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YEAR-END COMMUNIQUÉ FOR 1998

Highlights

- * Profit after net financial items increased by 15 per cent to SKr 2,338 million (1997: 2,026). The fourth-quarter profit amounted to SKr 441 million, compared to SKr 506 million for the third quarter.
- * Profit for the year after tax amounted to SKr 2,504 million (1,434), which corresponds to earnings per share of SKr 28.20 (16.10). The return on equity was 14.4 per cent (9.0).
- * The Board proposes to increase the dividend to SKr 10 per share (9). The Board also proposes payment of an extra dividend of SKr 35 per share.
- * Sustained healthy demand and stable prices characterised newsprint and magazine paper. The balance on the market for paperboard and fine paper was unfavourable, partly on account of low exports to Asia and Russia. Paperboard prices were stable during the year. Fine paper prices were under pressure and fell slightly towards the end of the year.

Capacity utilisation was high in the newsprint and magazine paper segment throughout the year whereas production of paperboard and fine paper was restricted.

- * The Board has established financial targets and a strategic direction of business for MoDo. See also separate release.

Net turnover and result

Net turnover increased to SKr 22,676 million (1997: 21,878).

The operating profit amounted to SKr 2,475 million (2,230) and the operating margin was 10.9 per cent (10.2). The improvement in the result is mainly due to higher prices and volumes for newsprint and magazine paper. Variable costs declined on account of lower energy costs. Fixed costs increased partly due to implementation of a new IT system at MoDo Paper, higher maintenance costs and reorganisations. Capacity utilisation was high in the newsprint and magazine paper segment but lower in the case of other products on account of production restrictions due to market conditions as well as stops for maintenance. Provisions for possible bad debts and negative currency effects in MoDo Paper's Russian business amounting to SKr 109 million was charged against the result. The redemption of a pension liability had a positive effect on the result amounting to SKr 130 million and is included under group adjustments and other.

Fourth-quarter turnover increased by six per cent on the third quarter level on account of higher volumes, especially of newsprint and magazine paper. The operating profit for the fourth quarter was SKr 472 million, a decrease of SKr 43 million compared on the third quarter. The operating margin was 8.2 per cent. The decline in the result is mainly attributable to MoDo Paper, which was affected by lower prices, higher maintenance costs and increased provisions for the Russian business. The repurchase of Holmen Kraft, the partnership-financing company, involved a non-recurring cost of SKr 42 million being charged against Holmen Paper's result. Iggesund Paperboard's and Iggesund Timber's results include provisions to cover decided reorganisations of SKr 24 million and SKr 10 million respectively. The redemption of a pension liability had a positive effect of SKr 130 million on the fourth-quarter result.

The return on capital employed for the year as a whole was 10.3 per cent (9.6).

Net financial costs amounted to SKr 137 million (cost 204).

The profit after net financial items was SKr 2,338 million (2,026). The fourth-quarter profit amounted to SKr 441 million.

The profit for the year after tax amounted to SKr 2,504 million (1,434). Tax litigations settled in MoDo's favour and the re-entry of provisions that are no longer considered to be necessary have resulted in a positive tax for the year of SKr 166 million.

The return on equity was 14.4 per cent (9.0).

Earnings per share after tax amounted to SKr 28.20 (16.10), calculated before dilution of three per cent as result of the issue of a convertible loan and warrants to the personnel.

Financing

Cash flow amounted to SKr 837 million (408). The Group's net financial liability at the end of the year amounted to SKr 3,143 million (December 31, 1997: 3,869). Pension provisions were reduced in December by SKr 1,465 million by the redemption to SPP of the PRI part. During the fourth quarter a convertible loan and warrants were issued to the personnel, which amounted to SKr 372 million.

Debt/equity ratio at the end of December was 0.17 (December 31, 1997: 0.24). The equity ratio was 60.4 per cent (December 31, 1997: 55.2).

Markets

Demand for *newsprint and magazine paper* was very firm in Western Europe as a result of the strong advertising economy. The long strike at several major producers in Canada reduced supply of newsprint from North America and additions of capacity were limited. Demand for improved newsprint at high brightness, where Holmen Paper has a strong position, was particularly strong. The SC paper segment also developed well while deliveries of coated paper increased moderately. Holmen Paper's capacity utilisation was high and total deliveries increased by three per cent. There was sustained firm demand in the fourth quarter and the West European market remained in balance even though the strikes in Canada had ended. Prices expressed in local currencies were stable.

The West European *paperboard* market displayed strong growth at the start of the year but weakened successively on account of destocking by merchants and converters and a decline in exports of packaged consumables to Asia and Russia. Within Iggesund Paperboard's product areas - virgin fibre paperboard - demand was firm in the graphic segment whereas demand for tobacco board and packaging board decreased. Production restrictions were in effect throughout the year and total deliveries declined by two per cent. Prices on the West European market were stable in local currencies throughout the year, apart from Great Britain where the strength of sterling lead to reductions in local prices.

