

Interim Report

January 1- June 30, 2000

SUMMARY

SEK M	2000 II	2000 I	2000 I-II	1999 I-II ¹
Net sales	5 325	5 296	10 621	9 375
Operating profit	703	515	1 218	377
Earnings after financial items	613	435	1 048	-
Cash flow from operations	284	-48	236	-

- **Operating profit improved to SEK 1,218 M (377)². Profit after financial items amounted to SEK 1,048 M.**
- **Return on operating capital amounted to 18.5% (5.6). Return on shareholders' equity was 19.4%.**
- **Cash flow from operations, defined as cash flow before strategic investments and dividends, amounted to SEK 236 M.**
- **Operating profit for the second quarter rose to SEK 703 M, an increase of 36% compared with the preceding quarter.**
- **The market for fine paper remained strong during the second quarter and has been characterized by favorable demand, high capacity utilization and rising prices.**
- **Modo Paper's owners, Holmen and SCA, has reached an agreement concerning the sale of Modo Paper to the Metsä-Serla Group. The new group will be the largest fine paper company in Europe.**

¹ Pro forma.

² Figures in parenthesis pertain to the first half-year of 1999.

NET SALES AND EARNINGS

Net sales

Consolidated net sales amounted to SEK 10,621 M (9,375), a 13% increase compared with the corresponding period in 1999. Net sales in paper operations rose 16% to SEK 6,777 M (5,863). Merchanting operations reported net sales of SEK 5,271 M (4,717), which was a 12% increase compared with the corresponding period in 1999.

Net sales during the second quarter was SEK 5,325 M, virtually unchanged compared with the preceding quarter.

Earnings

Group operating profit amounted to SEK 1,218 M (377), up more than three times compared with the preceding year. The earnings improvement was primarily due to higher prices, increased deliveries of fine papers and productivity improvements in the paper mills.

Operating profit increased by SEK 188 M to SEK 703 M during the second quarter, an improvement by 36% compared with the preceding quarter. The earnings improvement was mainly due to higher fine paper prices.

Operating profit from paper operations amounted to SEK 1,045 M (262), an increase by four times compared with the same period in 1999. The earnings improvement was mainly attributable to higher fine paper prices and significant productivity enhancements in the mills. The increase in pulp prices had only a marginal impact on profits from paper operations, since Modo Paper is self-sufficient with regard to pulp. The operating margin increased to 15.4% (4.5).

Operating profit from paper operations during the second quarter was SEK 617 M, an increase of SEK 189 M over the first quarter. At the same time, the operating margin improved from slightly more than 5% to 18.0%.

Operating profit from merchanting operations amounted to SEK 173 M (115), a 50% increase, compared with the corresponding period in 1999. The improvement is attributable to higher prices and sales volumes, as well as positive effects of the consolidation of the units in Belgium and Spain. The operating margin increased from 2.4% to 3.3%.

Operating profit from merchanting operations during the second quarter was in line with the level prevailing in the preceding quarter.

Earnings after financial items amounted to SEK 1,048 M. Profit after tax was SEK 697 M.

During the second quarter, profit after financial items rose to SEK 613 M, an increase of SEK 178 M, compared with the first quarter. Profit after tax increased during the same period from SEK 119 M to SEK 408 M.

Consolidated return on operating capital³ during the period amounted to 18.5% (5.6). Return on equity³ was 19.4%.

During the second quarter, return on operating capital was 21.2%, an improvement of 5.3% compared with the preceding quarter. The return on shareholders' equity amounted to 22.4% during the same period, an improvement of 5.9% compared with the first quarter.

³ Based on average capital during the period.

CASH FLOW

Profit before depreciation amounted to SEK 1,739 M (892), corresponding to a gross margin of 16.4% (9.5). Paper operations generated a gross margin of 22.7% (12.7), while the gross margin from merchanting operations was 3.8% (3.1).

In comparison with the preceding quarter, profit before depreciation rose by SEK 195 M, or 25%.

Cash flow from Group operations amounted to SEK 564 M. Change in Operating capital was SEK -842 M. The substantial increase in operating 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, thus also took over Holmen Skog's advance payments to timber suppliers in the Baltic countries. Current investments amounted to SEK -171 M.

