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January 27, 1999

MoDo

Decisions on financial targets and strategic direction of business
Proposal: Extra dividend and dividend increase

MoDo's profit after net financial items for 1998 amounted to SKr 2,338 million. Earnings per share amounted to SKr 28. The Board of Directors proposes to pay an increased dividend of SKr 10. Moreover, it is proposed to pay an extra dividend of SKr 35 per share.

MoDo's targets are for the debt/equity ratio to be 0.5 - 0.7 and for each year's dividend to correspond to 5 - 7 per cent of equity. MoDo considers that the best conditions for growth and profitability lie within Holmen Paper (newsprint and magazine paper) and Iggesund Paperboard (paperboard). The growth shall take place organically as well as via acquisition. MoDo Paper (fine paper) will continue its process of concentration on office paper. To strengthen the competitive position in fine paper MoDo is open to co-operation with other companies.

**For MoDo's result for 1998
see the complete year-end communiqué**

Financial targets and strategic direction

During the past few years, MoDo has focused on concentrating its business and strengthening the company's financial position. With a debt/equity ratio of 0.2 at the end of 1998, MoDo's financial position is stronger than is regarded as necessary for the development of its business. In view of this, the Board of Directors 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.

Based on the above targets for the capital structure the Board of Directors will propose to the Annual General Meeting that an extra dividend of SKr 35 per share is paid, in total SKr 3,110 million, above the proposed ordinary dividend of SKr 10 per share. After this MoDo's pro forma debt/equity ratio amounts to 0.5.

The main points in the strategy now established for the operative business are the following:

MoDo will focus on growth and development within Holmen Paper (newsprint and magazine paper) and Iggesund Paperboard (paperboard), which currently account for around one half of MoDo's turnover. Within these areas MoDo is highly competitive, and is well placed to further strengthen its positions. The growth can be organic as well as via acquisitions.

MoDo Paper's business, which accounts for around one-quarter of the Group's turnover, will be concentrated on office paper, where MoDo Paper has a strong position and has good potential for further development. To strengthen its competitive position within the office paper area MoDo is open for co-operation with other companies. MoDo Paper will also endeavour to reduce the already low exposure to market pulp.

- *“This strategy means that we will focus our business more closely on those product areas where we are strongest and have the best potential to further strengthen our market position,” states Bengt Pettersson, MoDo's President and CEO. “At the same time, MoDo's very strong financial position will be maintained, which will put us in a good position to further develop our lines of business. Also, a debt/equity ratio of 0.5 is one of the lowest in the forest products industry, even by international standards.”*
- *“MoDo's strategy is now further defined and stresses a more growth-oriented direction,” comments Fredrik Lundberg, MoDo's Chairman of the Board. “At the same time clear guidelines for capital structure and dividend are established, and the Board of Directors considers this very positive for MoDo and its shareholders. The proposed extra dividend is an example of this in concrete terms.”*

MoDo's core business areas

Holmen Paper

The good profitability of Holmen Paper, which produces newsprint and magazine paper, will be consolidated by increasing the degree of product processing and by volume growth, especially within special products. Holmen Paper holds a strong position among the leading European newspaper and publishing companies. There is a trend on the market away from standardisation and towards specialisation and customisation, and Holmen Paper is well to the fore in this process of market development. Holmen Paper also has a very efficient industrial structure that is capable of development.

With its market share of 20 per cent, Holmen Paper is the third largest supplier of improved newsprint in Europe. This is this segment of the newsprint market that is growing fastest due to its growing use in newspaper supplements, advertising newspapers, house magazines and in direct mail advertising of various kinds.

The total consumption of printed media products is also expected to continue growing, which should benefit all of Holmen Paper's products.

Holmen Paper's growth can be organic as well as via acquisitions.

Iggesund Paperboard

Iggesund Paperboard is continuing to focus on the highest quality segments of the paperboard market for consumer packaging and the graphic industry, where the potential for growth and sustained high profitability is estimated to be considerable.

At the highest end of the quality range, solid bleached board, Iggesund Paperboard has long been market leader in Europe with strong brands (Invercote, among others) and a market share of some 50 per cent. In certain segments Iggesund Paperboard also has significant market shares outside Europe. The market for luxury packaging, for which this type of paperboard is used, is relatively unaffected by business cycles. Iggesund Paperboard has very efficient organisations for product development and marketing. The production and marketing of high quality paperboard is a complicated process, which makes it difficult for new companies to enter this segment of the market.

Iggesund Paperboard also holds a leading position in folding boxboard. The intention is to strengthen this by further development of products as well as production.

Iggesund Paperboard's growth can be organic as well as via acquisitions.

MoDo Paper

MoDo Paper will improve its profitability by concentrating on office paper, a segment of the fine paper market where good growth is expected and where MoDo Paper is one of the leading suppliers in Europe, with a market share of 10 per cent, and a well established brand, DataCopy.

MoDo Paper can – by gradually switching production from reels to office paper –significantly raise its office paper capacity at modest investment costs, within the limits of its existing base paper production capacity.

The prerequisites for profitability on the European fine paper market are high volumes and efficient production structure, strong brand names and efficient distribution. The fine paper industry is also becoming increasingly global, and a process of restructuring of the industry has begun in Europe. Seen overall, however, it is still fragmented with excess capacity.

In order to achieve better capacity utilisation and greater efficiency, MoDo Paper is ready to co-operate with other companies in the fine paper sector.

MoDo Paper also intends to reduce its already low exposure to market pulp. In view of this, the expansion of the Husum pulp mill, which has been discussed, is postponed.

Other business areas

MoDo Merchants, which is MoDo's paper merchanting arm, will continue with its strategy of providing a stronger distribution channel for its suppliers with effective coverage of its main markets.

The business activities conducted through *Iggesund Timber* and *MoDo Skog* will continue in accordance with unchanged strategies.