Total deliveries of uncoated *fine paper* to Western Europe remained broadly unchanged compared with the previous year. The situation in Asia and Russia had an adverse effect on the market. The uncoated reels segment experienced weak markets and was exposed to tense competition with gradually decreasing prices during the later part of the year. MoDo Paper's deliveries of uncoated fine paper fell by three per cent and production was restricted throughout much of the year. However, the concentration of office paper continued to be successful and deliveries increased by five per cent. The proportion of office paper in MoDo Paper's range continued to rise and amounted to one third of total deliveries in 1998. Towards the end of the year market conditions for office paper weakened and prices came under pressure, but were only marginally lower compared with the previous quarter.

Global demand for *pulp* weakened. Deliveries from producers in the Norscan region fell more than from other producers on account of lower shipments to both Asia and Western Europe. MoDo Paper's external deliveries increased mainly as a result of lower pulp consumption at the company's own paper mills. Following the dramatic weakening of the market during the third quarter, prices stabilised during the fourth quarter but at low levels.

Demand on the *merchanting* market was relatively firm but slackened during the second part of the year. MoDo Merchants' deliveries increased by four per cent, which matched the growth rate on those markets where the company is active. MoDo Merchants' deliveries outperformed the market during the fourth quarter. Prices at the merchant stage fell by four to five per cent at the end of the year.

Sawn timber was in ample supply which caused lack of balance on the market. Market conditions improved successively in the case of whitewood products and prices recovered from the low levels of the first half year. At the same time the redwood market deteriorated and the pressure on prices of standard redwood products increased. However, Iggesund Timber's customised redwood products held up well.

Wood consumption at MoDo's mills increased by three per cent on account of higher consumption of softwood pulpwood. Harvesting on company forests was slightly lower during the fourth quarter than during the third quarter. The mills' wood costs increased by more than one per cent in the case of pulpwood, while the costs of sawlog increased by almost seven per cent on the previous year. In the middle of the fourth quarter prices of pulpwood were reduced by around ten per cent in the middle of and in the north of Sweden. The mills' wood costs fell by a good one per cent compared with the previous quarter.

Production and deliveries

MoDo's production of paper, paperboard and pulp for external delivery amounted to 3,049,000 tonnes (1997: 3,015,000). Fourth-quarter production amounted to 775,000 tonnes, an increase of 51,000 tonnes on the third quarter.

Deliveries of paper, paperboard and pulp amounted to 3,025,000 tonnes (3,020,000). Fourth-quarter deliveries amounted to 774,000 tonnes, an increase of 53,000 tonnes on the third quarter.

Capital expenditure

The Group's capital expenditure amounted to SKr 1,642 million (1,856). Over and above this MoDo bought back the partnership-financing arrangement in respect of Holmen Kraft. The redemption price amounted to SKr 915 million.

Depreciation according to plan amounted to SKr 1,507 million (1,409).

Year 2000

Since 1996, MoDo has been taking action to identify and overcome problems that might arise in connection with the change of millennium as has its efforts to prepare the organisation for these problems. These activities have very high priority and were further intensified in 1998. A Group approach has been established and focus is concentrated on the most critical areas. The aim is to avoid disturbances which will have significant effect on MoDo's business activities.

By the end of 1998 almost half of the number of systems identified have been dealt with. The plan is that almost all systems will be ready during the first half of 1999. Extensive test activities of business processes will continue throughout the year. The measures will be successively concentrated on drawing up business continuity plans for the total operations, including important external parties.

Personnel

The average number of employees in the Group was 9,586 (1997: 9,849), of whom 6,754 were in Sweden (6,967).

Employee investment programme

Through the autumn of 1998 a convertible loan and warrants corresponding to a total of 2.7 million new series B share was issued to the personnel. The convertibles and warrants carry the same conditions and entitle holders to subscribe to new series B shares at the price of SKr 176 at any time between February 1 and March 31, 2004.

Dividend proposal

The Board proposes that a dividend of SKr 10 per share (9) be paid with March 30 as the record date. The proposed dividend will absorb SKr 889 million. In addition the Board proposes payment of an extra dividend of a total of SKr 3,110 million, or SKr 35 per share.

Financial targets

The Board has established the following financial targets for the company:

MoDo shall have a strong financial position with a target debt/equity ratio of 0.5 - 0.7.

It is intended to keep the capital structure in line with the established target by special capital structure decisions when required.

MoDo's target is that each year's dividend shall correspond to 5 - 7 per cent of its equity.

Strategic direction of business

The Board has also established a strategic direction for the company's business. This, as well as the financial targets, is explained in more detail in a separate press release which is published today.

Annual General Meeting

The Annual General Meeting will be held at 4.00 p.m. on March 25 in the Vinterträdgården of the Grand Hotel in Stockholm.

Stockholm, January 27, 1999

Bengt Pettersson
President and Chief Executive Officer

This year-end communiqué has not been subject to final scrutiny by the auditors.

The annual report will be published at the beginning of March 1999.

The interim report for the period January - March 1999 will be published on April 28, 1999.

