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INTERIM REPORT JANUARY – MARCH 2000

Highlights

- * Profit after financial items amounted to MSEK 823 (first quarter of 1999: 615). The profit for the fourth quarter of 1999 was MSEK 631.
- * The profit for the period after tax amounted to MSEK 607 (418) which corresponds to earnings per share of SEK 6.80 (4.70). The return on equity was 15.0 per cent (9.0).
- * Net turnover amounted to MSEK 3,685 (5,653 including and 3,699 excluding divested activities).
- * Demand for newsprint and magazine paper remained strong. Holmen Paper's delivery volumes were high, its order books were strong and prices remained stable.

Demand for paperboard was strong during the first quarter. Price increases of 5-7 per cent came into effect at the beginning of the year and further price increases are announced by Iggesund Paperboard. Production at Workington is now running satisfactorily after the rebuilding during the fourth quarter of 1999, but deliveries are still low.

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Net turnover and result

Net turnover amounted to MSEK 3,685 (first quarter of 1999: 5,653). Turnover in the fourth quarter of last year amounted to MSEK 3,974. The quarter on quarter reduction is explained by the inclusion of divested activities in the turnover for 1999. Excluding divested activities, turnover amounted to MSEK 3,699 during the first quarter of 1999 and to MSEK 3,793 during the fourth quarter.

The operating profit increased to MSEK 859 (648), and the operating margin was 17.2 per cent (11.4). The operating profit for the fourth quarter of 1999 was MSEK 654. The improvement in the result is primarily explained by the higher profits earned by Iggesund Paperboard and the associate company Modo Paper.

The return on operating capital was 16.6 per cent (10.6). The return on equity was 15.0 per cent (9.0). The return on operating capital, excluding the interest in the earnings of Modo Paper, was 15.6 per cent.

Holmen Paper

Demand for newsprint and magazine paper remained strong during the first quarter of 2000. Deliveries of newsprint to Western Europe increased by 6 per cent, of SC paper by 9 per cent and of coated paper by 13 per cent, all in relation to the corresponding period in 1999. The prices of newsprint and SC paper remained more or less unchanged in relation to 1999, while the price of coated paper rose slightly during the first quarter.

Holmen Paper's operating profit amounted to MSEK 294 (fourth quarter of 1999: 310; first quarter of 1999: 307). Delivery volumes continued at a high level, order books were strong, and prices stable. Compared with the previous quarter, the result was adversely affected by seasonal increases in electricity costs and higher costs for pulp and recovered paper.

Igesund Paperboard

Paperboard from West European producers was in strong demand during the first quarter; deliveries were 3 per cent higher than in the previous quarter, and the order intake rose by 5 per cent. Previously announced price increases came into effect from the start of the year. The strong demand enabled Iggesund Paperboard to announce further price increases, and these are expected to come into effect during the second quarter.

Igesund Paperboard's operating profit amounted to MSEK 174 (fourth quarter of 1999: loss 14, first quarter of 1999: profit 88). The main factors behind the improvement in the result in relation to the final quarter of 1999 were higher selling prices and the reduction in the fourth quarter result of more than MSEK 100 due to production disturbances in connection with the rebuilding at Workington. Production at Workington is now running satisfactorily and capacity utilisation at both Workington and Iggesunds Bruk was high during the quarter. Workington's deliveries are still low.

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Iggesund Timber

The sawn timber market is still characterised by excess supply and depressed prices, despite the relatively firm demand.

Iggesund Timber's operating result was a loss of MSEK 12 (fourth quarter of 1999: loss 13, first quarter of 1999: loss 12). Capacity utilisation was high.

Holmen Skog

The Group's wood consumption rose by 4 per cent in relation to the previous quarter. The mills' costs of saw logs and pulpwood were broadly unchanged.

Holmen Skog's operating profit amounted to MSEK 136 (fourth quarter of 1999: 176, first quarter of 1999: 112). The decline in the result in relation to the fourth quarter is mainly explained by seasonally low level of harvesting in Holmen's own forests and non-recurring income items during the previous quarter.

Holmen Kraft

Holmen Kraft's operating profit amounted to MSEK 81 (fourth quarter of 1999: 38, first quarter of 1999: 82). Production of hydroelectric power at the company's own power stations reaches a peak during the November-March period when prices are higher for seasonal reasons.

The associate company Modo Paper AB

As a result of firm conditions on the market with volume growth and rising prices, coupled with the co-ordination gains from the formation of the new company, Holmen's interest in Modo Paper's first quarter earnings amounted to MSEK 218, compared with MSEK 136 for the fourth quarter of 1999.

For further information, please refer to Modo Paper's interim report, which will be published on May 2.

