

# Press Release



KLIPPAN is a leading producer of speciality graphic papers and operates three paper mills with a combined capacity of 200,000 tons per annum. The mills are located in Klippan, Lessebo and Mölndal, all in the south of Sweden.

Klippan, 26 August 2004

## Interim report 1 January – 30 June 2004

- Group turnover amounted to MSEK 741.9 (MSEK 912.9)
- Result after tax reported as MSEK -19.8 (-34.9)
- Operating profit reported as MSEK -18.1 (-30.2)
- Result per share reported as SEK -2.40 (-4.22)
- Through the programme of measures, fixed costs have fallen by MSEK 25
- Increased pulp and energy costs amounted to some MSEK 15 during the second quarter

| MSEK                                | Quarter   |           | Jan - Jun |          | Full year |
|-------------------------------------|-----------|-----------|-----------|----------|-----------|
|                                     | II - 2004 | II - 2003 | 2004      | 2003     | 2003      |
| Net turnover                        | 356.8     | 409.9     | 741.9     | 912.9    | 1664.2    |
| Operating result                    | -13.7     | -40.0     | -18.1     | -30.2    | -123.0    |
| Result after financial items        | -19.6     | -44.5     | -29.2     | -40.1    | -148.2    |
| Result after tax                    | -12.9     | -38.1     | -19.8     | -34.9    | -112.6    |
| Profit per share after standard tax | -1.57     | -4.60     | -2.40     | -4.22    | -13.62    |
| Return on capital employed          | negative  | negative  | negative  | negative | negative  |

### The business in general

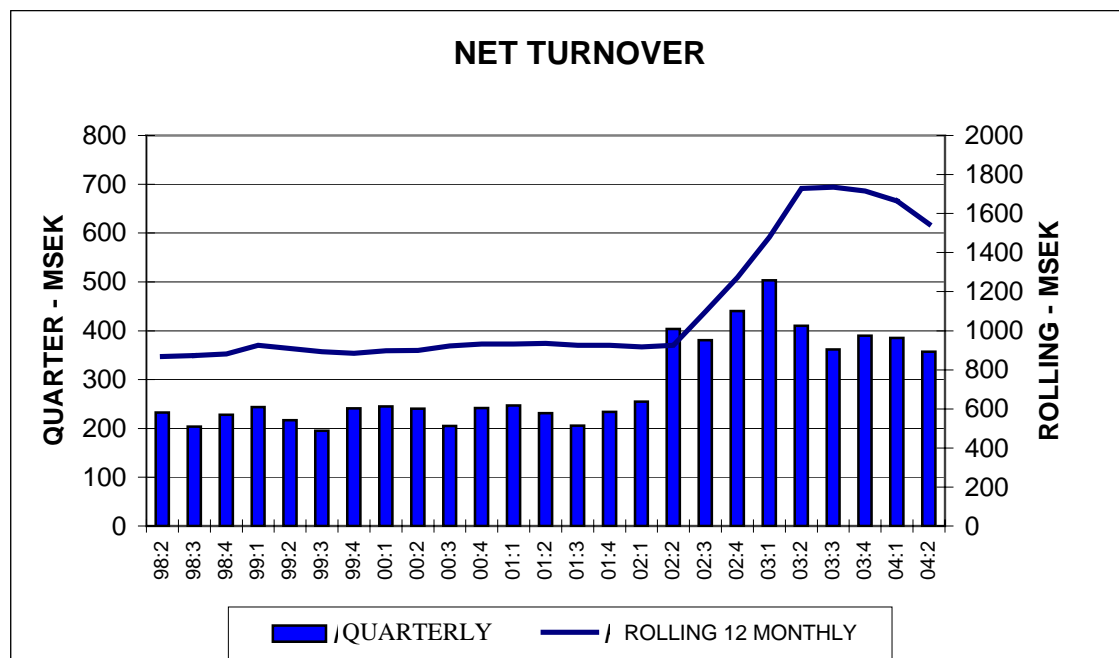
The market for fine paper has been weak over the last few years. Over capacity in combination with falling demand has led both to pressure on prices and production stoppages. It now seems as though the trough of the unusually long recession in the industry has been passed. Price increases for both uncoated and coated paper have been notified for September; these increases are necessary to compensate for increases in energy and pulp prices.

