

The Chairman, Mr Bernt Magnusson's, speech at the AssiDomän AB's Annual General Meeting 1999

I would like to begin by thanking shareholders for placing their trust in the new Board of Directors and myself to lead AssiDomän into the next century. Naturally, I cannot reveal a detailed programme of action today. That job is best done by the company's new president. However, I would like to present some of the Board's impressions and opinions from the brief period it has been together.

Sweden is and will remain a forest nation. Our dependence on the forest has always been great, although our use of it has changed over the centuries. The people of Sweden have always had a soft spot in their hearts for the forest, and have always turned to it for their recreation. For a long time now the forest has been of crucial importance for the Swedish economy.

If something has been vital for the forest industry, it has also been vital for Sweden. If the profitability of the industry was weak, the Swedish currency would be devalued in order to help the industry, and therefore Sweden as a whole. In other words, the country could not tolerate poor profitability in the forest industry. This is no longer the case today. We cannot now rely on help from the government or anyone else when we face difficulties. We must stand on our own two feet, solve our own problems and ensure the company's survival.

At the start of 1999 the overall stock market value of all of Sweden's forest product companies was about SEK 121 billion. This represents a shrinking proportion of the entire value of the stock market. Relatively new businesses have appeared on the scene during the 1990s and created huge sums of value. H&M by themselves, for example, are worth more on the stock market than the entire Swedish forest industry.

Forest industry shares have performed miserably over the past ten years. Their prices have remained at the same level during this period, while average prices on the market as a whole have doubled or tripled.

What then is the reason for this poor trend? Low levels of earnings in the industry are obviously to blame, although it is not so easy to say exactly why profitability is weak. Influential factors include the fact that while demand has risen relatively constantly, supply has risen to a much greater extent. Competition from new businesses in Asia and South America has also put pressure on prices through the use of significantly cheaper fibre raw materials. The forest industry is also renowned for its cyclical nature. A large amount of demand is driven by stable growth in consumer markets within packaging, for example, so we create these cycles ourselves within the pulp and paper industry.

The cyclical nature of the industry combined with its current fragmentation are often given as reasons for poor profitability. Compared with other large and mature industries, the paper industry is consolidated to a much lesser extent. Even if industrial consolidation has started and has accelerated in recent years, there is still a long way to go until levels of consolidation and specialisation match those of other mature industries.

Another major challenge is that the forest industry is capital intensive to a much greater extent than most industries. The industry invests on average 10% of its annual sales revenues. That is more than the chemicals industry and many other industries. Many of these investments provide cost benefits and higher productivity, but too often they do not generate the financial advantages that were promised and, indeed, used as justification for the investment.

In view of these facts the question comes up; is it possible to earn money in this industry? Yes, I do believe that it is possible to earn money in this industry.

As I see it, value creation within the forest industry is driven by four main factors:

- A clear and thorough focus on a limited number of segments. In order to achieve above-average profitability the focus must be on a few customer segments and distinct competence that adds value to these segments.
- A strong focus on continual productivity improvements year after year. This is where we must be better than our competitors.
- Necessary productivity improvements must be achieved without capital investment or by rigidly controlled investment.
- Finally, we must have a results-oriented organisation with world class business operations.

Where does AssiDomän currently stand? Without doubt, the Group's large forest assets provide exceptional strength both in terms of quantity and quality. Even after the Sveaskog transaction, AssiDomän will remain one of the world's largest forest-owning company. AssiDomän is by no means a small player on the industrial side, either – it is in third position overall in Europe within its chosen segments.

The income statements of recent years reveal that operating profit from the forest combined with property sales has accounted for about 70 % of the overall profit, despite the fact that only very modest investments have been made within this area.

One worrying factor is AssiDomän's industrial operations, which have very poor profitability compared with competitors. A comparison between AssiDomän and its major competitors in Europe shows that operating margins for most product areas are considerably worse than in most industries. This is one of the explanations for our poor share performance. The positive side of the large investments made in recent years is that the company has improved its market positions considerably as well as the technological assets. There is great potential when it comes to improving efficiency and the first task for the new management will be to increase profitability in existing operations.

Compared with the winners in the forest industry, AssiDomän's industrial structure is more diversified, and as I noted earlier, there are many studies and examples that suggest that tomorrow's winners will be those companies that have the sharpest focus. We have seen several examples of structures in Sweden and Europe which are heading in this direction, and it is our opinion that AssiDomän must be actively involved in the structural changes that are taking place.

Let me now summarise the main points in my speech.

I believe that AssiDomän has great opportunity to achieve good profits.

The new Board of Directors has one main task to perform, as follows:

Focusing on strategies that create value. This primarily means:

- Improving operational efficiency within existing operations
- Active involvement in the consolidation and specialisation within the industry

I feel very secure with the Board of Directors and management that I as chairman of AssiDomän can call upon to help in the development of the company. They have the necessary experience and competence that will enable the positive development of the company in many ways. There are also many employees in Sweden and the rest of Europe who are working hard to improve results and who are strongly committed to the company's future. Making the most of their skills and ideas will be crucial for the future growth of AssiDomän. Once again I thank shareholders for placing their trust in me to lead the company into its future.

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