Production and deliveries

Holmen's production of paper, paperboard and pulp for external delivery amounted to 495,000 tonnes (450,000). Production in the previous quarter was 452,000 tonnes.

Deliveries of paper, paperboard and pulp amounted to 456,000 tonnes (449,000). Deliveries during the previous quarter amounted to 489,000 tonnes.

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Financing

Cash flow was negative, MSEK 215 (positive: 285). The negative cash flow was caused by an increase in working capital and paid taxes. The Group's net financial liability at the end of March amounted to MSEK 2,271 (December 31, 1999: 2,054).

The debt/equity ratio was 0.14 (December 31, 1999: 0.13), and the equity ratio was 65.2 per cent (December 31, 1999: 54.4).

Capital expenditure

The Group's capital expenditure amounted to MSEK 231 (415). Depreciation according to plan amounted to MSEK 248 (381).

Employees

The average number of employees in the Group was 5,162 (1999 as a whole: 5,336, excluding divested activities).

Important events January - April

- An Extraordinary General Meeting held on February 10 resolved in favour of the Board's proposal to change the name of the company to Holmen Aktiebolag from Mo och Domsjö Aktiebolag. The meeting also decided that the company's registered office should be in Stockholm.
- Holmen and SCA announced on March 8 that they had made a joint decision to cancel their plans to float Modo Paper AB on the stock market and broadening its share ownership. In view of this, Holmen's Board withdrew its proposal to distribute shares in Modo Paper.
- In April Holmen and a Spanish company, Unipapel, reached an agreement in principle for Holmen to acquire the newsprint company Papelera Peninsular SA. The cost of the acquisition is equivalent to some MSEK 2,000, on a debt-free basis. The acquisition will further advance Holmen Paper's position as a leading supplier to European newspaper publishers.

Stockholm April 28, 2000

Per Ericson
President and CEO

This interim report has not been subject to general examination by the company's auditors.

The interim report for January-June 2000 will be published on August 15.

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PROFIT AND LOSS ACCOUNT, MSEK

| | January - March | | Full year 1999 | |
|---|-----------------|------------|-------------------|-------|
| | 2000 | 1999 | | |
| Net turnover | 3,685 | 5,653 | 20,508 | |
| Operating costs | -2,803 | -4,625 | -16,669 | |
| Interest in earnings of associate companies | 225 | 1 | 163 | |
| Depreciation according to plan | -248 | -381 | -1,387 | |
| Operating profit | 859 | 648 | 2,615 | |
| Net financial items | -36 | -33 | -206 | |
| Profit after financial items | 823 | 615 | 2,409 | |
| Tax | -216 | -197 | -595 | |
| Profit for the period | 607 | 418 | 1,814 | |
| Operating margin | % | 17.2 | 11.4 | 12.0 |
| Return on operating capital | % | 16.6 | 10.6 | 11.7 |
| Return on equity | % | 15.0 | 9.0 | 10.6 |
| Earnings per share after tax* | SEK | 6.80 | 4.70 | 20.40 |

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

NET TURNOVER AND OPERATING PROFIT, MSEK

| | Net turnover January - March | | Operating profit/loss January - March | |
|------------------------------|---------------------------------|--------------|--|------------|
| | 2000 | 1999 | 2000 | 1999 |
| Holmen Paper | 1,699 | 1,702 | 294 | 307 |
| Iggesund Paperboard | 991 | 973 | 174 | 88 |
| Iggesund Timber | 193 | 201 | -12 | -12 |
| Holmen Skog | 1,191 | 1,185 | 136 | 112 |
| Holmen Kraft | 351 | 340 | 81 | 82 |
| Group adjustments and other | - | - | -32 | 60 |
| | 4,425 | 4,401 | 641 | 637 |
| Share in earnings Modö Paper | - | - | 218 | - |
| Divested activities | - | 2,800 | - | 11 |
| Intra-group sales | -740 | -1,548 | - | - |
| | 3,685 | 5,653 | 859 | 648 |

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BALANCE SHEET, MSEK

| | 2000 March 31 | 1999 Dec 31 |
|-------------------------------|------------------|----------------|
| ASSETS | | |
| Fixed assets | 14,987 | 14,996 |
| Shares in Modo Paper | 4,403 | 4,257 |
| Current assets | 5,106 | 5,068 |
| Financial receivables | 115 | 3,395 |
| Liquid funds | 561 | 1,456 |
| | 25,172 | 29,172 |
| EQUITY AND LIABILITIES | | |
| Equity | 16,406 | 15,883 |
| Deferred tax liability | 2,450 | 2,408 |
| Financial liabilities | 2,947 | 6,905 |
| Operating liabilities | 3,369 | 3,976 |
| | 25,172 | 29,172 |
| Debt/equity ratio | 0.14 | 0.13 |
| Equity ratio | 65.2 | 54.4 |

