Press Information

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Synopsis of the President's address to the Annual General Meeting of AssiDomän AB on 7 April 1998

Investment programme completed and starting to have an impact

1997 marked the culmination of intensive efforts to create a competitive and in the long term profitable forest products company. Investments have been extensive over the past three years, in terms of both company acquisitions and expenditure on existing operations. At the end of 1997, AssiDomän entered a new phase, a phase of consolidation characterised by considerably lower investment. A phase in which the production and market advantages resulting from the programme can be exploited to the full. Over the next few years all the integration and co-ordination effects will be exploited to achieve a substantial improvement in profitability.

Unsatisfactory result

Earnings for 1997 were not sufficient – I am not satisfied. Low prices for paper and cartonboard, but especially considerably lower prices for corrugated board and sacks, had a negative impact on earnings.

The greatest impact on results, however, was caused by the extensive rebuilding work and related start-up problems. We had expected disruptions, but not on the scale that actually occurred. Total production volume was 135,000 tonnes lower than planned. We estimate that this had an impact on earnings of approximately MSEK 600, most of which can be regarded as a one-off effect.

Rebuilding activities were intensified. They were extensive in 1996 and even more so in 1997. The intention was to complete projects as soon as possible in order not to disrupt production. This was motivated by the assumption that 1998 and 1999, and hopefully the year 2000 as well, will be years of good demand and improved prices. In terms of production 1998 has started well with the exception of cartonboard manufacture in Frövi and to some extent sack manufacture in Skärblacka.

Segezhabumprom

The 1997 result was also adversely affected by our decision to withdraw from Segezhabumprom in Russia and in connection with this to write down the value of our shares and receivables to zero. At last year's annual general meeting I emphasised that "since the risks of investment in Russia are not inconsiderable, our ventures must be limited." Obviously, with hindsight I would have preferred them to have been even more limited. The risk was originally regarded as reasonable in relation to the huge future potential that exists in the Russian market. I also think it is important to bear in mind that we acquired the shares in Segezhabumprom when we reached agreement on control of Sepap in the Czech Republic, which is now one of our most profitable operations.

We underestimated the problems and historical burdens of the nationalised operation, but above all we underestimated the problems in the Russian social system. Bureaucratic complications and political opposition, in a morass of corruption fanned by old trading partners and the previous management, all became too much for us.

Negotiations are under way to sell the shares. A guiding principle for our withdrawal is to do this in an orderly manner so as not to affect our corrugated board activities in St. Petersburg and jeopardise our future opportunities in Russia.

Investments and consequences

Since the formation of AssiDomän, and including the acquisition of Esswell, we have invested a total of more than MSEK 20,000, i.e. nearly as much in four years as our turnover in 1997. These investments have mainly been made in Sweden. Modernisation of the Swedish mills and sawmills has been extensive.

The changes in the sawmill operations, all of which are located in Sweden, have been substantial. Production capacity has more than doubled and average capacity per sawmill has risen from 50,000 m^3 to 150,000 m^3 per year.

Investments outside Sweden have mainly taken the form of acquisitions and have made a considerable contribution to our increased production capacity. Investments in Sweden have essentially focused on raising product quality and improving production efficiency.

More than half of the capacity increases for pulp and paper have been achieved abroad. The entire increase in capacity for corrugated board, paper sacks and barrier-coated products has taken place outside Sweden. This has made AssiDomän's operations increasingly international. Today, we cover almost the whole of Europe and we also deliver several of our products outside Europe. The number of employees has increased by nearly 6,000 since the start. The proportion of employees outside Sweden has risen from 40% to 65%.

Consolidation and focus on profitability

The extensive investment programme was completed towards the end of 1997 and the level of investment will be considerably lower over the next few years. We have therefore entered a new phase in AssiDomän's history – consolidation.

The most significant factor for profitability is that AssiDomän's 1998 earnings will not be charged with any costs for production standstills due to rebuilding and the related start-up problems. The weak result in 1997 was largely explained by non-recurring items. Our prospects are therefore considerably better than in the last two years. We now have a totally different AssiDomän, in which the completed investments have not only provided increased volumes but also improved product quality and lowered production costs in more efficient facilities.

All our energy will now be used to exploit the opportunities we have created. All integration and synergy gains must be utilised. In other words, every effort will be made to increase the return on the capital tied up in our various operations. I therefore see excellent opportunities for improved earnings during the next few years, this is reflected in the fact that, in spite of lower earnings in 1997, we have increased our dividend to shareholders.

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