

Press Release

KLIPPAN is a leading producer of speciality paper for the graphic Industry with a total capacity of 200,000 tons per year. Production is carried out at the three mills in Klippan, Lessebo and Mölndal.



Klippan, 18 August 2005

Interim report 1 January – 30 June 2005

- Net group turnover amounted to MSEK 662.7 (MSEK 741.9)
- Result after tax amounted to MSEK -154.7 (-19.8), of which -108.1 related to items affecting comparability.
- Operating profit amounted to MSEK -178.9 (-18.1), of which -108.1 related to items affecting comparability.
- Result per share is reported as SEK -18.71 (-2.40)
- On 2 June 2005, the Board decided to apply for a company reconstruction and KLIPPAN is now being reconstructed. KLIPPAN AB and Klippan Mölndal AB has applied to the District Courts in Helsingborg and Mölndal for continued reconstruction until December 2nd 2005. The reconstruction is further commented in the reconstructor's report. See appendix.
- On 17 June 2005, the Board decided to close down paper manufacturing at Mölndal Mill. Provision for closing-down costs of MSEK 101.0 has been made in the interim result. The closing-down is proceeding according to plan. The reservation for provision costs is further commented in the reconstructor's report. See appendix.

MSEK	Quarter		Jan - Jun		Full year	
	II - 2005	II - 2004	2005	2004	2004	2003
Net turnover	336.7	356.8	662.7	741.9	1354.1	1664.2
Operating result	-139.6	-13.7	-178.9	-18.1	-108.4	-123.0
Result after financial items	-144.0	-19.6	-188.8	-29.3	-129.9	-148.2
Result after tax	-122.1	-12.9	-154.7	-19.8	-92.4	-112.6
Result per share after standard tax SEK	-14.77	-1.56	-18.71	-2.40	-11.19	-13.62
Return on capital employed %	negative	negative	negative	negative	negative	negative

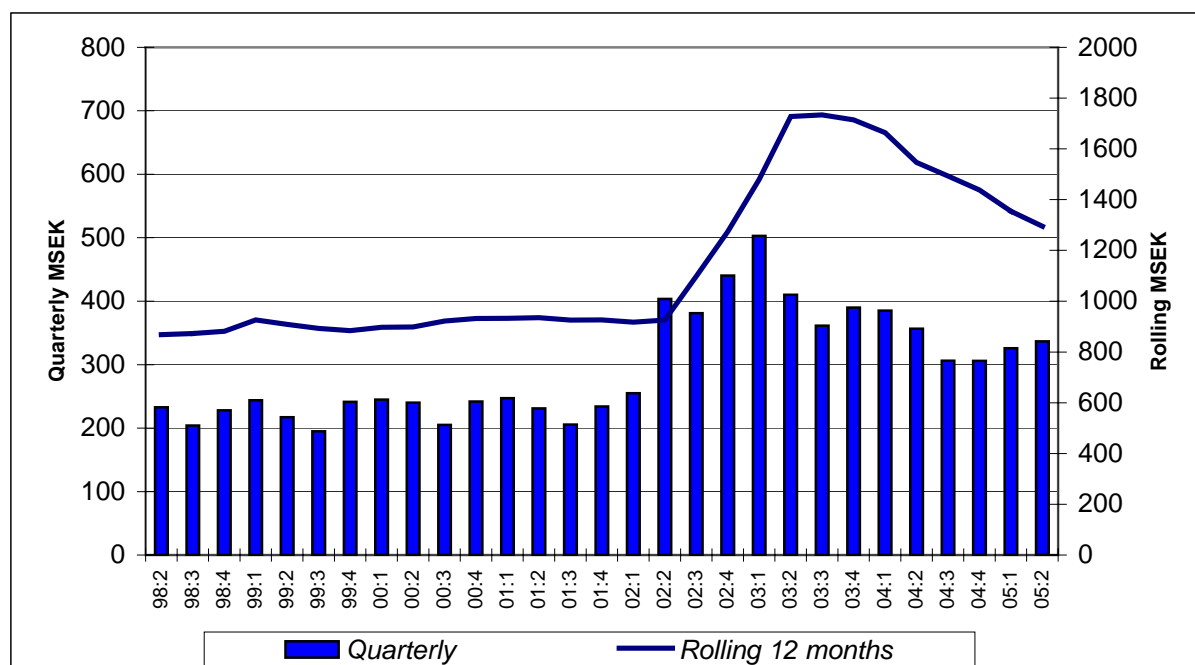
The business in general

KLIPPAN is a leading producer of speciality paper for the graphic industry. KLIPPAN is active within specific niches on the fine paper market. The strategic products are within the segments coloured paper, premium graphic paper, thin printing paper and deep coloured tissue.

