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## INTERIM REPORT JANUARY - SEPTEMBER 1998

### Highlights

- \* Profit after financial items increased by 24 per cent to SKr 1,897 million (corresponding period 1997: 1,529). The profit for the third quarter was SKr 506 million compared with SKr 662 million for the second quarter.
- \* The profit after tax for the period amounted to SKr 1,312 million (1,044), which corresponds to earnings per share of SKr 14.80 (11.70). The return on equity was 10.5 per cent (8.8).
- \* Net turnover amounted to SKr 16,924 million (16,188).
- \* During the third quarter the market situation for wood-containing printing paper was strong and the price level was stable. Demand for fine paper and paperboard fell as a result of seasonal decline and poorer economic climate. Fine paper prices were under pressure and fell slightly in local currencies. West European paperboard prices remained stable.

Capacity utilisation was high for wood-containing printing paper, while in the case of paperboard, fine paper and pulp it fell as a result of market conditions.

## **Net turnover and result**

Net turnover increased by 5 per cent to SKr 16,924 million (1997: 16,188) as a result of higher prices. Third quarter turnover declined by 4 per cent compared with the second quarter partly due to a seasonal weak quarter.

The operating profit amounted to SKr 2,003 million (1,693). The result was affected positively by higher prices. Variable costs remained generally unchanged in relation to the previous year. Fixed costs increased, partly due to higher maintenance costs. Capacity utilisation was high for wood-containing printing paper but lower for other products as a consequence of market-related production restrictions and stops for maintenance.

The operating profit for the third quarter was SKr 515 million, compared with SKr 716 million for the second quarter. A provision amounting to SKr 49 million to cover possible bad debts and negative currency effects within MoDo Paper's Russian activities was charged against the result.

Net financial costs amounted to SKr 106 million (cost: 164). This figure includes interest compensation of SKr 49 million arising out of older tax litigations, which were settled in MoDo's favour.

Profit after financial items amounted to SKr 1,897 million (1,529). The profit for the third quarter amounted to SKr 506 million (662).

The profit after tax for the period was SKr 1,312 million (1,044).

Earnings per share after tax amounted to SKr 14.80 (11.70).

The operating margin was 11.8 per cent (10.4).

The return on capital employed was 11.3 per cent (9.8) and the return on equity was 10.5 per cent (8.8).

## **Financing**

The cash flow amounted to SKr 1,365 million (217). The Group's net financial liabilities amounted to SKr 2,590 million at the end of September (December 31, 1997: 3,869), of which pension provisions accounted for SKr 1,579 million.

The debt/equity ratio at September 30 was 0.15 (December 31, 1997: 0.24). The equity ratio was 57.4 per cent (December 31, 1997: 55.2).

At the end of September, the Group's estimated net foreign currency flows were hedged for an average of some five months.

## Markets

Demand for *wood-containing printing paper* was very firm in Western Europe due to a strong advertising market. Stock levels are considered to be normal. Deliveries of newsprint rose by more than 5 per cent. Demand for higher quality grades of improved newsprint, where Holmen Paper has a strong position, continued to develop well with a growth of 25 per cent. Deliveries of SC paper to Western Europe showed a strong increase of 10 per cent. In the coated segment, deliveries rose by one per cent. Holmen Paper's available production capacity was utilised to the full, and total deliveries rose by 4 per cent. Sustained firm demand was noted during the third quarter. Prices, expressed in local currencies, were stable.

After a strong first quarter, demand on the West European *paperboard* market slackened, and it has not yet returned to its earlier level. However, total deliveries of virgin fibre based paperboard from West European mills rose by 5 per cent during the period, whereas Iggesund Paperboard's deliveries were broadly unchanged. Apart from the normal seasonal downturn during the third quarter, there was also a negative impact from the generally weaker economic conditions, especially in Asia. Production was restricted during both the second and third quarters. The price structure in Western Europe remained stable in local currencies.

