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YEAR-END COMMUNIQUÉ FOR 1999

Highlights

- * Profit after financial items increased to SKr 2,409 million (1998: 2,338).
The profit for the fourth quarter amounted to SKr 631 million, compared with SKr 620 million for the third quarter.
- * The profit for the year after tax amounted to SKr 1,814 million (2,504), which corresponds to earnings per share of SKr 20.40 (28.20). The return on equity was 10.6 per cent (14.4).
- * Net turnover amounted to SKr 20,508 million (22,676).
- * The Board proposes to pay an ordinary dividend of SKr 11 (10) per share.

The Board also intends to propose that the ordinary Annual General Meeting resolves to distribute 35 per cent of the total number of shares in Modo Paper AB to the shareholders in connection with the exchange listing of this company that is planned for the spring.

The date of the ordinary Annual General Meeting is being postponed to April 12 from the previously announced date of March 23.

- * The Board has proposed that the company's name be changed to Holmen Aktiebolag. Provided an Extraordinary General Meeting on February 10 resolves in favour of this change, it is intended that the Group should be called Holmen.
- * Demand for newsprint and magazine paper remained strong. Holmen Paper's deliveries during the fourth quarter were high with full capacity utilisation. Prices in local currencies remained stable after a slight reduction at the start of the year.
- * Demand for paperboard rose. Iggesund Paperboard's deliveries declined during the fourth quarter as a result of production disturbances following the rebuild of the Workington mill. This had a negative effect of just over SKr 100 million on the result. Price increases have been announced with effect from the beginning of 2000.

Net turnover and result

Net turnover amounted to SKr 20,508 million (22,676). The fourth quarter turnover amounted to SKr 3,974 million (third quarter: 5,403). The reason for the reduction from one quarter to the next is that, as of the start of the fourth quarter, the fine paper activities are included in the associate company, Modo Paper. The net turnover for the year attributable to MoDo's current activities amounted to SKr 14,565 million (1998: 15,000).

The operating profit amounted to SKr 2,615 million (2,475) and the operating margin was 12.0 per cent (10.9). The result was positively influenced by higher delivery volumes and lower variable costs, although fixed costs rose slightly.

The operating profit for the fourth quarter was SKr 654 million, which may be compared with SKr 692 million for the third quarter. Deliveries were slightly higher and sales prices remained largely unchanged.

Holmen Paper's result was lower than in the third quarter mainly on account of seasonally higher electricity costs.

Iggesund Paperboard's result was negatively influenced by just over SKr 100 million during the fourth quarter due to production disturbances following the comprehensive rebuild of a paperboard machine at Workington, England. Production stability has been considerably improved since the beginning of the year, and normal production conditions are expected to be restored during the first quarter. The business area's result has also been affected by certain non-recurring costs.

The return on capital employed was 11.7 per cent (10.3) for the year as a whole. The return on equity was 10.6 per cent (14.4).

Net financial costs amounted to SKr 206 million (cost: 137).

The profit after financial items amounted to SKr 2,409 million (2,338). The profit for the fourth quarter amounted to SKr 631 million (third quarter: 620).

The profit for the year after tax amounted to SKr 1,814 million (2,504).

Earnings per share after tax amounted to SKr 20.40 (28.20).

Financing

The cash flow prior to dividend amounted to SKr 5,105 million (1,591), of which the effects of divested activities accounted for SKr 3,258 million. The Group's net financial liability at the end of December amounted to SKr 2,054 million (December 31, 1998: 3,143).

The debt/equity ratio at the end of December was 0.13 (December 31, 1998: 0.17). The equity ratio was 54.4 per cent (December 31 1998: 60.4).

Markets

Newsprint and magazine paper experienced strong demand in 1999 and capacity utilisation was high. Deliveries of newsprint to Western Europe rose by just over 2 per cent, of SC paper by some 5 per cent and of coated grades some 1 per cent. Prices in local currencies were stable after a slight reduction at the start of the year. During the fourth quarter, Holmen Paper's delivery volumes were high, the order intake remained strong and prices remained stable.

Paperboard producers in Western Europe increased their deliveries by 5 per cent in 1999. Deliveries to Western Europe of virgin fibre-based paperboard increased by 1 per cent and of solid bleached board by 6 per cent, while deliveries of folding boxboard remained unchanged. The order intake remained strong during the fourth quarter. Iggesund Bruk operated at full capacity utilisation. As a consequence of production disturbances following the Workington rebuild, Iggesund Paperboard's deliveries fell during the final quarter. The strong demand meant that price increases were announced with effect from the beginning of 2000. Workington's competitive position is cumbersome due to the strength of sterling.

The *sawn timber* market was characterised by excess supply and depressed prices, despite firm demand. The market for whitewood products improved during the second half of the year and some price increases could be implemented, whilst the redwood market weakened. Iggesund Timber's deliveries increased by 5 per cent during the year and deliveries in the fourth quarter were high.