Market

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.

Net turnover



The interim accounts show government grants (emission rights) amounting to MSEK 11.1 and capital gains relating to the sale of emission rights amounting to MSEK 4.7 in net turnover.

Result

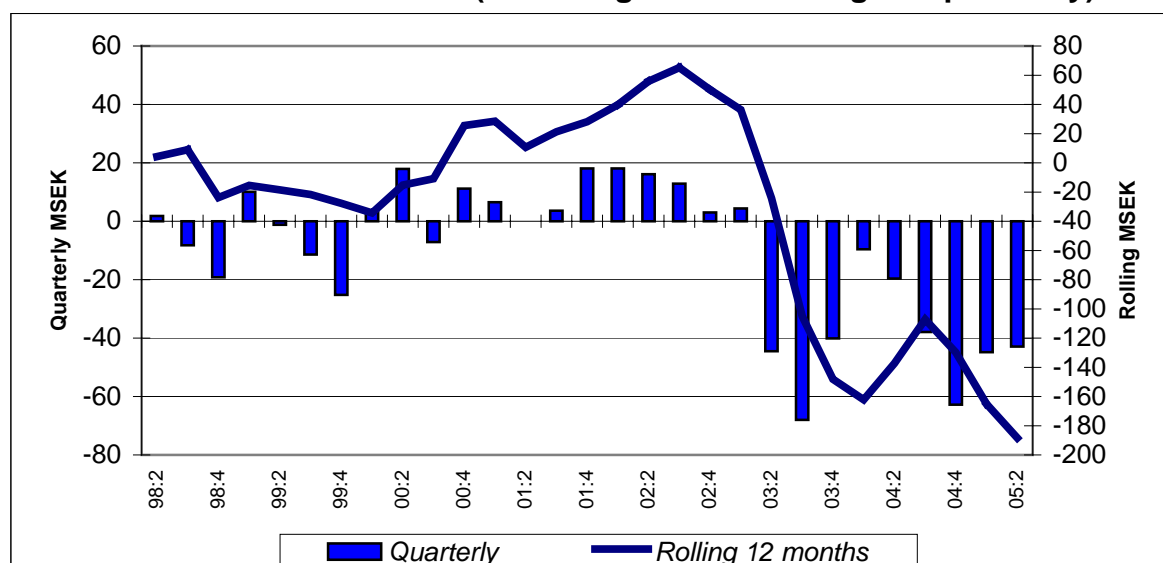
Net group turnover amounted to MSEK 662.7 (MSEK 741.9) Invoicing compared to last year has been affected by the abandonment of non-profitable product segments, KLIPPAN's financial situation and the closing-down of Mölndal Mill in progress.

The operating result amounted to MSEK -178.9 (-18.1). The result includes provision for the closing-down of Mölndal Mill, amounting to MSEK 101.0 and costs for the interrupted acquisition process of a French paper mill of MSEK 7.1. The operating result excluding items affecting comparability amounted to MSEK -70.8 (-18.1). The deterioration in the result compared to last year is the result of reduced invoicing,

more stoppage days as a result of a weak orderbook during the latter part of 2004 and an increased number of low margin orders. The financial situation before the start of the company reconstruction also caused interruptions to the operation.

Result after financial items amounted to MSEK -188.8 (-29.3). The average number of employees within the group was 835 (860). Result per share is reported as SEK -18.71 (-2.40).

Result after net financial items (excluding items affecting comparability)



Changes to equity (MSEK)

Opening equity 2005-01-01	101.9
Translation difference	-0.3
Reserve for actual value (emission rights)	25.7
Result for the year	-154.7
Closing equity 30.06.05	-27.4

Liquidity

At the end of the second quarter of 2005, group liquid assets amounted to MSEK 25.2. The group reports negative solidity (19.0) and negative debt/equity ratio (2.4).

Investments

Investments during the period January – June 2005 amounted to MSEK 8 (12).