Deliveries of uncoated *fine paper* to Western Europe are estimated to have reached the same level as in the corresponding period of 1997. Demand for office paper was stronger, and is estimated to have risen by 4 per cent. MoDo Paper's total deliveries of uncoated fine paper declined by 3 per cent; however, deliveries of office paper rose by 10 per cent. Demand fell during the third quarter in relation to the second, due to seasonal fluctuations and the general weakening of the global economy. MoDo Paper's production was restricted due to the weaker order intake. However, the order intake picked up again towards the end of the period. Prices were under pressure and fell slightly in local currencies, compared with the previous quarter.

Demand for chemical *pulp* from Norscan suppliers declined by 6 per cent during the period, mainly due to lower deliveries to Asia. MoDo Paper's external deliveries of pulp increased as a result of lower production of fine paper at the company's own mills. Market prices fell sharply during the third quarter owing to slacker demand and rising producer stocks in the summer.

The growth rate on MoDo Merchants' paper *merchanting* markets is estimated to have reached 4 per cent, but the growth levelled off towards the end of the period. The weakening was most marked in Great Britain and Norway. MoDo Merchants' total deliveries rose by more than 4 per cent. During the third quarter, MoDo Merchants recovered the market shares it lost during a weak second quarter. Prices, which were raised by some 5 per cent at the beginning of the year, fell back during the early summer, then remained generally stable during the third quarter.

Supply of *sawn timber* was high. A shift in the production mix away from whitewood to redwood products brought an improvement in conditions on the market for whitewood products, while the redwood market deteriorated. The prices of Iggesund Timber's customised redwood products remained stable. Whitewood prices rose slightly from the low points reached during the first half of the year.

Wood consumption was high during the first quarter, but declined during the second and third quarters. Total consumption was more than 2 per cent higher than during the corresponding period in the previous year. Harvesting in company forests during the third quarter was broadly unchanged compared with the second quarter. Stocks of pulpwood were higher than desirable at the end of the period. The industry's wood cost was almost 2 per cent higher in the case of pulpwood, while the cost of saw timber was almost 8 per cent up. Compared with the previous quarter, the cost remained broadly unchanged.

## **Production and deliveries**

MoDo's production of paper, paperboard and pulp for external delivery amounted to 2,274,000 tonnes (1997: 2,259,000). Third quarter production was 724,000 tonnes, a decrease of 33,000 tonnes compared with the second quarter.

Deliveries of paper, paperboard and pulp amounted to 2,251,000 tonnes (2,247,000). Third quarter deliveries amounted to 721,000 tonnes, a decrease of 44,000 tonnes on the second quarter.

## **Capital expenditure**

The Group's capital expenditure amounted to SKr 990 million (1,381). Depreciation according to plan amounted to SKr 1,109 million (1,053).

## **Personnel**

The average number of employees in the Group was 9,638 (1997, full year: 9,849).

Stockholm, October 28, 1998

Bengt Pettersson  
President and CEO

This interim report has not been examined by MoDo's auditors.

*The year-end communiqué for 1998 will be published on February 3, 1999.*

**PROFIT AND LOSS ACCOUNT, SKr million**

|   | <b>January-September</b> |         | 1997      |
|---|--------------------------|---------|-----------|
|   | <b>1998</b>              | 1997    | Full year |
| Net turnover                                | <b>16,924</b>            | 16,188  | 21,878    |
| Operating costs                             | <b>- 13,817</b>          | -13,450 | -18,244   |
| Interest in earnings of associate companies | <b>5</b>                 | 8       | 5         |
| Depreciation according to plan              | <b>- 1,109</b>           | -1,053  | -1,409    |
| <b>Operating profit</b>                     | <b>2,003</b>             | 1,693   | 2,230     |
| Net financial items                         | <b>- 106</b>             | -164    | -204      |
| <b>Profit after financial items</b>         | <b>1,897</b>             | 1,529   | 2,026     |
| Tax   | <b>- 585</b>             | -485    | -592      |
| <b>Profit for the period</b>                | <b>1,312</b>             | 1,044   | 1,434     |
| Operating margin                            | <b>11.8</b>              | 10.4    | 10.2      |
| Return on capital employed                  | <b>11.3</b>              | 9.8     | 9.6       |
| Return on equity                            | <b>10.5</b>              | 8.8     | 9.0       |
| Earnings per share after tax                | <b>14.80</b>             | 11.70   | 16.10     |

