

# Interim Report

January 1-March 31 2000

## SUMMARY

SEK M	2000	1999		
	Q1	Q1 <sup>1</sup>	Q4	Full year <sup>1</sup>
Net sales	5 296	4 722	5 043	18 880
Operating profit	515	130	359	902
Earnings after financial items	435	-	279	592
Cash flow from operations	-49	-	-161	-184

- Operating profit amounted to SEK 515 M (130)<sup>2</sup>. The operating margin for paper rose to 12.8% (2.7) and the margin for merchandising operations to 3.3% (2.1).
- Profit after financial items amounted to SEK 435 M.
- The return on operating capital was 15.9% (3.8). The return on shareholders' equity was 16.5%.
- The market for fine paper has been characterized by favorable demand, high capacity utilization and rising prices since mid-1999.
- In accordance with Modo Paper's strategy to concentrate production on the high-growth segments of coated and office papers, a decision has been made to invest in a new coating machine at Husum and a new cut size line in Alizay.

<sup>1</sup> Pro forma.

<sup>2</sup> Figures in parenthesis pertain to the first quarter of 1999.

## NET SALES AND EARNINGS

### Net sales

Consolidated net sales amounted to SEK 5,296 M (4,722), an increase of 12% compared with the year-earlier period. Volume accounted for 6% of the increase, equally distributed among merchanting and paper operations. Higher prices for fine papers and exchange-rate changes accounted for the remaining 6%.

Net sales rose 5% compared with the preceding quarter.

### Earnings

The Group's operating profit amounted to SEK 515 M (130), an increase by four times compared with the first quarter of 1999. The improvement was mainly attributable to higher prices and increased deliveries of fine papers, and to productivity improvements at paper mills.

Compared with the fourth quarter of 1999, operating profit rose by SEK 156 M, or 43%.

Operating profit from paper operations amounted to SEK 428 M (79), up more than five times compared with the first quarter of 1999. The improvement was mainly attributable to higher fine paper prices and productivity improvements in paper mills. The sharp increase in pulp prices had only a marginal impact on profits from paper operations, since Modo Paper is virtually completely self-sufficient with respect to pulp. The operating margin rose by slightly more than 10 percentage points to 12.8%.

Compared with the fourth quarter of 1999, operating profit from paper operations rose by SEK 158 M, or 59%.

In January, the pulp mill in Alizay was at a standstill for nine days due to damage caused by a hurricane that swept through Northern France in late-December 1999. Earnings lost due to downtime were covered by insurance.

Operating profit from merchanting operations amounted to SEK 87 M (50), up 74% compared with the corresponding quarter of 1999. The improvement was mainly attributable to higher prices and sales volumes, and to positive effects of the merger of units in Belgium and Spain. The operating margin improved from 2.1% to 3.3%.

Operating profit from merchanting operations was in line with the level prevailing in the fourth quarter of 1999. Due to seasonally low deliveries, the first quarter is normally weaker than the final quarter of a year.

Earnings after financial items amounted to SEK 435 M, an improvement of SEK 156 M compared with the preceding quarter. Net earnings for the period rose SEK 124 M to SEK 289 M.

The Group's return on operating capital<sup>3</sup> during the period was 15.9% (3.8). The return on equity<sup>3</sup> was 16.5%.

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<sup>3</sup> Based on average capital during the period.

## **CASH FLOW**

Income before depreciation amounted to SEK 772 M (386), corresponding to a gross margin of 14.6% (8.2). Paper operations generated a gross margin of 20.1% (10.8), while the gross margin from merchanting operations was 3.8% (2.7).

Compared with the preceding quarter, profit before depreciation rose by SEK 158 M, or 26%.

Operating cash flow amounted to SEK 171 M, an improvement of SEK 172 M compared with the fourth quarter of 1999. Working capital rose by SEK 492 M. The substantial increase in working capital was due to higher prices and increased delivery volumes. Another reason was that the Husum mill assumed responsibility for timber procurement from the Baltic countries at the beginning of the year and thus also took over Holmen Skog's advance payments to timber suppliers in the Baltic countries. Ongoing investments amounted to SEK 97 M.