CASH FLOW ANALYSIS, MSEK

| | 2000 Jan-March | 1999 Full year |
|--|-------------------|-------------------|
| Operating profit | 859 | 2,615 |
| Adjustments for items not included in cash flow* | 23 | 1,551 |
| Change in working capital | -289 | -3 |
| Net financial items | -36 | -206 |
| Paid tax | -541 | -122 |
| Cash flow before capital expenditure | 16 | 3,835 |
| Capital expenditure | -231 | -1,988 |
| Cash flow after capital expenditure | -215 | 1,847 |
| Effects from divested activities | - | 3,258 |
| Cash flow before dividend | -215 | 5,105 |
| Ordinary dividend | - | -889 |
| Extra dividend | - | -3,110 |
| Cash flow | -215 | 1,106 |
| Currency effects | -2 | -17 |
| Change in net financial liability | -217 | 1,089 |
| Liquid funds | 561 | 1,456 |
| Financial receivables | 115 | 3,395 |
| Financial liabilities | -2,947 | -6,905 |
| Net financial liability | -2,271 | -2,054 |

| | | |
|-----------------------------|-------|-------|
| Opening liquid funds | 1,456 | 1,241 |
| Change in liquid funds | -894 | 235 |
| Currency effects | -1 | -20 |
| Closing liquid funds | 561 | 1,456 |

* The adjustments consist primarily of depreciation according to plan and the interest of the earnings of associate companies.

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QUARTERLY FIGURES, MSEK

| | 2000 | 1999 Full year | 1999 | | | |
|-------------------------------------|-------|-------------------|-------|--------|--------|--------|
| | I | | IV | III | II | I |
| Net turnover | | | | | | |
| Holmen Paper | 1,699 | 6,944 | 1,855 | 1,743 | 1,644 | 1,702 |
| Iggesund Paperboard | 991 | 3,913 | 963 | 1,005 | 972 | 973 |
| Iggesund Timber | 193 | 767 | 198 | 168 | 200 | 201 |
| Holmen Skog | 1,191 | 4,397 | 1,128 | 965 | 1,119 | 1,185 |
| Holmen Kraft | 351 | 1,019 | 313 | 185 | 181 | 340 |
| | 4,425 | 17,040 | 4,457 | 4,066 | 4,116 | 4,401 |
| Divested activities | – | 8,345 | 276 | 2,530 | 2,739 | 2,800 |
| | 4,425 | 25,385 | 4,733 | 6,596 | 6,855 | 7,201 |
| Intra-group sales | –740 | –4,877 | –759 | –1,193 | –1,377 | –1,548 |
| | 3,685 | 20,508 | 3,974 | 5,403 | 5,478 | 5,653 |
| Profit/loss | | | | | | |
| Holmen Paper | 294 | 1,418 | 310 | 434 | 367 | 307 |
| Iggesund Paperboard | 174 | 318 | –14 | 138 | 106 | 88 |
| Iggesund Timber | –12 | –66 | –13 | –17 | –24 | –12 |
| Holmen Skog | 136 | 521 | 176 | 109 | 124 | 112 |
| Holmen Kraft | 81 | 76 | 38 | –30 | –14 | 82 |
| Group adjustments and other | –32 | –20 | –22 | –14 | –44 | 60 |
| | 641 | 2,247 | 475 | 620 | 515 | 637 |
| Share in earnings Modo Paper | 218 | 136 | 136 | – | – | – |
| Divested activities | – | 232 | 43 | 72 | 106 | 11 |
| Operating profit | 859 | 2,615 | 654 | 692 | 621 | 648 |
| Net financial items | –36 | –206 | –23 | –72 | –78 | –33 |
| Profit after financial items | 823 | 2,409 | 631 | 620 | 543 | 615 |
| Tax | –216 | –595 | –22 | –201 | –175 | –197 |
| Profit for the period | 607 | 1,814 | 609 | 419 | 368 | 418 |

SHARE STRUCTURE

| Share | Votes | No. of shares | No. of votes |
|---------------------------------------|-------|---------------|--------------|
| A | 10 | 22,623,234 | 226,232,340 |
| B | 1 | 66,235,044 | 66,235,044 |
| Shares in total | | 88,858,278 | 292,467,384 |
| Convertibles, B* | 1 | 2,436,191 | 2,436,191 |
| Warrants, B* | 1 | 773,500 | 773,500 |
| Total number of shares after dilution | | 92,067,969 | 295,677,075 |

* After full conversion and subscription.