KLIPPAN's programme of measures, which started at the end of 2003. is now beginning to have an effect on the group result:

- fixed costs have been reduced by almost MSEK 50 on an annual basis;
- production capacity has been adjusted to match demand;
- improved delivery service to customers and shorter delivery times;
- reduction in the number standard articles in stock through a better range;
- improved product mix and launch of new products;
- improved internal efficiency through a continuous improvement process;
- a number of key staff has been recruited, among them a sales and marketing manager, two mill managers and two product managers.

### Result

Net turnover for the group amounted to MSEK 741.9, which was a reduction of MSEK 171. The reason for the reduction is mainly that Caldwells mill has been closed down, as well as lower sales volumes, primarily for coated paper. The operating result amounted to MSEK -18.1 (-30.2) and result after financial items amounted to MSEK -29.2 (-40.1). The average number of employees within the group was 860 (1.043). Result per share is reported as SEK -2.40 (-4.22)

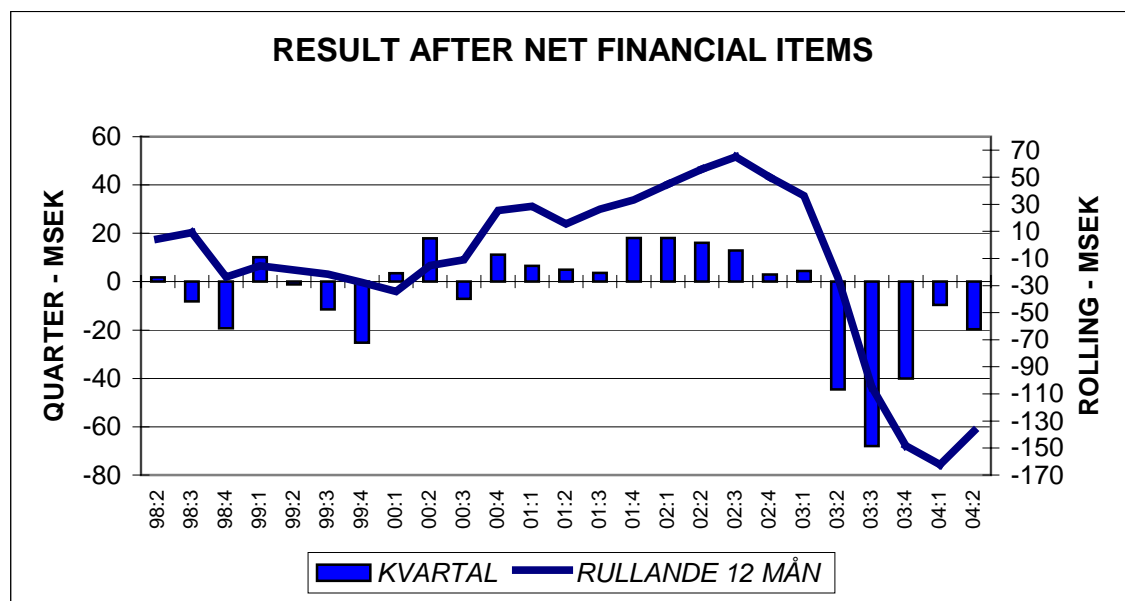


## Changes to equity (MSEK)

|                                  |              |
|----------------------------------|--------------|
| <b>Opening equity 2004-01-01</b> | <b>190.3</b> |
| Translation difference           | 0.7          |
| Result for the interim period    | -19.8        |
| <b>Closing equity 2004-06-30</b> | <b>171.2</b> |

## Liquidity

Group disposable liquid assets, including the unused part of the bank overdraft facility, amounted to MSEK 68 at the end of the second quarter, a reduction of MSEK 15 compared to the year end. Solidity amounted to 19.0% (23.8) and the debt/equity ratio to 2.4 times (1.6).



## Investments and production

Investments during the period January – June 2004 amounted to MSEK 12 (44).

