

# Press Release



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## Improved profit for Nordic food and beverage business

**Orkla's profit before tax for the first eight months of 1999 totalled NOK 1,560 million, NOK 326 million lower than last year. The overall trend in the second four months of 1999 was more favourable than in the first four months. The Industry area is in the process of reversing the negative profit trend reported in the previous four-month periods.**

The beverage businesses in the Nordic region and Orkla Foods posted higher profit. This improvement can be ascribed to satisfactory volume growth for food in Sweden and beverages in the Nordic region and to lower costs. Baltic Beverages Holding (BBH) continues to report strong volume growth (36%) and good margins. As anticipated, the weak Russian rouble has reduced profit from BBH translated into NOK. However, profit performance in the media and chemicals businesses is less satisfactory. High priority is being given to efficiency improvement programmes aimed at strengthening the Group's competitiveness. These efforts have now had a positive impact, particularly in businesses where improvement projects were initiated in 1998.

Value adjusted profit for the Financial Investments area was NOK 2.2 billion. Since only 30% of this was entered in the accounts, book profit was NOK 506 million lower than last year. The return on Orkla's share portfolio was 17.5% at the end of August. Group profit was positively affected by non-recurring items totalling NOK 93 million, a NOK +505 million improvement from last year. Group earnings per share, excluding goodwill amortisation and non-recurring items, amounted to NOK 7.0 compared with NOK 9.8 last year.

Orkla's operating income totalled NOK 20.2 billion, on a par with last year. Sales revenues from the beverage and chemicals businesses were lower than in 1998, while all other areas achieved sales growth. The grocery market in Sweden grew, while the Norwegian market declined somewhat. The warm summer weather in Sweden and Eastern Europe boosted demand for beer, carbonated soft drinks and mineral water. The Group largely maintained its market shares for important product groups.

## **BRANDED CONSUMER GOODS:**

- **Orkla Foods** increased its operating profit by NOK 93 million to NOK 424 million. All divisions reported profit on a par with or higher than last year, and market positions were largely maintained or strengthened. In Sweden, Procordia Food increased sales by 5% and the restructuring programme now in progress is starting to make a positive impact on profit. In Norway, greater focus on costs and marketing investments in the most important product groups are generating higher profit. Abba Seafood also reduced costs and increased sales of its more profitable products. Orkla Foods has launched several new products in value-added segments.
- **Orkla Beverages**'s operating profit declined by NOK 81 million to NOK 384 million. However, operating profit for the second four months of 1999 rose by 6% to NOK 419 million. Operating income for the Nordic region amounted to NOK 3,243 million, which is 4% lower than last year. In the first eight months of 1999, the overall beverage market (in terms of volume sales of beer, carbonated soft drinks and mineral water) increased by 7% in Sweden and by 3% in Norway compared to last year. Pripps increased its sales volume by 7% and Ringnes by 15%. The Nordic business reported operating profit, excluding goodwill amortisation, of NOK 192 million, compared with NOK 77 million in 1998. Fine summer weather in Sweden, lower unit costs and increased sales of more profitable product categories and types of packaging all contributed towards higher sales. The efficiency improvement programme initiated in the Nordic business is proceeding as planned. Due to the weakening of the Russian rouble, BBH's operating profit excluding goodwill amortisation (50%) fell from NOK 515 million to NOK 312 million. However, overall sales volumes increased by 36% to 846 million litres and the operating margin in the second four months of 1999 was 35%. BBH is now market leader in all three Baltic states. Moreover, BBH has increased its market shares in Ukraine, and has maintained its leading position on the Russian market. Operating income declined by 21% to NOK 1,051 million (50%).
- **Orkla Brands**'s operating profit amounted to NOK 269 million, comparable to last year. Apart from Snacks, all product areas achieved profit on a par with or higher than last year. Market shares generally remained stable. Biscuits reported volume growth in the second four months of 1999. Work has begun on assessing the possible advantages of concentrating all production of biscuits at one plant.
- **Orkla Media** posted operating profit of NOK 73 million, which was NOK 18 million lower than last year. Profit for Newspapers Norway was slightly lower. Volume on the overall advertising market declined by 4%. Circulation figures remained stable and workforce reductions are being implemented more rapidly than planned. Operating profit for Magazines showed a marked improvement, largely due to cost reductions, increased publication frequency and a 4% rise in advertising volumes. Profit for Direct Marketing dropped significantly. Newspapers Eastern Europe reported lower profit due to increased marketing costs, the start-up of a new printing plant and lower advertising sales for some newspapers.