Wood consumption within the Group (excluding divested activities) was slightly higher than in 1998. Supplies from the private forestry sector were more or less unchanged from last year. Seen overall, MoDo reduced its own harvesting and increased imports. Pulpwood prices were reduced at the end of 1998 and the mills' cost per cubic metre of pulpwood was some 5 per cent lower in 1999 than in the previous year.

Production and deliveries

MoDo's production (excluding production from divested activities) of paper, paperboard and pulp for external delivery amounted to 1,839,000 tonnes (1,842,000). The fourth quarter production was 452,000 tonnes (third quarter: 477,000).

Deliveries (excluding deliveries from divested activities) of paper, paperboard and pulp rose by 2 per cent to 1,848,000 tonnes (1,814,000). Deliveries during the fourth quarter amounted to 489,000 tonnes (third quarter: 471,000).

Capital expenditure

The Group's capital expenditure amounted to SKr 1,988 million (2,557, of which 915 was related to the repurchase of power assets). Depreciation according to plan amounted to SKr 1,387 million (1,409).

Structural changes

As of October 1, 1999, MoDo and SCA merged their fine paper and merchanting operations into the new company, Modo Paper AB, in which MoDo has a 50 per cent interest. As of the fourth quarter, MoDo states its holding in Modo Paper as interest in earnings of associate companies.

The operating profit of the activities transferred from MoDo to Modo Paper amounted during the first, second and third quarter of the year to SKr 30 million, 135 and 54 respectively. The interest in Modo Paper's fourth quarter earnings, after interest costs of SKr 43 million, amounted to SKr 136 million.

The integration of the two businesses is proceeding well and market developments are favourable.

Modo Paper will publish information about the company at the beginning of February.

The pulp activities at Domsjö were divested with effect from December 31. The effect on the result was limited. Following the divestment, MoDo is no longer a net seller of pulp.

Exchange listing of Modo Paper

MoDo and SCA have decided to initiate work with an exchange listing and broadening of ownership of Modo Paper AB, in which each currently holds a 50 per cent interest. The broadening of ownership is intended to be accomplished through SCA selling shares in a public offering and MoDo distributing shares to its shareholders.

MoDo intends to propose that the ordinary Annual General Meeting resolves to distribute 35 per cent of the total number of shares in Modo Paper AB to its shareholders. It is SCA's intent in the public offering to sell shares corresponding to an equal number of shares.

Assuming that the market conditions prevail for an exchange listing, the assessment is that Modo Paper will be listed on the OM Stockholm Stock Exchange during April 2000.

New President and CEO

Per Ericson takes up his position as President and Chief Executive Officer on February 15. Ericson, previously President of AB Sandvik Steel, will succeed Bengt Pettersson who is retiring.

Personnel

The average number of employees in the Group was 8,433 (full year 1998: 9,586) of whom in Sweden 6,176 (6,754).

Dividend proposal

The Board proposes to pay an ordinary dividend of SKr 11 (10) per share. The proposed dividend amounts to a total of SKr 977 million.

Annual General Meeting

On account of the proposed exchange listing of Modo Paper, the date of the ordinary Annual General Meeting in Stockholm is being postponed to April 12 from the previously announced date of March 23.

An Extraordinary General Meeting will be held on February 10 in Stockholm. The EGM will resolve on the proposal to change the company's name to Holmen Aktiebolag from the present Mo och Domsjö Aktiebolag. Provided the EGM resolves in favour of the Board's proposal to change the company's name, it is intended that the new name of the Group should be Holmen.

Stockholm, January 31, 2000

Bengt Pettersson
President and Chief Executive Officer

This year-end communiqué has not been subject to final examination by the company's auditors.

The Annual Report will be released at the beginning of March 2000.

The interim report for the January–March 2000 period will be released on April 28.

PROFIT AND LOSS ACCOUNT, SKr million

	1999	1998
Net turnover	20,508	22,676
Operating costs	-16,669	-18,700
Interest in earnings of associate companies	163	6
Depreciation according to plan	-1,387	-1,507
Operating profit	2,615	2,475
Net financial items	-206	-137
Profit after financial items	2,409	2,338
Tax	-595	166
Profit for the year	1,814	2,504
Operating margin %	12.0	10.9
Return on capital employed %	11.7	10.3
Return on equity %	10.6	14.4
Earnings per share after tax* SKr	20.40	28.20

* 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		Operating profit	
	1999	1998	1999	1998
Holmen Paper	7,327	7,432	1,494	1,511
<i>Holmen Paper excl MoDo Kraft</i>	<i>6,944</i>	<i>6,972</i>	<i>1,418</i>	<i>1,455</i>
Iggesund Paperboard	3,913	4,051	318	590
Iggesund Timber	767	727	-66	-59
MoDo Skog	4,397	4,713	521	548
Group adjustments and other	—	—	-178	-20
External currency hedging	—	—	158	-326
	16,404	16,923	2,247	2,244
Share in earnings Modo Paper	—	—	136	—
Divested activities [†]	8,345	10,905	232	231
Intra-group sales	-4,241	-5,152	—	—
	20,508	22,676	2,615	2,475

* Relates to fine paper January – September as well as Domsjö, that was divested with effect from December 31.