Paper production during the first six months was 76.000 tons (previous year was 96.000 tons, of which 14.000 tons related to Caldwells). The production capacity has been adjusted selectively to suit the current market situation. Pulp production was unchanged during the first six months compared to the same period last year.

## Cash flow analysis

| MSEK                                 | Jan - Jun<br>2004 | Jan - Jun<br>2003 |
|--------------------------------------|-------------------|-------------------|
| Current operations                   | -4.1              | -15.5             |
| Changes to operating capital         | 0.2               | 40.2              |
| Cash flow from current operations    | -3.9              | 24.7              |
| Cash flow from investment operations | -12.0             | -44.2             |
|                                      | <b>-15.9</b>      | <b>-19.5</b>      |
| Cash flow from financing operations  | -11.2             | 19.3              |
| Changes to liquid assets             | -27.1             | -0.2              |
| <b>Opening liquid assets</b>         | <b>61.8</b>       | <b>42.4</b>       |
| <b>Closing liquid assets</b>         | <b>34.7</b>       | <b>42.2</b>       |

## Accounting principles

The company follows the Annual Accounts Act, the recommendations of the Swedish Financial Accounting Standards Council and the statements made by its Emerging Issues Taskforce.

The group and the parent company have adopted an income statement classified according to type of cost from having previously used an income statement classified according to function. The change is an adjustment in order to match other companies within the same industry.

The interim report for the third quarter will be published on 21 October 2004.

KLIPPAN AB



Ragnar Quarnström  
Managing director

*The contents of this report have been the subject of examination by the company's auditors.*

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## SUMMARY INCOME STATEMENT AND BALANCE SHEET

### Income statement

| MSEK   | Jan - Jun<br>2004 | Jan - Jun<br>2003 | Jan-Dec<br>2003 |
|--|-------------------|-------------------|-----------------|
| Net turnover   | 741.9             | 912.9             | 1 664.2         |
| Other operating income                                   | 0.0               | 0.0               | 1.7             |
|  | <b>741.9</b>      | <b>912.9</b>      | <b>1 665.9</b>  |
| Raw materials and consumables                            | -385.4            | -456.4            | -860.4          |
| Changes to work in progress and finished goods inventory | -4.4              | -3.8              | -36.5           |
| Personnel expenses                                       | -202.8            | -242.1            | -472.6          |
| Other external items                                     | -139.0            | -216.2            | -370.9          |
| Depreciation   | -28.4             | -24.6             | -47.3           |
| Other operating expenses                                 | 0.0               | 0.0               | -1.2            |
| <b>Operating result</b>                                  | <b>-18.1</b>      | <b>-30.2</b>      | <b>-123.0</b>   |
| Net financial items                                      | -11.1             | -9.9              | -25.2           |
| <b>Result after financial items</b>                      | <b>-29.2</b>      | <b>-40.1</b>      | <b>-148.2</b>   |
| Tax  | 9.4               | 5.2               | 35.6            |
| <b>Result after tax</b>                                  | <b>-19.8</b>      | <b>-34.9</b>      | <b>-112.6</b>   |
| Profit per share after standard tax                      | -2.40             | -4.22             | -13.62          |
| <b>No of shares, thousands</b>                           | <b>8 267</b>      | <b>8 267</b>      | <b>8 267</b>    |

### Balance sheet

| MSEK                             | 2004-06-30   | 2003-06-30   | 2003-12-31   |
|----------------------------------|--------------|--------------|--------------|
| <b>ASSETS</b>                    |              |              |              |
| Fixed assets                     | 452.5        | 406.8        | 479.9        |
| Inventory                        | 214.5        | 279.5        | 225.4        |
| Other receivables                | 198.4        | 259.9        | 167.5        |
| Cash and bank balances           | 34.7         | 42.2         | 61.8         |
|                                  | <b>900.1</b> | <b>988.4</b> | <b>934.6</b> |
| <b>EQUITY AND LIABILITIES</b>    |              |              |              |
| Equity                           | 171.2        | 235.7        | 190.3        |
| Interest bearing liabilities     | 443.1        | 415.6        | 447.9        |
| Non-interest bearing liabilities | 285.8        | 337.1        | 296.4        |
|                                  | <b>900.1</b> | <b>988.4</b> | <b>934.6</b> |