Cash flow analysis (MSEK)

	Jan - Jun 2005	Jan - Jun 2004
Operating activities	-50,9	-4,1
Changes to operating capital	63,9	0,2
Cash flow from operating activities	13,0	-3,9
Cash flow from investment activities	-7,7	-12,0
	5,3	-15,9
Cash flow from financing activities	9,3	-11,2
Changes to liquid assets	14,6	-27,1
Opening liquid assets	10,6	61,8
Closing liquid assets	25,2	34,7

Financing

The last few years' losses have seriously impaired KLIPPAN's financial position. On 2 June 2005, the Board decided to apply for reconstruction to the District Courts in Helsingborg and Mölndal. The reconstruction work is in progress and an proposal for a settlement will be presented to the creditors, together with a refinancing plan for KLIPPAN. The planned new issue has been delayed until the reconstruction is complete.

The work of selling the real estate in Mölndal is continuing, but based on different pre-conditions as a result of the decisions made in relation to the operation in Mölndal.

Structural measures

The aim of closing down of the operation at Mölndal Mill and transferring the production of core products to the mills at Klippan and Lessebo, which has been decided upon and is in progress, is to safeguard full utilization of capacity at both these mills. This measure will reduce KLIPPAN's fixed costs most considerably and will ensure profitability at both Klippan Mill and Lessebo Mill.

A decision has also been made to concentrate the administration and marketing organizations to the head office in Klippan. The aim of this measure is to achieve increased efficiency at lower cost.

The above-mentioned measures will create a solid basis for continued development.

Accounting principles

The group interim report is drawn up in accordance with IAS 34. The accounting principles applied in this report correspond to the accounting principles in the latest published annual accounts for 2004.

Emission rights

As from 2005, a trading system applies within the EU aimed at reducing carbon dioxide emissions. Within the framework for this programme, production plant has received emission rights from the authorities in the country in question without payment or at a price below the actual value. During 2005, it has been possible to buy or sell these emission rights on a market. In its Statement 3, IFRIC (the emerging issues group within IASB) addresses the accounting for such emission rights. IASB retracted IFRIC's Statement 3 in June after the EU had proposed changes.

In the absence of a final, EU-approved Statement, KLIPPAN will be accounting for emission rights as follows: Emission rights received or purchased are reported as an intangible asset among other receivables. At the time the emission right is received or purchased at a lower value than the actual value, the asset is accounted for at actual value and as pre-paid income (government grant).

In conjunction with the year-end accounts, the asset is accounted for at actual value and the surplus value is accounted for against equity, reduced by deferred tax relating to the part relating to Klippan Mölndal AB. The government grant is taken up as income during the year, and as emissions of carbon dioxide are made, a cost and a liability respectively for the undertaking to deliver emission rights are accounted for.

During the year, KLIPPAN has sold emission rights, which has had a positive effect of MSEK 4.7 on the group's operating result. As the operation at Mölndal Mill is to be closed down, the government grant relating to emission rights issued for 2006 and 2007 have been taken up as income of MSEK 8.3.

Change to accounting in accordance with IFRS 2005

As from 2005, all listed companies within the EU shall compile their group annual accounts in accordance with the International Financial Reporting Standards (IFRS). These shall be applied as from 1 January 2005 and the comparison year 2004 shall be recalculated. According to the transitional rules in IFRS 1, no recalculation needs to be done for the comparison year in relation to IAS 39, Financial Instruments: Recognition and Measurement. The company will not be carrying out any recalculation for the comparison year in relation to IAS 39, as we consider that this does not have any significant effect at group level.

Events after the end of the result period

On-going negotiations regarding the composition and guarantee for decided new share issue is commented in the reconstructor's report. See appendix.

Reports

The interim report for the third quarter will be published on 10 November 2005.

KLIPPAN AB



Thomas Billing
Managing Director

The contents of this report have been the subject of general review by the company's auditors.

For further information, please contact Thomas Billing, Managing Director, on tel +46 (0) 435 291 01, Anders Ljunge, Finance Director, on tel +46 (0)435-291 64 or the Reconstructor Lawyer Guy Lofalk on tel +46 (0)8 22 09 00.

