

**Joint press release: 28 April 1999  
MoDo and SCA**

## **MoDo and SCA**

### **Establishing a European leading fine paper group**

**MoDo and SCA have entered into an agreement regarding the consolidation of their operations within the areas of fine paper and merchanting in a new 50/50 jointly owned company. The intention is that this unit, Europe's third largest fine paper company, will be listed on the Stockholm Stock Exchange within a two-year period.**

**The combination of strategically well-placed production facilities with complementary product portfolios and comprehensive merchanting operations will create an integrated and refined European fine paper company. The new Group has good possibilities for development and the utilization of consolidation gains, which are estimated to amount to at least SEK 650 million annually. Initially, these clearly identified synergies are estimated to be at least SEK 350 million annually. In addition to this, consolidation gains from a second phase are expected to total at least SEK 300 million through changes in the product mix and production focus. Thereby, it is estimated that the annual, total consolidation gains will, in the long-term, correspond to approximately 3 percent of the Group's sales.**

The Group will have sales of approximately SEK 19 billion, a book value of the equity of approximately SEK 8 billion and around 6,000 employees. Production capacity will total around 1.7 million tons of fine paper and merchanting deliveries will be approximately 1.1 million tons annually.

The new company - with its strong position within the fast-growing product segments for office paper in the A4 format and coated sheets - will be Europe's third largest company in the area of fine paper. Merchanting operations will have a good primary market position and a market presence in over 20 countries.

#### **Exchange listing**

The company's registered office will be located in Stockholm.

The parties are of the opinion that the value of the respective companies' operations on a debt-free basis are equal and will each own 50 percent of the shares in the new company. The intention is that the company will be listed within two years.

#### **Reasons for the merger and consolidation gains**

The parties are of the opinion that a continued consolidation of the industry will improve profitability. The fine paper sector has been characterized by a fragmented structure and insufficient profitability.

The establishment of a new, independent company is a result of the expressed strategies of both companies as well as the need for a better industry structure. The overall objective is to create added value for MoDo's and SCA's shareholders through substantially improved competitiveness and considerable consolidation gains.

At present, clearly identified annual consolidation gains in phase one total SEK 350 million requires no investments. Approximately half of the consolidation gains are expected to have effect by 2000 and the full impact is expected during 2001. Consolidation gains arise through increased volume integration, coordination of administration, sales, and Research & Development and through the coordination of merchanting operations. These consolidation gains have been jointly worked out by both parties.

In addition to this, consolidation gains from a second phase of at least SEK 300 million are expected. This will be achieved through a change in the product mix and product focus. The new Board and Management will carry out an analysis of various alternatives in this respect.

The total consolidation gain is expected, within a two- to three-year period, to correspond to approximately 3 percent of the new Group's net sales.

### **Board of Directors and Management**

CEO of the company will be Jan Åström, former president of SCA Fine Paper and previously president of SCA Packaging Munksund, and before this, manager at Husum's paper mill.

Already from the beginning, the intention is that the Board of Directors will have an independent Chairman as well as six board members. Both MoDo and SCA will appoint three board members each. In addition, employee representatives will be appointed.

### **Company name**

MoDo will grant the use of the name MoDo Paper AB to the new Group. As a result of this, MoDo will change name prior to the fine paper company's exchange listing.

### **New Company**

To the new company, MoDo will transfer the production facilities Husum and Silverdalen in Sweden as well as Alizay and Pont Sainte Maxence in France. SCA will transfer the units Stockstadt in Germany, Hallein in Austria and Wifsta in Sweden. The merchanting operations, MoDo Merchants and SCA Paper Trade respectively, with the strongest position in the Nordic region, Great Britain and the Benelux countries, will also be transferred to the new company.

Sales will largely be evenly distributed between the fine paper and merchanting operations. As an integrated fine paper company, the new company will be the second largest in Europe. In terms of capacity it will rank as number three within fine paper and third in merchanting based on deliveries. Market share within fine paper in Europe is estimated at 12 percent. Within merchanting operations market shares are significant on the main markets.

