

Innovation for profitable growth

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

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

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

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

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

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

SCA's general innovation process

SCA's general innovation process is deeply embedded in the Group's strategy and business model. It represents a fundamental framework for concept generation and innovation based on trends in the business environment, insight into customer and consumer requirements and tech-

nological progress. The innovation-related processes are continuously honed and streamlined.

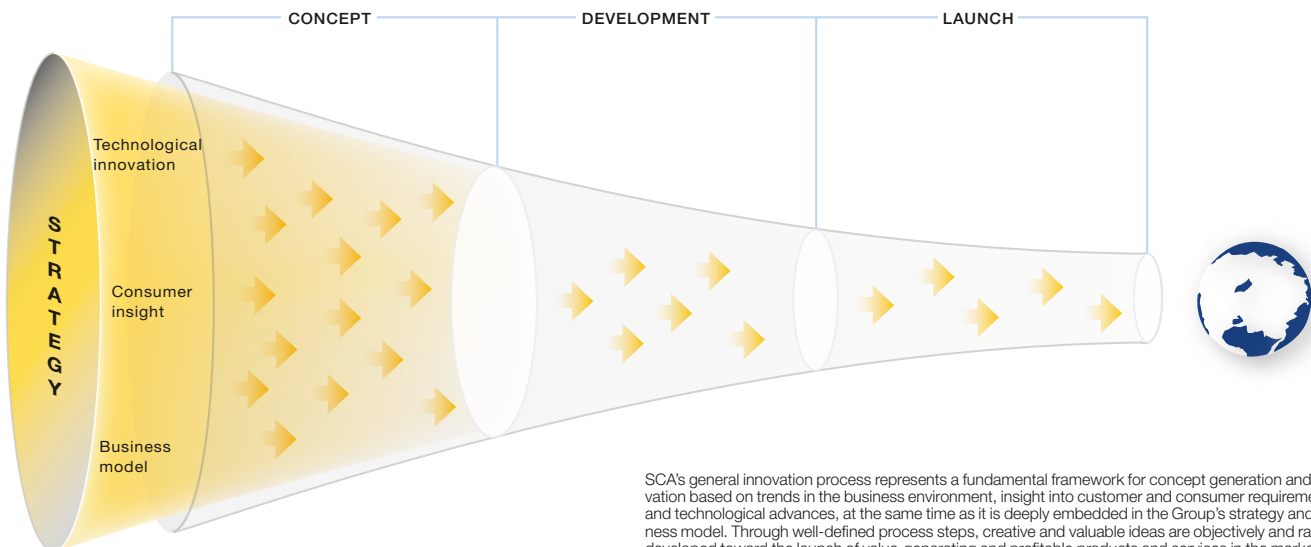
Innovation activities in the Group's four business areas rest on three basic building blocks: customer and consumer insight, new technology and business model.

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

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

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

SCA's general innovation process:



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

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

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

Open innovation

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

SCA's patenting activities

The number of patent applications is directly related to the innovation work and, in 2010, SCA

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

Innovation in hygiene business

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

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

Innovation in Packaging

SCA's Packaging business area has innovation

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

Read more about innovation activities in Packaging on page 29.

Innovation in Forest Products

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

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

Examples of innovation:

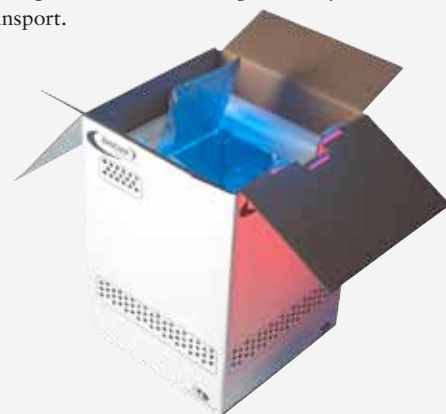
TENA Ultra Thins

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



ZeoCool

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



Tork Xpressnap Café

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