PROFIT AND LOSS ACCOUNT, SKr million

		1998	1997
Net turnover		22,676	21,878
Operating costs		-18,700	-18,244
Interest in earnings of associate companies		6	5
Depreciation according to plan		-1,507	-1,409
Operating profit		2,475	2,230
Net financial items		-137	-204
Profit after financial items		2,338	2,026
Tax		166	-592
Profit for the year		2,504	1,434
Operating margin	%	10.9	10.2
Return on capital employed	%	10.3	9.6
Return on equity	%	14.4	9.0
Earnings per share after tax *	SKr	28.20	16.10

* Calculated before dilution of three per cent as a result of outstanding convertibles and warrants.

NET TURNOVER AND OPERATING PROFIT, SKr million

	Net turnover		Operating profit	
	1998	1997	1998	1997
MoDo Paper	7,155	7,032	171	313
Holmen Paper	7,432	6,952	1,511	1,202
Iggesund Paperboard	4,051	4,083	590	639
MoDo Merchants	3,672	3,471	64	56
Iggesund Timber	727	822	-59	37
MoDo Skog	4,713	4,423	548	578
Intra-group sales	-5,074	-4,905	-	-
Group adjustments and other	-	-	-24	-248
External currency hedging	-	-	-326	-347
	22,676	21,878	2,475	2,230

BALANCE SHEET, SKr million

	1998 Dec. 31	1997 Dec. 31
ASSETS		
Fixed assets	20,931	19,846
Current assets	8,262	8,220
Liquid funds	1,241	1,636
	30,434	29,702
EQUITY AND LIABILITIES		
Equity	18,377	16,375
Minority interests	5	5
Deferred tax liability	2,920	3,419
Financial liabilities	4,384	5,505
Operating liabilities	4,748	4,398
	30,434	29,702
Debt/equity ratio	0.17	0.24
Equity ratio %	60.4	55.2

CASH FLOW ANALYSIS, SKr million

	1998 Dec. 31	1997 Dec. 31
Funds provided from operations	4,112	3,649
Change in working capital etc	169	-320
Capital expenditure	-2,557	-1,856
Net financial items	-137	-204
Realised foreign exchange differences loans	-249	139
Paid tax	253	-200
Cash flow before dividend	1,591	1,208
Issue of warrants and convertible loan*	46	-
Dividend paid to shareholders	-800	-800
Cash flow	837	408
Unrealised foreign exchange differences**	-111	-181
Change in net financial liabilities	726	227
Liquid funds	1,241	1,636
Financial liabilities	-4,384	-5,505
Net financial liabilities	-3,143	-3,869

* Refers to rights to convert attached to the convertible loan.

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

QUARTERLY FIGURES, SKr million

	1998	1998				1997	1997			
	Full year	IV	III	II	I	Full year	IV	III	II	I
Net turnover										
MoDo Paper	7,155	1,697	1,689	1,809	1,960	7,032	1,741	1,711	1,799	1,781
Holmen Paper	7,432	2,064	1,833	1,782	1,753	6,952	1,902	1,666	1,677	1,707
Iggesund Paperboard	4,051	1,007	992	990	1,062	4,083	1,013	1,040	1,048	982
MoDo Merchants	3,672	928	859	895	990	3,471	890	810	872	899
Iggesund Timber	727	186	171	175	195	822	198	192	233	199
MoDo Skog	4,713	1,168	1,046	1,183	1,316	4,423	1,202	936	1,141	1,144
	27,750	7,050	6,590	6,834	7,276	26,783	6,946	6,355	6,770	6,712
Intra-group sales	-5,074	-1,298	-1,177	-1,206	-1,393	-4,905	-1,256	-1,168	-1,226	-1,255
	22,676	5,752	5,413	5,628	5,883	21,878	5,690	5,187	5,544	5,457
Profit										
MoDo Paper	171	-170	1	130	210	313	28	81	148	56
Holmen Paper	1,511	428	473	323	287	1,202	291	323	250	338
Iggesund Paperboard	590	104	139	141	206	639	183	165	163	128
MoDo Merchants	64	20	3	12	29	56	19	5	13	19
Iggesund Timber	-59	-25	-12	-17	-5	37	-4	12	18	11
MoDo Skog	548	157	126	164	101	578	167	144	145	122
Group adjustments and other	-24	84	-36	-51	-21	-248	-38	-118	-49	-43
External currency hedging	-326	-126	-179	14	-35	-347	-109	56	-101	-193
Operating profit	2,475	472	515	716	772	2,230	537	668	587	438
Net financial items	-137	-31	-9	-54	-43	-204	-40	-56	-61	-47
Profit after financial items	2,338	441	506	662	729	2,026	497	612	526	391
Tax	166	751	-154	-205	-226	-592	-107	-193	-174	-118
Profit for the period	2,504	1,192	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

* The outstanding convertibles and warrants would in the event of full conversion involve an issue of a further 2,700,000 series B shares, corresponding to dilution of the capital by 2.9 per cent and of the votes by 0.9 per cent.