

INTERIM REPORT JANUARY - JUNE 1999

Highlights

- * Profit after net financial items amounted to SKr 1,158 million (corresponding period 1998: 1,391). The profit for the second quarter was SKr 543 million compared with SKr 615 million for the first quarter.
- * Profit after tax for the period amounted to SKr 786 million (960), which corresponds to earnings per share of SKr 8.80 (10.80). The return on equity was 9.4 per cent (11.7).
- * Net turnover amounted to SKr 11,131 million (11,511).
- * Demand for newsprint and magazine paper showed continued strength while the market for both paperboard and fine paper improved. Prices on newsprint and magazine paper, as well as paperboard prices, were stable. Fine paper prices rose towards the end of the period after having been depressed earlier in the year.

Capacity utilisation improved for the main products during the second quarter.

Net turnover and result

Net turnover declined by three per cent to SKr 11,131 million (11,511) mainly as a result of lower prices. The second quarter turnover decreased by three per cent in relation to the first quarter due to lower delivery volumes.

The operating profit amounted to SKr 1,269 million (1,488), and the operating margin was 11.4 per cent (12.9). The decline in the result was mainly caused by lower selling prices, expressed in Swedish kronor, and higher fixed costs. These, however, were partly offset by slightly higher delivery volumes and lower variable costs.

Compared with the first quarter, the operating result decreased by SKr 27 million, mainly due to higher fixed costs and slightly lower sales prices. However, this was offset by lower variable costs mainly for energy. Capacity utilisation improved for all main products.

The return on capital employed was 10.4 per cent (12.6). The return on equity was 9.4 per cent (11.7).

Net financial costs amounted to SKr 111 million (costs 97).

The profit after net financial items amounted to SKr 1,158 million (1,391). The profit for the second quarter was SKr 543 million (first quarter: 615).

The profit after tax for the period amounted to SKr 786 million (960).

Earnings per share after tax amounted to SKr 8.80 (10.80).

Financing

The negative cash flow amounted to SKr 3,208 million (positive 668) including dividend of SKr 3,999 million (800). The Group's net financial liability at the end of June was SKr 6,366 million (December 31, 1998: 3,143).

The closing debt/equity ratio was 0.42 (December 31, 1998: 0.17). The equity ratio was 50.2 per cent (December 31, 1998: 60.4).

Markets

Demand for *newsprint and magazine paper* remained strong. The growth rate in Europe was positive with the exception of coated magazine paper. Additions to production capacity and higher deliveries, above all from Canada, have not influenced the balance on the market in Europe to any significant extent. Holmen Paper's delivery volume was broadly unchanged. The order intake was stable at a healthy level. After the adjustment made at the beginning of the year, the prices of newsprint and magazine paper have remained stable.

The West European *paperboard* market improved and demand from non-European markets rose. However, total deliveries were still below last year's level. Iggesund Paperboard's deliveries decreased by two per cent but have been successively improving during the second quarter. Order books were strong at the end of the period. For the most part prices remained stable despite some pressure during the first quarter. The stronger market situation has resulted in price increases being announced for later in the autumn.

West European deliveries of *fine paper* exceeded last year's volumes in the case of both uncoated and coated grades. The positive delivery trend is believed to be partly due to the decline in imports of uncoated fine paper from Eastern Europe and South East Asia. MoDo Paper's deliveries rose by nine per cent. Office paper and paper on reels for converters accounted for the bulk of the increase. Prices were raised by some five per cent at the end of the second quarter. Further price increases are likely in the autumn.

Global demand for *pulp* has improved, mainly due to higher deliveries to Asia. MoDo Paper's external deliveries of pulp fell by five per cent. Producer stocks fell further during the second quarter and price increases have been made gradually.

Demand for products at the *merchanting* stage improved after a weak start to the year. MoDo Merchants' deliveries rose by two per cent, which corresponds to the estimated average growth on the markets where MoDo Merchants is active. Price increases, mainly in the case of uncoated fine paper, were carried out during the second quarter.