Summary income statement and balance sheet

Income statement MSEK

	Jan-Jun 2005	Jan-Jun 2004	Jan-Dec 2004
Net turnover	662.7	741.9	1 354.1
Raw materials and consumables	-392.0	-385.4	-766.9
Changes to work in progress and finished goods inventory	-16.4	-4.4	-7.9
Personnel expenses	-190.2	-202.8	-389.6
Other external items	-104.9	-139.0	-235.4
Items affecting comparability	-108.1	0.0	0.0
Depreciation	-30.0	-28.4	-62.7
Operating result	-178.9	-18.1	-108.4
Net financial items	-9.9	-11.1	-21.5
Result after financial items	-188.8	-29.2	-129.9
Tax	34.1	9.4	37.5
Result after tax	-154.7	-19.8	-92.4
Result per share after standard tax	-18.71	-2.40	-11.19
No of shares, thousands	8 267	8 267	8 267

Balance sheet MSEK

ASSETS	2005-06-30	2004-06-30	2004-12-31
Fixed assets	488.0	452.5	479.3
Inventory	184.0	214.5	203.2
Other receivables	203.1	198.4	138.8
Cash and bank balances	25.2	34.7	10.6
	900.3	900.1	831.9
EQUITY AND LIABILITIES			
Equity	-27.4	171.2	101.9
Interest bearing liabilities	487.7	443.1	461.2
Non-interest bearing liabilities	440.0	285.8	268.8
	900.3	900.1	831.9

Key ratios

		Jan-Jun 2005	Jan-Jun 2004	Jan-Dec 2004
Profit margin	%	-28.5%	-3.9%	-9.6%
Capital employed	MSEK	454.3	614.3	563.1
Return on capital employed	%	negative	negative	negative
Return on equity	%	negative	negative	negative
Solidity	%	negative	19.0	12.1
Debt/equity ratio	times	negative	2.4	4.4
Equity/share	SEK	-4	21	12
Market value/equity*	%	-	97	118

* share price as at 05-06-30 SEK 9.00

* share price as at 04-12-31 SEK 14.50

* share price as at 04-06-30 SEK 20.10

Summary income statement (MSEK)

Quarterly information	2005		2004				2003			
	II	I	IV	III	II	I	IV	III	II	I
Net turnover	336.7	326.0	306.0	306.2	356.8	385.1	389.8	361.5	409.9	502.9
Operating result	-139.6	-39.3	-54.3	-36.0	-13.7	-4.4	-29.4	-63.4	-40.0	9.8
Financial items	-4.4	-5.5	-5.2	-5.2	-5.9	-5.2	-10.7	-4.6	-4.5	-5.4
Result after financial items	-144.0	-44.8	-59.4	-41.3	-19.6	-9.6	-40.1	-68.0	-44.5	4.4
Tax	21.9	12.2	16.6	11.5	6.7	2.7	14.7	15.7	6.4	-1.2
Result after tax	-122.1	-32.6	-42.8	-29.8	-12.9	-6.9	-25.4	-52.3	-38.1	3.2

Net turnover and operating result per segment (MSEK)

	Net turnover			Operating result		
	Jan - Jun 2005	Jan - Jun 2004	Jan-Dec 2004	Jan - Jun 2 005	Jan - Jun 2 004	Jan-Dec 2 004
Coloured paper	316.1	366.9	669.0	5.8	18.0	9.0
Uncoated graphic paper	97.8	104.4	196.1	1.7	10.3	11.5
Coated paper	153.9	172.1	324.7	-52.7	-40.2	-97.2
Speciality paper	127.2	125.5	238.0	-25.6	-6.2	-31.7
Items affecting comparability	0.0	0.0	0.0	-108.1	0.0	0.0
Internal deliveries	-32.3	-27.0	-73.7	0.0	0.0	0.0
	662.7	741.9	1354.1	-178.9	-18.1	-108.4

Net turnover per market (MSEK)

	Jan - Jun 2005	Jan - Jun 2004	Jan-Dec 2004
Sweden	152.2	159.0	297.5
Other Nordic countries	94.4	113.4	216.0
Rest of Europe	334.7	423.5	750.4
Rest of world	81.4	46.0	90.2
	662.7	741.9	1 354.1

Lessebo, 18 August 2005

**Appendix to interim report for KLIPPAN AB
The reconstruction of KLIPPAN AB and Klippan Mölndal AB**

The reconstructor's comments on KLIPPAN's interim report regarding the accounts for the first six months of 2005 and the reconstruction

The undersigned was appointed by Helsingborg District Court and Mölndal District Court as reconstructor for KLIPPAN AB and Klippan Mölndal AB respectively, hereafter called KLIPPAN, by decision made on 2 June 2005.

