

INFORMATION

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SCA modernizing its SC paper mill in Laakirchen, Austria

In an effort to capitalize on a unique opportunity for continued value appreciation of the operations in the paper mill at Laakirchen, a modernization project will be implemented. An older paper machine (40 years), with a capacity of 90,000 tonnes, will be shut down and replaced by a new machine with an annual capacity of 240,000 tonnes, also fully intended for production of high-quality, so-called SC-A paper. Since the mill's infrastructure for pulp supply and other functions is also sufficient for the increased capacity of 150,000 tonnes, the investment cost can be limited to EUR 225 M, or about EUR 900 per installed tonne of annual capacity. This is about half of the investment level made by the industry in the area in recent years.

The increased capacity will be available successively during the years 2003 to 2005. In total, the capacity addition corresponds to slightly less than market growth of one year in the product area. Production will be aimed at the offset segment and, accordingly, will also complement the LWC range from Ortviken, which is also aimed at this segment. Additionally, the new machine is pre-equipped for expansion at a later date to a capacity of 400,000 tonnes and could at that time also produce LWC grades. No impact on the favorable market balance now prevailing between supply and demand in the area is expected as a result of the marginal capacity effect of the project.

The projected profitability for the project is highly favorable and exceeds SCA's weighted capital cost by a factor of 2. This is attributable to the low investment cost, the fact that an existing market is available as a result of shutting down the older machine, that the product can mainly be sold to customers near the mill as well as the mill's very good cost position. Consequently, the value of the entire operations in Laakirchen can be increased significantly while, concurrently, the mill will become one of the most competitive for deliveries of high-quality SC paper to continental customers.

After divestments in the fine paper segment, SCA's publication paper operations are fully focused on wood-containing papers such as SC, LWC and newsprint. The strategy for these operations is to offer the European printing and publishing industry a complete and high-quality product range in the area. The intention is not to participate in a large scale in the substantial exports being made from Europe to North America and Asia, but to grow and develop with the European market. This established strategy has resulted in highly favorable and sustained profitability. In terms of profitability, SCA's operations compare highly favorably with competitors in the area. SCA conducts its operations at three efficient industrial units, Ortviken in Sweden, Laakirchen in Austria and the partly owned mill Aylesford in Great Britain.

In order not to restrain the SCA Group's pace of expansion in the hygiene and packaging areas, the intention is that most of the project will be financed externally and off SCA's balance sheet.

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