The *sawn timber* market is still characterised by a lack of balance between supply and demand. Iggesund Timber's deliveries from company sawmills rose by nine per cent. Redwood prices remained seriously depressed while some price increases are made for whitewood deliveries during the third quarter.

Wood consumption continued at a high level and stocks were normal. Harvesting in company forests was seasonally higher during the second quarter than in the first quarter, whilst procurement from other sources was lower. The mills' wood costs per cubic meter declined by two per cent.

Production and deliveries

MoDo's production of paper, paperboard and pulp for external delivery amounted to 1,544,000 tonnes (1,550,000). The second quarter production rose by 24,000 tonnes in relation to the first quarter.

Deliveries of paper, paperboard and pulp increased in relation to the corresponding period of 1998 by one per cent to 1,546,000 tonnes (1,530,000). The second quarter deliveries fell by 18,000 tonnes compared with the first quarter.

Capital expenditure

The Group's capital expenditure amounted to SKr 835 million (578). Depreciation according to plan amounted to SKr 764 million (738).

Land exchanges

In January, an agreement was reached with AssiDomän to exchange land holdings covering some 80,000 hectares of forest land in the north of Sweden. The Swedish Board of Agriculture decided in April to give its consent to this exchange. The transaction has been taken into MoDo's accounts without any effect on the result.

Structural changes

At the end of April, MoDo and SCA entered into an agreement to consolidate their operations within the areas of fine paper and merchanting in a new 50/50 jointly owned company, to be named MoDo Paper AB. MoDo will transfer the units within the business areas MoDo Paper (excl. Domsjö) and MoDo Merchants. The intention is the company to be listed within two years. The required approvals have been obtained from the relevant competition authorities.

The operating profit of those business units which are intended to be included in the new MoDo Paper AB amounted to SKr 165 million (1998: 349) for the January - June period, of which SKr 135 million are attributable to the second quarter.

Year 2000 Compliance

MoDo's preparations for the change of millennium are moving ahead well. By far the greater part of all technical systems have been reviewed, modified and tested. Moreover, an extensive programme is in process to draw up continuity plans in order to minimise any disturbances that are beyond MoDo's control. A more detailed description of MoDo's Year 2000 project can be found on www.modogroup.com under the heading "2000 declaration".

Employees

The average number of employees in the Group was 9,284 (1998, full year: 9,586).

Stockholm, August 17, 1999

Bengt Pettersson
President and Chief Executive Officer

*This interim report has not been subject to general examination by the company's auditors.
The interim report for the January- September 1999 period will be released on October 28.*

PROFIT AND LOSS ACCOUNT, SKr million

	January - June		Full year 1998
	1999	1998	
Net turnover	11,131	11,511	22,676
Operating costs	-9,100	-9,288	-18,700
Interest in earnings of associate companies	2	3	6
Depreciation according to plan	-764	-738	-1,507
Operating profit	1,269	1,488	2,475
Net financial items	-111	-97	-137
Profit after net financial items	1,158	1,391	2,338
Tax	-372	-431	166
Profit for the period	786	960	2,504
Operating margin	%	11.4	12.9
Return on capital employed	%	10.4	12.6
Return on equity	%	9.4	11.7
Earnings per share after tax *	SKr	8.80	10.80

* Calculated before dilution of 3.5 per cent as a result of outstanding convertibles and warrants.