Cash flow from operations, defined as cash flow before strategic investments and dividends, amounted to SEK 236 M. Net financial items amounted to an expense of SEK 170 M.

During the second quarter, cash flow from operations amounted to SEK 285 M, an increase of SEK 333 M compared with the preceding quarter.

Strategic investments, defined as investments in growth or acquisitions, amounted to SEK -266 M and pertained mainly to the coating investment in Husum, as well as smaller investments in a new cut size line in Alizay. The investments in both Husum and Alizay are proceeding according to plan. The new facilities are estimated to start up during April 2001 and January 2001 respectively.

FINANCING

Net debt amounted to SEK 5,906 M at the end of the quarter, a decrease of SEK 94 M since the beginning of the year. The reduction comprised a negative cash flow of SEK 30 M and positive effects of SEK 124 M from exchange-rate changes.

The debt/equity ratio multiple was 0.78 at the end of the quarter, down 0.09 from the beginning of the year. The interest-coverage ratio multiple increased from 4.5 at the beginning of the year to 6.7 at the end of the quarter.

PRICES, MARKETS AND OUTLOOK

Paper

The fine paper market has shown strong growth during the first six months of the year. Total deliveries from Western European fine paper mills increased by 7% compared with the same period in 1999. Strong demand during the period contributed to increasing capacity utilization to 95%.

Deliveries of uncoated paper to the Western European market rose by approximately 3% compared with the preceding quarter. Increases were reported in all segments including office paper (cut size), reels (for conversion) and sheets for Commercial Print. Imports of uncoated paper declined during the first quarter of the year by about 10%, compared with the corresponding period in 1999. In particular Southeast Asian producers have decreased their deliveries to the Western European market.

Coated fine papers continued to show strong growth, with deliveries increasing with approximately 12%, compared with the corresponding period in 1999. The strongest growth was noted for coated sheets, which increased by 13%, while coated reels increased by 7%.

Fine paper prices were raised once during the first quarter and once more during the second quarter. As an example, price levels in Germany have increased 6 to 12% since the beginning of the year, with the greatest increases occurring in the segments for coated and uncoated reels. Following this year's price increases, German paper prices have increased by approximately 20% since the lowest level in March 1999.

Demand for market pulp has been continued very strong. The current pulp price (NBSK) is USD 710 per ton, corresponding to an increase of 18% since the beginning of the year. Norscan inventories continued to decline during June to a level of 1.1 million tons, the lowest level since the second quarter in 1995, which is a good indication of a continued stable pulp market.

Leading fine paper producers have informed the market about their intention to increase prices again during the third quarter.

Merchanting

The increase in the merchanting trade was 9% in terms of volume for the first five months of the year, compared with the same period in 1999. This was equal to the increase in deliveries from the paper mills. Inventories in the merchant trade thus continued to show a relatively stable trend, even though a certain increase can be noted as a result of longer delivery times and increased sales volumes.

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

Outlook

Economic growth in Europe is expected to continue throughout the year. This should create conditions for continued good occupation and high capacity utilization in the paper mills.

SIGNIFICANT DECISIONS DURING THE PERIOD

Modo Paper's owners, Holmen and SCA, has reached an agreement concerning the sale of Modo Paper to the Metsä-Serla Group. Metsä-Serla is to buy Modo Paper for the sum of EUR 2.3 billion, including liabilities of EUR 725 million. The new group will be the largest fine paper company in Europe.

Through the merger between Metsä-Serla and Modo Paper, both companies will be continuing their strategy of focusing on high-quality paper products. Metsä-Serla's long-term strategy focusing on the growth segments coated paper and office paper is well in line with the present strategy of Modo Paper. The merger substantially strengthens the market position in fine paper operations as well as in paper merchanting. The combined turnover will be approximately EUR 5.5 billion. The number of employees will amount to about 15,900. The transactions are subject to customary regulatory approvals.