**NET TURNOVER AND OPERATING PROFIT, SKr million**

|                             | <b>Net turnover</b>        |        | <b>Operating profit/loss</b> |       |
|-----------------------------|----------------------------|--------|------------------------------|-------|
|                             | <b>January - September</b> |        | <b>January - September</b>   |       |
|                             | <b>1998</b>                | 1997   | <b>1998</b>                  | 1997  |
| MoDo Paper                  | <b>5,458</b>               | 5,291  | <b>341</b>                   | 285   |
| Holmen Paper                | <b>5,368</b>               | 5,050  | <b>1,083</b>                 | 911   |
| Iggesund Paperboard         | <b>3,044</b>               | 3,070  | <b>486</b>                   | 456   |
| MoDo Merchants              | <b>2,744</b>               | 2,581  | <b>44</b>                    | 37    |
| Iggesund Timber             | <b>541</b>                 | 624    | <b>- 34</b>                  | 41    |
| MoDo Skog                   | <b>3,545</b>               | 3,221  | <b>391</b>                   | 411   |
| Intra-group sales           | <b>- 3,776</b>             | -3,649 | <b>-</b>                     | -     |
| Group adjustments and other | <b>-</b>                   | -      | <b>- 108</b>                 | -210  |
| External currency hedging   | <b>-</b>                   | -      | <b>- 200</b>                 | -238  |
|                             | <b>16,924</b>              | 16,188 | <b>2,003</b>                 | 1,693 |

**BALANCE SHEET, SKr million**

|                               | <b>1998<br/>Sept. 30</b> | <b>1997<br/>Dec. 31</b> |
|-------------------------------|--------------------------|-------------------------|
| <b>ASSETS</b>                 |                          |                         |
| Fixed assets                  | <b>19,903</b>            | 19,846                  |
| Current assets                | <b>8,192</b>             | 8,220                   |
| Liquid funds                  | <b>1,547</b>             | 1,636                   |
|                               | <b>29,642</b>            | 29,702                  |
| <b>EQUITY AND LIABILITIES</b> |                          |                         |
| Equity                        | <b>17,014</b>            | 16,375                  |
| Minority interests            | <b>5</b>                 | 5                       |
| Deferred tax liability        | <b>3,787</b>             | 3,419                   |
| Financial liabilities         | <b>4,137</b>             | 5,505                   |
| Operating liabilities         | <b>4,699</b>             | 4,398                   |
|                               | <b>29,642</b>            | 29,702                  |
| Debt/equity ratio             | <b>0.15</b>              | 0.24                    |
| Equity ratio %                | <b>57.4</b>              | 55.2                    |

**CASH FLOW ANALYSIS, SKr million**

|   | <b>1998<br/>Jan.-Sept.</b> | <b>1997<br/>Full year</b> |
|---|----------------------------|---------------------------|
| Funds provided from operations              | <b>3,124</b>               | 3,649                     |
| Change in working capital etc               | <b>15</b>                  | -320                      |
| Capital expenditure                         | <b>- 990</b>               | -1,856                    |
| Net financial items                         | <b>- 106</b>               | -204                      |
| Realised foreign exchange differences loans | <b>- 74</b>                | 139                       |
| Paid tax                                    | <b>196</b>                 | -200                      |
| <b>Cash flow before dividend</b>            | <b>2,165</b>               | 1,208                     |
| Dividend paid to shareholders               | <b>- 800</b>               | -800                      |
| <b>Cash flow</b>                            | <b>1,365</b>               | 408                       |
| Unrealised foreign exchange differences*    | <b>- 86</b>                | -181                      |
| <b>Change in net financial liabilities</b>  | <b>1,279</b>               | 227                       |
| Liquid funds                                | <b>1,547</b>               | 1,636                     |
| Financial liabilities                       | <b>- 4,137</b>             | -5,505                    |
| <b>Net financial liabilities</b>            | <b>- 2,590</b>             | -3,869                    |

\* Relates to translation of accounts of foreign Group companies and unrealised foreign exchange differences on loans.