As reconstructor, it is incumbent upon me to lead the reconstruction, including investigating KLIPPAN's financial position and drawing up a reconstruction plan in conjunction with the companies. My work as reconstructor also includes ensuring the creditors receive necessary financial information and giving my comments on the year end accounts, interim accounts, etc, as well as information on how the reconstruction is proceeding.

In conjunction with the interim report and press release published by KLIPPAN today, I thus make the following comments regarding the company's position and reconstruction.

The information given in the interim report regarding the period 1 January – 30 June 2005 are to the greatest extent information that was known when the decision to reconstruct the company was made, and also formed the basis for the decision to start the reconstruction.

The background to KLIPPAN's problems has been insufficient capacity utilization, resulting in high costs for the manufactured paper. Since the decision to reconstruct, KLIPPAN has started a structural and financial reconstruction and has undertaken a number of measures, the most important of which are listed below.

Structural

The continued production at KLIPPAN has been safeguarded after the uncertainty that prevailed during the first days of the company reconstruction. This means that the mills have now received supplies for the production and can deliver to KLIPPAN's customers in the normal way.

KLIPPAN's larger customers have declared that they will continue buying from KLIPPAN as long as quality and supply security are kept at the same level as before. So far, KLIPPAN has succeeded in this.

During the reconstruction, KLIPPAN's employees have worked under very great pressure, but have succeeded in a very meritorious way, which has contributed greatly to the reconstruction.

Since the decision to reconstruct was announced, the negotiations in accordance with the law on self-determination at work at Klippan Mölndal AB have been concluded. Upon conclusion of the negotiations, the closing-down measures for Mölndal Mill have started, entailing that the employees have been given notice of termination, with the exception of those who will remain to operate the BSC business (Board Service Center). This has been announced in a previous press release from KLIPPAN.

The restructuring of the production between Mölndal Mill and Klippan and Lessebo Mills respectively has started, and entails that production at Mölndal Mill is planned to cease during December 2005, whereupon the structural effects will show their full effect at KLIPPAN.

Financial

Group

The group interim report shows that provision for **closing-down costs** has been made in the result for the first six months in the amount of SEK 101 million. In this conjunction, it is important to emphasize that these closing-down costs will only affect Klippan Mölndal AB, and not the group in general. The operation at Mölndal Mill will in the main be closed down, and the costs this entail may only be charged to Klippan Mölndal AB in light of the ongoing reconstruction.

Klippan Mölndal AB

The reconstruction of Klippan Mölndal AB continues as stated above with the closing-down of the paper mill. However, the so-called BSC operation will continue so far. The reconstruction does presume sacrifices from all parties, in particular the creditors through the settlement which will be offered, probably during September 2005 when greater clarity about the closing-down costs has been achieved. If it should prove that the settlement cannot be made for Klippan Mölndal AB, the structural costs will thus not affect the other parts of the KLIPPAN group.

KLIPPAN

In order to facilitate KLIPPAN's reconstruction, Nordea has added SEK 8 million in liquid assets and declared itself willing to add further liquid assets if needed.

The group CEO Thomas Billing together with several of his colleagues have managed through very solid work to ensure that the ordinary operation has continued under as normal conditions as possible, and at the same contributed to the development of KLIPPAN's reconstruction plan and future.

During the reconstruction, the group management have worked out a **schematic financial plan** covering the period up to and including 2007 for the reconstructed company. PricewaterhouseCoopers has helped the group management to summarize financial and other information. The financial plan shows that KLIPPAN will become a profitable company already in 2006, with full effect in 2007, provided that the structural and financial reconstruction measures are carried out. This also means that a settlement is absolutely necessary to achieve. On these grounds, the reconstruction plan has been developed as follows.

The earlier decision regarding a **new share issue** will be carried out and will cover at most SEK 200 million. Preliminary undertakings have been made, which mean that the whole issue will be guaranteed. However, the guarantors have required certain conditions. The conditions mainly concern the requirement to reach a settlement equivalent to a write-down of 70% of the accounts payable covered by the settlement.