**Financial information**

The purpose behind the pro forma accounting below is to provide a comprehensive view of the new Group. Consolidation gains as well as costs for restructuring are not included.

Operating pro forma income statements have been prepared for the period 1995-1998 and is a consolidation of the respective companies' operative accounts.

Operating pro forma balance sheet has been prepared as though the merger occurred as of 31 December 1998. The merger is expected to take place formally on 1 October 1999 and is conditional upon Competition Authorities granting the requisite approval. The value of the operations of respective companies is considered to be equal, which means that MoDo and SCA will each contribute an equal amount of the interest-bearing liabilities in the new company, and thereafter each party will control one half of the shares in the company. The company's capital employed, pro forma as of 31 December 1998, was SEK 13.7 billion. The assessment is that the company, on its own balance sheet, will have external borrowing of at least SEK 5-6 billion, corresponding to a debt/equity ratio of 0.5 - 0.6. The merger will be effected through an exchange of shares and the new Group accounting will be consolidated in accordance with the purchase method. Through a non-cash issue, a wholly owned subsidiary of MoDo will acquire SCA's operations within fine paper and merchanting. No effects on profit and loss accounts will occur in MoDo and SCA as a consequence of the transaction.

Implementation of the transaction requires the approval of the Annual General Meeting of SCA Hygiene Products AG (formerly PWA).

**Enclosure:**

The new Group pro forma

For additional information please visit the web sites of MoDo and SCA on the Internet.

[www.modogroup.com](http://www.modogroup.com)

[www.sca.se](http://www.sca.se)

For further information please contact:

President and CEO of MoDo, Bengt Pettersson. Tel. +46-8-666 21 05,

President and CEO of SCA, Sverker Martin-Löf. Tel. +46-8-778 51 51.

*Handelsbanken Markets was the financial advisor for MoDo.*

*Carnegie was the financial advisor for SCA.*

## Financial key figures for the new Group

Operating income statement, 1995-1998, pro forma

<b>SEK billion</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
<b>Net sales</b>	<b>19.7</b>	<b>16.3</b>	<b>17.5</b>	<b>18.6</b>
- of which, fine paper	13.3	10.5	11.2	11.5
- of which, merchanting	8.5	7.6	8.3	9.0
- intra-group sales	-2.1	-1.8	-2.0	-1.9
<b>Earnings before depreciation</b>	<b>3.8</b>	<b>0.8</b>	<b>1.8</b>	<b>1.8</b>
- of which, fine paper	3.4	0.6	1.5	1.5
- of which, merchanting	0.4	0.2	0.3	0.3
<b>Earning after depreciation</b>	<b>2.9</b>	<b>0.0</b>	<b>0.8</b>	<b>0.7</b>
- of which, fine paper	2.5	-0.2	0.6	0.5
- of which, merchanting	0.4	0.2	0.2	0.2
<b>Investments</b>	<b>0.8</b>	<b>1.0</b>	<b>1.2</b>	<b>0.9</b>
<b>Operating surplus margin</b>	<b>19.1%</b>	<b>5.3%</b>	<b>10.0%</b>	<b>9.6%</b>
- of which, fine paper	25.2%	6.0%	13.4%	12.9%
- of which, merchanting	4.8%	2.9%	3.1%	3.3%
<b>Operating margin</b>	<b>14.7%</b>	<b>-0.1%</b>	<b>4.5%</b>	<b>3.9%</b>
- of which, fine paper	19.0%	-1.9%	5.2%	4.2%
- of which, merchanting	4.4%	2.3%	2.5%	2.7%

Earnings for 1998 has been charged with nonrecurring items totaling SEK 0.2 billion and is in its entirety attributable to fine paper.

Operating balance sheet, at 31 December 1998, pro forma

<b>SEK billion</b>	
Fixed assets	12.2
Current assets	6.6
<b>Total assets</b>	<b>18.8</b>
Deferred tax liabilities	1.9
Other noninterest-bearing liabilities	3.2
<b>Capital employed</b>	<b>13.7</b>