## QUARTERLY FIGURES, SKr million

|                                     | 1998    |        |        | 1997      | 1997   |        |        |        |
|-------------------------------------|---------|--------|--------|-----------|--------|--------|--------|--------|
|                                     | III     | II     | I      | Full year | IV     | III    | II     | I      |
| <b>Net turnover</b>                 |         |        |        |           |        |        |        |        |
| MoDo Paper                          | 1,689   | 1,809  | 1,960  | 7,032     | 1,741  | 1,711  | 1,799  | 1,781  |
| Holmen Paper                        | 1,833   | 1,782  | 1,753  | 6,952     | 1,902  | 1,666  | 1,677  | 1,707  |
| Iggesund Paperboard                 | 992     | 990    | 1,062  | 4,083     | 1,013  | 1,040  | 1,048  | 982    |
| MoDo Merchants                      | 859     | 895    | 990    | 3,471     | 890    | 810    | 872    | 899    |
| Iggesund Timber                     | 171     | 175    | 195    | 822       | 198    | 192    | 233    | 199    |
| MoDo Skog                           | 1,046   | 1,183  | 1,316  | 4,423     | 1,202  | 936    | 1,141  | 1,144  |
|                                     | 6,590   | 6,834  | 7,276  | 26,783    | 6,946  | 6,355  | 6,770  | 6,712  |
| Intra-group sales                   | - 1,177 | -1,206 | -1,393 | -4,905    | -1,256 | -1,168 | -1,226 | -1,255 |
|                                     | 5,413   | 5,628  | 5,883  | 21,878    | 5,690  | 5,187  | 5,544  | 5,457  |
| <b>Profit/loss</b>                  |         |        |        |           |        |        |        |        |
| MoDo Paper                          | 1       | 130    | 210    | 313       | 28     | 81     | 148    | 56     |
| Holmen Paper                        | 473     | 323    | 287    | 1,202     | 291    | 323    | 250    | 338    |
| Iggesund Paperboard                 | 139     | 141    | 206    | 639       | 183    | 165    | 163    | 128    |
| MoDo Merchants                      | 3       | 12     | 29     | 56        | 19     | 5      | 13     | 19     |
| Iggesund Timber                     | - 12    | -17    | -5     | 37        | -4     | 12     | 18     | 11     |
| MoDo Skog                           | 126     | 164    | 101    | 578       | 167    | 144    | 145    | 122    |
| Group adjustments and other         | - 36    | -51    | -21    | -248      | -38    | -118   | -49    | -43    |
| External currency hedging           | - 179   | 14     | -35    | -347      | -109   | 56     | -101   | -193   |
| <b>Operating profit</b>             | 515     | 716    | 772    | 2,230     | 537    | 668    | 587    | 438    |
| Net financial items                 | - 9     | -54    | -43    | -204      | -40    | -56    | -61    | -47    |
| <b>Profit after financial items</b> | 506     | 662    | 729    | 2,026     | 497    | 612    | 526    | 391    |
| Tax                                 | - 154   | -205   | -226   | -592      | -107   | -193   | -174   | -118   |
| <b>Profit for the period</b>        | 352     | 457    | 503    | 1,434     | 390    | 419    | 352    | 273    |

## SHARES

|        | Series A   | Series B   | Total      |
|--------|------------|------------|------------|
| Number | 22,623,234 | 66,235,044 | 88,858,278 |