KLIPPAN will provide the creditors with a **settlement proposal** by 29 August 2005 by the latest.

Saving KLIPPAN presumes sacrifices by those involved and the creditors, but means that we have the opportunity to save one of Sweden's oldest companies with some 500 job opportunities and satisfied customers.

As KLIPPAN is now in all important aspects heading in the right direction, both in relation to the structural measures and the financial reconstruction and future operation, an **application to extend** the reconstruction period will be made for KLIPPAN AB and Klippan Mölndal AB in order to complete the reconstruction work.

Facts about the company reconstruction

Below follows general brief facts about company reconstruction and specific preconditions for the reconstruction of KLIPPAN.

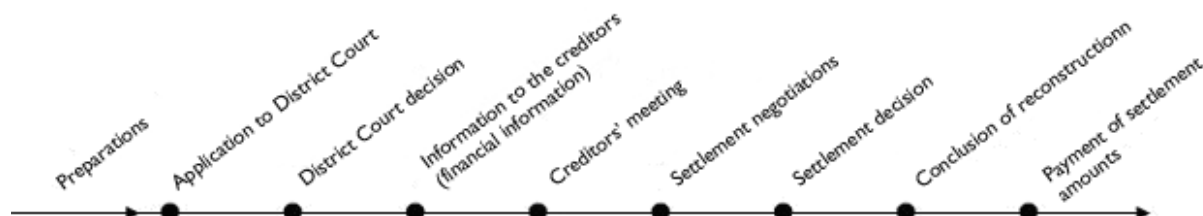
The reconstruction of the KLIPPAN group is the largest reconstruction in Sweden so far. It is also unique, as it concerns a company listed on the stock exchange, where many of the rules to be applied have never before been tested in such circumstances. On many issues, there are no customary or ready-made solutions. We have therefore been forced to find our own solutions during the reconstruction.

A reconstruction normally lasts for three to six months. The first three month period is given to the reconstruction company by the District Court's decision to grant company reconstruction. As this period is often insufficient, the company normally applies for an extension of the time for company reconstruction. This is also the case for KLIPPAN AB and Klippan Mölndal AB.

Guy Lofalk
Attorney

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Attorney Guy Lofalk, tel: +46(0)8-22 09 00.

Time axis



Introduction

The changes to the law introduced in Sweden in latter years have been aimed at offering better opportunities for reconstructing companies that are profitable in the longer term without going into receivership. In this way, the debtor's operation can continue and the "going concern value" can benefit all stakeholders in the company.

Preconditions for starting a company reconstruction

It is not necessary for the debtor to be insolvent in order to apply for a company reconstruction. It is sufficient that the company faces illiquidity or risk of illiquidity within the near future. This is proof of the legislators' wish that companies with problems (distressed companies) shall be able to take measures in time before the problems become so serious that they are difficult to address.

The application and its contents

The application is made to the District Court for the place where the debtor is registered. The application shall include the company's information about the reason for the difficulties in making payment and a brief account of the finances. The application shall also give a preliminary plan for how the reconstruction is to be carried out and how the settlement with the creditors is to be achieved. The application shall also include proposals for a reconstructor. In practice, the reconstructor and the debtor draw up the application for company reconstruction together.

Suspension of payments

Ahead of or in conjunction with an application for a company reconstruction, the debtor normally suspends payments. The reason for the decision to suspend payments before the application is, among others, to stop the liquidity flow from the company, but it is also a way of responding to pressures from creditors. Payments to certain creditors could be regarded as a punishable favour to these, which can thus be avoided by suspending payments.

Through the Court's decision regarding a company reconstruction, the debtor is prohibited from paying debts arising before the decision about the company reconstruction, irrespective of whether these are priority or non-priority debts.

Once the suspension of payment has been introduced, deliveries of goods and services are paid "cash". "Cash" in practice means that no new indebtedness may arise, through e.g. accounts payable - trade. In this way, the debtor avoids increasing the burden of debt.

The role of the reconstructor

The reconstructor is thus appointed by the Court and, after this decision, leads the reconstruction work. The reconstructor shall have the trust of the creditors and fulfil high demands as to qualifications. The legislators have placed a great responsibility on the reconstructor, but also given him great independence. The reconstructor leads the work together with the debtor, but makes his own decisions on a number of issues, among others whether to agree to the company taking out new credit and the super-priority which arises from this.