Cash flow from operations, defined as cash flow before strategic investments and dividends, was negative in an amount of SEK 49 M, an improvement of SEK 112 M compared with the fourth quarter of 1999. Net financial items amounted to an expense of SEK 80 M, unchanged compared with the preceding quarter.

Strategic investments, defined as investments in growth or acquisitions, amounted to SEK 103 M and pertained in their entirety to the coating investment at Husum.

## **FINANCING**

Net debt amounted to SEK 5,968 M, SEK 32 M lower than at the beginning of the year. The reduction comprised a negative cash flow of SEK 151 M and positive effects of SEK 183 M from exchange-rate changes.

The debt/equity ratio was 0.85 at the end of the quarter, down 0.02 compared with the end of the preceding quarter. The interest-coverage ratio rose from 4.5 during the preceding quarter to 6.4.

## **PRICES, MARKETS AND OUTLOOK**

### **Paper**

Deliveries of fine paper from Western European paper mills increased by 7% during the first two months of year 2000, compared with the corresponding period last year. Capacity utilization during the same period amounted to about 93%.

Deliveries of uncoated fine paper increased by about 4% during the first two months of the year. Imports declined during the period, with particular emphasis on imports from Southeast Asian suppliers, enabling the Western European mills to recapture market shares. The decline in imports was caused mainly by increased demand in Asian markets, as well as by the depreciation of the Euro.

Trends for coated fine paper remained strong. Deliveries rose 11% during the first two months of 2000, compared with the year-earlier period.

Prices were increased between 4-6% during the first quarter, depending on markets and paper grades. Fine paper prices in Germany have now risen 15% for coated paper and 20% for uncoated paper, compared with the lowest price level in March 1999.

Despite the recent increases, however, fine paper prices have not risen at the same rate as prices for market pulp. The current pulp price (NBSK) is USD 670/ton, which corresponds to an increase of about 45% since March 1999. Norscan inventories continued to decline during March 2000, falling by about 100,000 tons to 1.2 million tons, which is a good indication of continued strong trends in the pulp market.

Another price hike of 4-7% for fine paper, depending on markets and paper grades, has been announced for the second quarter.

### **Merchanting**

The level of activity among merchants in Western Europe was extremely high during the first quarter, supported mainly by strong underlying demand from printers. Inventories in the merchant trade have shown a weak rising trend since late 1999. This trend is primarily attributable to increased sales and longer delivery times from suppliers, which has eliminated scope for speculative purchases in anticipation of price hikes.

Prices charged by merchants to printers and office supplies retailers have corresponded largely with price increases from paper producers.

### **Outlook**

Economic growth in Europe is expected to continue throughout the year. This should create conditions for continued strength in the market for fine paper, resulting in healthy demand and high capacity utilization. Since the Group is almost self-sufficient with respect to pulp, additional price increases in the very strong pulp market would have only a marginal impact on earnings.

## **SIGNIFICANT DECISIONS DURING THE PERIOD**

Due to the stock market's current valuation of forest products companies, SCA and Holmen decided in March to indefinitely suspend work on the flotation of Modo Paper shares and broadening of the Company's ownership base.

As a part of the strategy to strengthen Modo Paper's position in the coated segment, a decision has been made to invest in a coating machine at the Husum mill. The investment, which also includes an upgrade of the PM 8 machine, has been estimated at approximately SEK 2.3 billion. It is estimated to put the coating machine into operation during April 2001. The coating machine will have a total annual capacity of 300,000 tons. Modo Paper has concluded an agreement with Valmet regarding delivery of the coating machine and other requisite machinery.

In accordance with Modo Paper's strategy to become a leading supplier of office paper in Europe, a decision has been made to invest in a new cut size line in Alizay, France. The new production line will increase the company's volumes of cut size and provide the potential to optimize production operations between Alizay, Husum and Wifsta. The already ordered cut size line will increase the mill's annual production capacity for office paper from 90,000 tons to 220,000 tons. The new line will be placed in operation during January 2001 and, after fine-tuning and adjustments, office paper will account for about 75% of all paper production in Alizay. Investment costs will total approximately SEK 165 M.