Stockholm, July 28, 2000

MODO PAPER AB (publ)

Jan Åström
President and CEO

Income statement

SEK M	2000			1999		
	II	I	I-II	II ⁴	I ⁴	I-II ⁴
Net sales	5 325	5 296	10 621	4 653	4 722	9 375
- of which Paper	3 434	3 343	6 777	2 903	2 960	5 863
- of which Paper Trade	2 607	2 664	5 271	2 344	2 373	4 717
- intra group sales	-716	-711	-1 427	-594	-611	-1 205
Income before depreciation	967	772	1 739	506	386	892
- of which Paper	868	671	1 539	427	321	748
- of which Paper Trade	99	101	200	79	66	145
Operating profit	703	515	1 218	247	130	377
- of which Paper	617	428	1 045	183	79	262
- of which Paper Trade	86	87	173	64	51	115
Operating margin	13,2%	9,7%	11,5%	5,3%	2,8%	4,0%
- of which Paper	18,0%	12,8%	15,4%	6,3%	2,7%	4,5%
- of which Paper Trade	3,3%	3,3%	3,3%	2,7%	2,1%	2,4%
Net financial items	-90	-80	-170			
Earnings after financial items	613	435	1 048			
Taxes	-202	-144	-346			
Minority interests	-3	-2	-5			
Net earnings for the period	408	289	697			

Balance sheet

SEK M	2000-06-30	1999-12-31
Fixed assets	11 178	11 305
Interest-free current assets	7 987	7 245
Interest-bearing assets	720	617
Total assets	19 885	19 167
Shareholders' equity	7 498	6 859
Minority interests	44	31
Interest-free provisions and liabilities	5 717	5 660
Interest-bearing liabilities	6 626	6 617
Total equity and liabilities	19 885	19 167
Net debt	5 906	6 000
Operating capital	13 448	12 890

⁴ Pro forma.

Key ratios

	2000			1999	
	II	I	I-II	IV	I-IV ⁵
Return on operating capital	21.2%	15.9%	18.5%	11.1%	6.8%
Return on shareholders' equity	22.2%	16.5%	19.4%	9.6%	5.9%
Capital turnover, multiple	1.6	1.6	1.6	1.6	1.4
Net debt/equity ratio, multiple	0.78	0.85	0.78	0.87	0.87
Interest coverage, multiple	7.5%	6.4	6.7	4.5	2.9
Solidity	38%	37%	38%	36%	36%

Cash flow statement

SEK M	2000			1999
	II	I	I-II	IV
Income before depreciation	967	772	1 739	614
Change in working capital	-350	-492	-842	-188
Current investments	-171	-97	-268	-350
Other operating cash flow	-54	-11	-65	-77
Operating cash flow	392	172	564	-1
Net financial items	-90	-80	-170	-80
Taxes paid	-18	-140	-158	-80
Cash flow from operations	285	-48	236	-161
Strategic investments	-163	-103	-266	-
Cash flow after strategic investments	122	-151	-30	-161

⁵ Pro forma.

Quarterly data

Net sales, operating profit and margins, SEK M	2000		1999				1999
	II	I	IV	III ⁵	II ⁵	I ⁵	I-IV ⁵
Net sales	5 325	5 296	5 043	4 462	4 653	4 722	18 880
- of which Paper	3 434	3 343	3 074	2 842	2 903	2 960	11 779
- of which Paper Trade	2 607	2 664	2 549	2 254	2 344	2 373	9 520
- intra Group sales	-716	-711	-580	-634	-594	-611	-2 419
Income before depreciation	967	772	614	421	506	386	1 926
- of which Paper	868	671	510	337	427	321	1 593
- of which Paper Trade	99	101	104	84	79	65	332
Operating profit	703	515	359	166	247	130	902
- of which Paper	617	428	270	98	183	79	630
- of which Paper Trade	86	87	89	68	64	51	272
Operating margin	13,2%	9,7%	7,1%	3,7%	5,3%	2,8%	4,8%
- of which Paper	18,0%	12,8%	8,8%	3,4%	6,3%	2,7%	5,3%
- of which Paper Trade	3,3%	3,3%	3,5%	3,0%	2,7%	2,1%	2,9%
Volume trends, deliveries, Ktonnes							

Paper	436	452	413	406	414	426	1 659
Coated	131	140	125	125	127	127	505
Uncoated	305	312	288	280	287	298	1 154
Paper Trade	250	270	270	239	253	253	1 015

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⁵ Pro forma.