BALANCE SHEET, SKr million

	1999 Dec. 31	1998 Dec. 31
ASSETS		
Fixed assets	19,253	20,931
Current assets	5,068	8,262
Financial receivables	3,395	–
Liquid funds	1,456	1,241
	29,172	30,434
EQUITY AND LIABILITIES		
Equity	15,883	18,377
Minority interests	–	5
Deferred tax liability	2,408	2,920
Financial liabilities	6,905	4,384
Operating liabilities	3,976	4,748
	29,172	30,434
Debt/equity ratio	0.13	0.17
Equity ratio %	54.4	60.4

CASH FLOW ANALYSIS, SKr million

	1999 Dec. 31	1998 Dec. 31
Operating profit	2,615	2,475
Adjustments for items not included in cash flow	1,551	1,388
Change in working capital	–3	169
Net financial items	–206	–137
Paid tax	–122	253
Cash flow before capital expenditure	3,835	4,148
Capital expenditure	–1,988	–2,557
Cash flow after capital expenditure	1,847	1,591
Effects from divested activities	3,258	–
Cash flow before dividend	5,105	1,591
Issue of warrants and convertible loan*	–	46
Dividend paid to shareholders		
Ordinary	–889	–800
Extra	–3,110	–
Cash flow	1,106	837
Currency effects	–17	–111
Change in net financial liability	1,089	726
Liquid funds	1,456	1,241
Financial receivables	3,395	–
Financial liabilities	–6,905	–4,384
Net financial liability	–2,054	–3,143
Opening liquid funds	1,241	1,636
Change in liquid funds	235	–463
Currency effects	–20	68
Closing liquid funds	1,456	1,241

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

QUARTERLY FIGURES, SKr million

	1999 Full year	1999				1998 Full year	1998			
		IV	III	II	I		IV	III	II	I
Net turnover										
Holmen Paper	7,327	1,971	1,808	1,710	1,838	7,432	2,064	1,833	1,782	1,753
<i>Holmen Paper excl MoDo Kraft</i>	6,944	1,855	1,743	1,644	1,702	6,972	1,923	1,738	1,706	1,605
Iggesund Paperboard	3,913	963	1,005	972	973	4,051	1,007	992	990	1,062
Iggesund Timber	767	198	168	200	201	727	186	171	175	195
MoDo Skog	4,397	1,128	965	1,119	1,185	4,713	1,168	1,046	1,183	1,316
	16,404	4,260	3,946	4,001	4,197	16,923	4,425	4,042	4,130	4,326
Divested activities	8,345	276	2,530	2,739	2,800	10,905	2,640	2,567	2,727	2,971
	24,749	4,536	6,476	6,740	6,997	27,828	7,065	6,609	6,857	7,297
Intra-group sales	-4,241	-562	-1,073	-1,262	-1,344	-5,152	-1,313	-1,196	-1,229	-1,414
	20,508	3,974	5,403	5,478	5,653	22,676	5,752	5,413	5,628	5,883
Profit/loss										
Holmen Paper	1,494	348	404	353	389	1,511	428	473	323	287
<i>Holmen Paper excl MoDo Kraft</i>	1,418	310	434	367	307	1,455	419	476	347	213
Iggesund Paperboard	318	-14	138	106	88	590	104	139	141	206
Iggesund Timber	-66	-13	-17	-24	-12	-59	-25	-12	-17	-5
MoDo Skog	521	176	109	124	112	548	157	126	164	101
Group adjustments and other	-178	-23	-34	-52	-69	-20	84	-35	-51	-18
External currency hedging	158	1	20	8	129	-326	-126	-179	14	-35
	2,247	475	620	515	637	2,244	622	512	574	536
Share in earnings Modo Paper	136	136	-	-	-	-	-	-	-	-
Divested activities	232	43	72	106	11	231	-150	3	142	236
Operating profit	2,615	654	692	621	648	2,475	472	515	716	772
Net financial items	-206	-23	-72	-78	-33	-137	-31	-9	-54	-43
Profit after financial items	2,409	631	620	543	615	2,338	441	506	662	729
Tax	-595	-22	-201	-175	-197	166	751	-154	-205	-226
Profit for the year	1,814	609	419	368	418	2,504	1,192	352	457	503

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 and subscription involve an issue of a further 3,209,691 series B shares, corresponding to dilution of the capital by 3.5 per cent and of the votes by 1.1 per cent.