NET TURNOVER AND OPERATING PROFIT, SKr million

	Net turnover January - June		Operating profit/loss January - June	
	1999	1998	1999	1998
Holmen Paper	3,548	3,535	742	610
<i>Holmen Paper excl MoDo Kraft</i>	<i>3,346</i>	<i>3,311</i>	<i>674</i>	<i>560</i>
Iggesund Paperboard	1,945	2,052	194	347
MoDo Paper	3,674	3,769	89	340
MoDo Merchants	1,830	1,885	29	41
Iggesund Timber	401	370	-36	-22
MoDo Skog	2,304	2,499	236	265
Intra-group sales	-2,571	-2,599	-	-
Group adjustments and other	-	-	-122	-72
External currency hedging	-	-	137	-21
	11,131	11,511	1,269	1,488

BALANCE SHEET, SKr million

	1999 June 30	1998 Dec. 31
ASSETS		
Fixed assets	20,745	20,931
Current assets	8,304	8,262
Liquid funds	852	1,241
	29,901	30,434
EQUITY AND LIABILITIES		
Equity	15,017	18,377
Minority interests	5	5
Deferred tax liability	2,965	2,920
Financial liabilities	7,218	4,384
Operating liabilities	4,696	4,748
	29,901	30,434
Debt/equity ratio	0.42	0.17
Equity ratio %	50.2	60.4

CASH FLOW ANALYSIS, SKr million

	1999 Jan-June	1998 Dec. 31
Funds provided from operations	2,058	4,112
Change in working capital etc	-431	169
Capital expenditure	-835	-2,557
Net financial items	-111	-137
Realised foreign exchange differences loans	217	-249
Paid tax	-107	253
Cash flow before dividend	791	1,591
Issue of warrants and convertible loan*	-	46
Dividend paid to shareholders	-3,999	-800
Cash flow	-3,208	837
Unrealised foreign exchange differences**	-15	-111
Change in net financial liabilities	-3,223	726
Liquid funds	852	1,241
Financial liabilities	-7,218	-4,384
Net financial liabilities	-6,366	-3,143

Opening liquid funds	1,241	1,636
Change in liquid funds	-365	-463
Foreign exchange differences relating to translation of liquid funds	-24	68
Closing liquid funds	852	1,241

* 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

	1999		1998 Full year	1998			
	II	I		IV	III	II	I
Net turnover							
Holmen Paper	1,710	1,838	7,432	2,064	1,833	1,782	1,753
<i>Holmen Paper excl MoDo Kraft</i>	1,644	1,702	6,972	1,923	1,738	1,706	1,605
Iggesund Paperboard	972	973	4,051	1,007	992	990	1,062
MoDo Paper	1,809	1,865	7,155	1,697	1,689	1,809	1,960
MoDo Merchants	909	921	3,672	928	859	895	990
Iggesund Timber	200	201	727	186	171	175	195
MoDo Skog	1,119	1,185	4,713	1,168	1,046	1,183	1,316
Intra-group sales	6,719	6,983	27,750	7,050	6,590	6,834	7,276
	-1,241	-1,330	-5,074	-1,298	-1,177	-1,206	-1,393
	5,478	5,653	22,676	5,752	5,413	5,628	5,883
Profit/loss							
Holmen Paper	353	389	1,511	428	473	323	287
<i>Holmen Paper excl MoDo Kraft</i>	367	307	1,455	419	476	347	213
Iggesund Paperboard	106	88	590	104	139	141	206
MoDo Paper	94	-5	171	-170	1	130	210
MoDo Merchants	13	16	64	20	3	12	29
Iggesund Timber	-24	-12	-59	-25	-12	-17	-5
MoDo Skog	124	112	548	157	126	164	101
Group adjustments and other	-53	-69	-24	84	-36	-51	-21
External currency hedging	8	129	-326	-126	-179	14	-35
Operating profit	621	648	2,475	472	515	716	772
Net financial items	-78	-33	-137	-31	-9	-54	-43
Profit after net financial items	543	615	2,338	441	506	662	729
Tax	-175	-197	166	751	-154	-205	-226
Profit for the period	368	418	2,504	1,192	352	457	503

SHARES

	Series A	Serie 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 3,209,689 series B shares, corresponding to dilution of the capital by 3.5 per cent and of the votes by 1.1 per cent.