutions is correct and of good quality.

Communication with the company's auditors

In accordance with its instructions, the Audit Committee meets regularly with

the company's auditors to obtain information on the focus and scope of the audit and to discuss the issue of coordination between the external audit and internal control, as well as opinions on the company's financial risks.

In addition, the Board, in accordance with its rules of procedure, meets the auditors at no fewer than three regular board meetings during the course of the year.

At these meetings the auditors present and receive opinions on the focus and scope of the planned audit and deliver verbal audit and review reports.

Furthermore, at the Board's third regular autumn meeting, the auditors deliver an in-depth report on the audit for the current year. The rules of procedure specify a number of issues that must be covered. These include matters of importance that have been a cause for

concern or discussion during the audit, business routines and transactions where differences of opinion may exist regarding the choice of accounting procedures, as well as accounting for consultancy work assigned to the audit firm by SCA and for its overall dependence on the company and its management.

On each occasion, Board members have an opportunity to ask the auditors questions and some detailed discussion of the accounts takes place without representatives from company management being present.

A similar regulation of the company's contacts with the auditors is provided in the rules of procedure for the boards of the business groups.

Board of Directors' Report on Internal Control regarding financial reporting

Under the Swedish Companies Act, the Board of Directors is responsible for internal control.

Control environment

For the purpose of creating and maintaining an efficient control environment, the Board has drawn up a number of basic documents of significance for the company's financial reporting. These in-

clude the rules of procedure for the Board and instructions for the President, accounting and reporting instructions, a financial policy and a code of conduct. The basic control documents are applied within all of the business groups and are reviewed on a regular basis. An efficient control environment also requires a satisfactory organizational structure that is reviewed on an ongoing basis.

The day-to-day work of maintaining the control environment as established by the Board is primarily the responsibility of the President, who reports on a regular basis to the Board on the basis of established routines. Reports are also provided by the internal control function and the Audit Committee.

Managers at different levels within the Group also have, within their respec-

tive areas, well-defined powers and responsibilities with respect to internal control. As part of the management system, there are several well-defined processes for planning and implementation of decisions and to support decision-making.

Risk assessment

SCA's risk involved with financial reporting is thought to consist mainly of the risk that a material error may be made in the reporting of the company's financial position and results. The company's accounting instructions and established follow-up routines are designed to lower this risk. SCA's Board of Directors and Audit Committee assess the financial reporting on an ongoing basis from a risk perspective.

Control activities

An important task for SCA's corporate staffs is to implement, develop and maintain the Group's control routines and to implement internal control measures aimed at business critical issues. SCA's business groups, including management at various levels. Persons in charge at various levels within SCA, are responsible for carrying out the necessary control measures with respect to financial reporting.

The company's extensive controller organization plays an important role in that it is responsible for ensuring that financial reporting from each unit is correct, complete and delivered in a timely

manner. Also, each business group has a Vice president Finance director with the same responsibilities for his/her respective business group.

In recent years SCA has introduced a standardized system of control measures involving five processes that are significant to the company's financial reporting. The system covers the ordering order-to-cash process (including customer payments), the purchasing purchase-to-pay process (including payments to suppliers), the closing of the books, the payroll process and management of fixed assets. Control of these processes is implemented through self-evaluation followed up by an internal audit. SCA has, in some cases, enlisted external help to validate these control measures.

Information and communication

SCA has information and communication channels intended to ensure that instructions, manuals, etc. of significance in the preparation of reliable financial reports are updated and communicated to the relevant individuals within the company. Regular reporting and examination of financial results is carried out both within the management teams of operating units and in the established board structure.

Supervision and follow-up

The Board of Directors and the Audit Committee reviews the annual accounts and interim reports before they are pub-

lished. The Committee discusses accounting principles and risk of particular importance and issues concerning the presentation of the reports. The company's external and internal auditors take part in these discussions.

SCA's management and corporate staffs conduct a monthly follow-up of results and analyze any deviation from the budget and the previous year's results. All monthly results are discussed with the management of each business group.

SCA has established a corporate internal audit unit which reports regularly to the Audit Committee on issues concerning internal auditing and to the CFO on other issues.

This report has not been reviewed by the company's auditors.