Stockholm, May 2, 2000

Modo Paper AB (publ)

Jan Åström  
President and CEO

## Income statement

SEK M	2000	1999				
	Q1	Q4	Q3 <sup>4</sup>	Q2 <sup>4</sup>	Q1 <sup>4</sup>	Full year <sup>4</sup>
<b>Net sales</b>	<b>5 296</b>	5 043	4 462	4 653	4 722	18 880
- of which Paper	<b>3 343</b>	3 074	2 842	2 903	2 960	11 779
- of which Paper Trade	<b>2 664</b>	2 549	2 254	2 344	2 373	9 520
- intra Group sales	<b>-711</b>	-580	-634	-594	-611	-2 419
<b>Income before depreciation</b>	<b>772</b>	614	421	506	386	1 926
- of which Paper	<b>671</b>	510	337	426	321	1 593
- of which Paper Trade	<b>101</b>	104	84	79	65	332
<b>Operating profit</b>	<b>515</b>	359	166	247	130	902
- of which Paper	<b>428</b>	270	98	183	79	630
- of which Paper Trade	<b>87</b>	89	68	64	51	272
<b>Operating margin</b>	<b>9,7%</b>	7,1%	3,7%	5,3%	2,8%	4,8%
- of which Paper	<b>12,8%</b>	8,8%	3,4%	6,3%	2,7%	5,3%
- of which Paper Trade	<b>3,3%</b>	3,5%	3,0%	2,7%	2,1%	2,9%
<b>Net financial items</b>	<b>-80</b>	-80				
<b>Earnings after financial items</b>	<b>435</b>	279				
<b>Taxes</b>	<b>-144</b>	-114				
<b>Minority interests</b>	<b>-2</b>	-				
<b>Net earnings for the period</b>	<b>289</b>	165				

## Balance sheet

SEK M	2000-03-31	1999-12-31
Fixed assets	<b>11 021</b>	11 305
Interest-free current assets	<b>7 478</b>	7 245
Interest-bearing assets	<b>615</b>	617
<b>Total assets</b>	<b>19 114</b>	19 167
Shareholders' equity	<b>7 047</b>	6 859
Minority interests	<b>43</b>	31
Interest-free provisions and liabilities	<b>5 441</b>	5 660
Interest-bearing liabilities	<b>6 583</b>	6 617
<b>Total equity and liabilities</b>	<b>19 114</b>	19 167
Net debt	<b>5 968</b>	6 000
Operating capital	<b>13 058</b>	12 890

<sup>4</sup> Pro forma.

**Key ratios**

	2000	1999	
	Q1	Q4	Full year <sup>5</sup>
Return on operating capital	15,9%	11,1%	6,8%
Return on shareholders' equity	16,5%	9,6%	5,9%
Capital turnover, multiple	1,6	1,6	1,4
Net debt/equity ratio, multiple	0,85	0,87	0,87
Interest coverage, multiple	6,4	4,5	2,9
Solidity	37%	36%	36%

**Cash flow statement**

SEKM	2000	1999
	Q1	Q4
<b>Income before depreciation</b>	772	614
Change in working capital	-492	-188
Current investments	-97	-350
Other operating cash flow	-11	-77
<b>Operating cash flow</b>	171	-1
Net financial items	-80	-80
Taxes paid	-140	-80
<b>Cash flow from operations</b>	-49	-161
Strategic investments	-103	-
<b>Cash flow after strategic investments</b>	-151	-161

**Volume trends**

deliveries, Kton	2000	1999				
	Q1	Q4	Q3 <sup>5</sup>	Q2 <sup>5</sup>	Q1 <sup>5</sup>	Full year <sup>5</sup>
<b>Paper</b>	452	413	406	414	426	1 659
Coated	140	125	125	127	127	505
Uncoated	312	288	280	287	298	1 154
<b>Paper Trade</b>	270	270	239	253	253	1 015

<sup>5</sup> Pro forma.

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