## Key ratios

|                               |       | Jan - Jun<br>2004 | Jan - Jun<br>2003 | Jan-Dec<br>2003 |
|-------------------------------|-------|-------------------|-------------------|-----------------|
| Profit margin                 | %     | -3.9%             | -4.4%             | -8.9%           |
| Capital employed              | MSEK  | 614.3             | 651.3             | 638.2           |
| Return on capital<br>employed | %     | negative          | negative          | negative        |
| Solidity                      | %     | 19.0              | 23.8              | 20.4            |
| Debt/equity ratio             | times | 2.4               | 1.6               | 2.0             |
| Equity/share                  | SEK   | 21                | 29                | 23              |
| Market value/equity*          | %     | 97                | 105               | 98              |

\* share price as at 04.06.30 SEK  
20.10

\* share price as at 03.12.31 SEK  
22.80

\* share price as at 03.06.30 SEK  
30.00

## Summary income statement (MSEK)

| Quarterly information               | 2004         |             | 2003         |              |              |            | 2002       |             |             |             |
|-------------------------------------|--------------|-------------|--------------|--------------|--------------|------------|------------|-------------|-------------|-------------|
|                                     | II           | I           | IV           | III          | II           | I          | IV         | III         | II          | I           |
| Net turnover                        | 356.8        | 385.1       | 389.8        | 361.5        | 409.9        | 502.9      | 440.2      | 380.9       | 403.5       | 255.0       |
| <b>Operating result</b>             | <b>-13.7</b> | <b>-4.4</b> | <b>-29.4</b> | <b>-63.4</b> | <b>-40.0</b> | <b>9.8</b> | <b>8.9</b> | <b>18.3</b> | <b>23.2</b> | <b>20.6</b> |
| Financial items                     | -5.9         | -5.2        | -10.7        | -4.6         | -4.5         | -5.4       | -5.9       | -5.4        | -7.1        | -2.5        |
| <b>Result after financial items</b> | <b>-19.6</b> | <b>-9.6</b> | <b>-40.1</b> | <b>-68.0</b> | <b>-44.5</b> | <b>4.4</b> | <b>3.0</b> | <b>12.9</b> | <b>16.1</b> | <b>18.1</b> |
| Tax                                 | 6.7          | 2.7         | 14.7         | 15.7         | 6.4          | -1.2       | -2.8       | -0.3        | -4.0        | -5.1        |
| <b>Result after tax</b>             | <b>-12.9</b> | <b>-6.9</b> | <b>-25.4</b> | <b>-52.3</b> | <b>-38.1</b> | <b>3.2</b> | <b>0.2</b> | <b>12.6</b> | <b>12.1</b> | <b>13.0</b> |

## Net turnover and operating profit per segment

| MSEK                    | Net turnover |         | Operating result |         |
|-------------------------|--------------|---------|------------------|---------|
|                         | 2004         | 2003    | 2004             | 2003    |
|                         | Jan- Jun     | Jan-Dec | Jan- un          | Jan-Dec |
| Coloured paper          | 366.9        | 704.6   | 18.0             | 3.5     |
| Uncoated graphic paper  | 104.4        | 185.9   | 10.3             | 8.0     |
| Coated paper            | 172.1        | 391.7   | -40.2            | -74.9   |
| Speciality paper        | 125.5        | 234.0   | -6.2             | -33.3   |
| Units being closed down | 0.0          | 200.8   | 0.0              | -26.3   |
| Internal deliveries     | -27.0        | -52.8   | 0.0              | 0.0     |
|                         | 741.9        | 1 664.2 | -18.1            | -123.0  |

## Net turnover per market

| Group                  | Jan – Jun 2004 | Jan-Dec 2003 |
|------------------------|----------------|--------------|
| Sweden                 | 159.0          | 350.6        |
| Other Nordic countries | 113.4          | 314.4        |
| Rest of Europe         | 423.5          | 923.4        |
| Rest of world          | 46.0           | 75.8         |
|                        | 741.9          | 1 664.2      |