In practice, the reconstructor's work concerns the measures aimed at carrying out the reconstruction, mainly negotiations with creditors and certain structural issues. The company management normally continues to lead the company's day-to-day operations, but under the supervision of the reconstructor. The reconstructor's position in the company can most closely be likened to that of a pilot onboard a ship.

The rights of the debtor during the process

The debtor retains the rights to his assets. The general meeting, the board and the company management have the same tasks and rights during the reconstruction as before the formal process started. The difference is that the debtor has an extensive duty to inform the reconstructor regarding the financial circumstances. The debtor shall also follow the reconstructor's instructions and guidelines. The reconstructor's instructions do not normally cover the day-to-day operation, as he rarely has any specific experience of the industry. In practice, the planning of the operation is done jointly by the reconstructor and the company management. This is shown, among others, in the situation where new credit needs to be raised, when the reconstructor cannot alone decide whether to go ahead, as it is the debtor who signs and is the party to the loan agreement with the lender. However, the reconstructor's approval of the new credit is necessary for it to gain so-called super priority.

Protection during the reconstruction process – agreements, taxes, execution, receivership applications

By means of the Court decision, the debtor is protected against a number of threats for as long as the reconstruction process continues. Agreements cannot be terminated, the board is protected against personal liability for taxes, no execution against the company can be made and receivership applications are postponed. The debtor thereby gets the breathing space to plan how to get over the crisis. It could be said that the debtor gains a protective cover or "protecting veil" against himself and the creditors during the reconstruction.

The reconstruction process

The formal part of the reconstruction starts with the application for company reconstruction and the Court's decision. However, in practice the reconstruction can be carried out a long time before and after the formal process has been started and ended.

Among the more important immediate measures is, of course, close contact with the debtor's customers, to ensure these continue to do business with the company. The debtor's creditors are also important, as it is they who have to approve any settlement or moratorium in relation to the company's debts. In other respects, it is important to give information to those on whom the process impinges. For public and stock exchange listed companies, the agreements with the respective market place requirements on the type of information to be given.

Settlement

A company reconstruction is often aimed at carrying out a settlement as well. The meaning of a settlement can vary considerably, and can consist of anything from a time-limited moratorium to the reduction of the non-priority claims to 25 percent of their nominal amounts.

A settlement can be reached through a voluntary agreement between the company and the creditors involved, or through a so-called compulsory settlement. Compulsory settlements only cover non-priority claims which have arisen before the application for company reconstruction.

Compulsory settlements are carried out during the formal reconstruction process and start by the debtor giving a settlement proposal to the creditors affected, i.e. those who have non-priority claims that have arisen before the suspension of payments. Consequently, only creditors with such claims can vote in relation to the settlement.

In order to carry out a compulsory settlement, a qualified majority of the creditors concerned is required. In order to achieve the maximum write-down that may be made, that is non-priority creditors being offered 25 percent of the nominal amount of the claims, a majority equal to 75 percent of the number of voters representing at least 75 percent of the total amount of the claims qualified to vote. If the settlement gives at least 50 percent to the non-priority creditors, the majority requirement is lower, 60 percent of the voters representing at least 60 percent of the total amount of the claims qualified to vote.

Compulsory settlements are carried out in a voting procedure before the Court. The votes are counted and, when the vote has been taken, the Court makes a decision to fix the settlement if a sufficient majority has been achieved. The decision covers all claims, irrespective of whether the creditors have voted. The settlement amount must be paid to the creditors within one year.

Time frames

The formal process is proposed to be completed within three months. The normal time is three to six months, but there is a possibility to extend up to one year by applying to the Court. The idea is that the extreme situation that the formal process entails should be as short as possible. However, if an application for settlement has been made, the process continues until such time as the Court has decided upon the settlement and it has come into force.

Wage guarantee during company reconstruction

According to a decision that came into force on 1 June 2005, the debtor is entitled to utilize the wage guarantee for his employees. Budgeted monies for wage costs can thus be used for other things during the reconstruction. Once the reconstruction has been completed, the reconstruction debtor becomes liable to repay the monies to the paying county administrative board. The use of the wage guarantee is optional for the debtor, and subject to the wage guarantee legislation.