

Press Release

New product focus at Modo Paper

Modo Paper's strategy and the year-end financial report for 1999 will be presented on February 3, 2000, between 10:00 and 12:00 AM, in SSAB's office at Birger Jarlsgatan 58 in Stockholm.

- Modo Paper's Board of Directors has reached a decision to consolidate the product portfolio to focus on the growth sectors of coated papers and uncoated papers in cut size.
- A paper machine in the Husum paper mill is being converted from production of uncoated to coated paper. The investment is projected to amount to about SEK 2 billion.
- The total financial effect of the merger and the new product mix is expected to amount to approximately SEK 1 billion annually.

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The new Modo Paper

Modo Paper was formally established on October 1, 1999, following a joint decision by Modo and SCA in April 1999 to merge the fine paper and merchanting activities of Modo Paper, Modo Merchants and SCA Fine Paper. The new Modo Paper has annual sales of approximately SEK 20 billion from operations in two business areas. The Paper business area has a production capacity of about 1.7 million tons of fine paper, and the Merchanting business area has annual sales volumes totaling about 1.1 million tons of paper. Combined operations of the new group comprise the third largest fine paper company in Europe.

Customer focus is the fundamental element in Modo Paper's strategy, and operations are organized to accommodate its two largest customer segments: Commercial Print and Office Paper. Commercial Print consists of products for the graphic arts industry, such as coated paper reels and sheets as well as uncoated folio sheets. Office Paper consists primarily of A4 cut size, but the product range also includes uncoated paper reels for converting into business forms, envelopes and other products.

Modo Paper's strategic focus

Modo Paper has worked since the merger to formulate a strategy for the new group. Production and merchanting operations, as well as life-cycle assessments for different fine paper products, were the focal points of the strategic development efforts. The work culminated in today's decision by Modo Paper's Board of Directors to pursue a business strategy based on the following cornerstones:

- Focus on the growth sectors of coated papers and A4 cut size.
- Stronger market positions in priority segments supported by proprietary merchanting operations.
- Improved operating efficiency and higher capacity utilization through increased specialization in production lines and plants.
- Stronger market positions for merchanting operations in the European market.

The Group's prioritized and strategic products are coated papers in reels and sheets and A4 cut size. These products are characterized by a high value added and demand is expected to remain strong. Expansion in these segments will generate significant benefits in the product portfolio of Modo Paper's merchanting operations.

Product mix with stronger growth potential

Overall, Modo Paper's strategy means that the future product mix will be shifted toward a larger percentage of products characterized by high growth and value added, as well as better market stability. The shift will be implemented through a concentration of the existing product structure and within the framework approximating total production capacity.

Coater in Husum

Implementation of the strategy will require installation of a coating machine at the Husum paper mill. Accordingly, PM 8 in Husum will be converted from production of uncoated to coated paper. These measures, estimated to cost about SEK 2 billion, also include upgrading of PM8. The coater is scheduled to be placed in operation during April 2001. The total capacity of the coater is 300,000 tons annually. Modo Paper today concluded an agreement with a supplier for the coater and other key machinery.

Increased refinement in Alizay

Plans also include an investment program in Alizay, France, to increase the mill's product refinement. The investments include a new A4 production line that is expected to establish Modo Paper as one of Europe's leading producers of office paper. In addition, Alizay will install a sheet-cutting machine that will contribute to securing Modo Paper's leading role within uncoated folio sheets on the European market. The change in product mix expected to be completed during years 2001 and 2002, respectively, and amount to approximately SEK 300 million.

Increased pulp integration

The use of pulp produced internally will be increased significantly to achieve full capacity utilization in the Group's pulp mills. New pulp flows are currently being established between the Group's production plants. As a result of the new product mix and increased integration of pulp, Modo Paper will gradually become a net purchaser of pulp.

Significant synergies

As a result of the financial effects of the merger and the change in product mix, Modo Paper's future earnings potential is improved by about SEK 1 billion on an annual basis. The synergies are expected to gain full effect within three years.

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