## **CHEMICALS:**

Operating income fell by 4% to NOK 3,692 million, mainly due to lower sales of basic and fine chemicals. Operating profit declined by NOK 165 million to NOK 146 million, owing to lower profit from the lignin, ingredients, basic chemicals and energy businesses. Profitability was reduced due to a decline in sales of value-added lignin products. Decreased contributions from the sale of fish oil and lower margins for the crushing of soybeans resulted in substantially reduced profit for Ingredients. Profit from the basic chemicals business declined due to a weaker market and falling prices for sulphuric acid. Low electricity prices led to low

profit for the Energy area in the second four months of 1999. The specialty cellulose business reported profit on a par with last year. Productivity and quality for the most highly processed products improved slightly in the past few months. Operating profit for Fine Chemicals was comparable to last year, but demand tapered off somewhat during the summer, resulting in increased competition and pressure on prices. The productivity improvement programme at the main factory in Norway is largely proceeding as planned.

#### **FINANCIAL INVESTMENTS:**

The value of all the companies listed on the Oslo Stock Exchange has risen by 29.8% since the beginning of the year. The value of Orkla's share portfolio rose by 17.5%. The Storebrand share performed poorly. The net asset value of the share portfolio has increased by NOK 2.2 billion since the start of the year. On 31 August 1999, the market value of the portfolio was NOK 15.5 billion, of which NOK 5.7 billion was unrealised capital gains.

#### **FINANCIAL SITUATION:**

Orkla's net interest-bearing liabilities increased by NOK 1.4 billion to NOK 15.9 billion. Based on the balance sheet total of NOK 40.5 billion, the book equity ratio was 34.5%. If unrealised gains on the share portfolio are included, the equity ratio rises to 42.6%. The Financial Investments area has purchased shares for a net total of NOK 1.1 billion in 1999. The Industry area's expansion investments, totalling NOK 769 million, were related to the acquisition of the Polish newspaper Gazeta Lubuska, the Swedish household textile supplier Freds AB, the bakery ingredients supplier KåKå in Sweden and capacity expansion at BBH.

#### **OUTLOOK**

Orkla's Nordic branded goods businesses do not expect to see any significant changes in market-related operating parameters. However, the Swedish and Finnish economies are showing somewhat clearer signs of growth, while the Norwegian economy seems to be consolidating. The Nordic food and beverage business reported profit growth at the end of the first eight months of 1999, to some extent due to a good summer. Orkla does not anticipate the same relative growth in the last four months of the year, even though the improvement programmes that have been implemented will gradually have a greater impact. BBH is expected to continue to achieve volume growth. Profit for the Chemicals area will be substantially lower in 1999 than in 1998. Nevertheless, given the current trends on certain markets, the third four-month period should be relatively more satisfactory than the first eight months of the year.

#### **Figures enclosed**

## Group Income Statement

Amounts in NOK million	1.1.-31.8.		1.1.-31.12.		1.5.-31.8.	
	1999	1998	1998	1999	1998	1998
<b>OPERATING INCOME</b>	<b>20,177</b>	20,271	30,819	<b>10,544</b>	10,692	
Operating expenses	<b>-17,529</b>	-17,545	-26,810	<b>-8,898</b>	-9,055	
Ord. depreciation and write-downs	<b>-1,032</b>	-977	-1,456	<b>-520</b>	-497	
Operating profit before goodwill and other income and expenses	<b>1,616</b>	1,749	2,553	<b>1,126</b>	1,140	
Goodwill amortisation and write-downs	<b>-296</b>	-275	-421	<b>-147</b>	-140	
Other income and expenses	<b>93</b>	-259	-335	<b>93</b>	-259	
<b>OPERATING PROFIT</b>	<b>1,413</b>	1,215	1,797	<b>1,072</b>	741	
Profit from associates	<b>97</b>	172	165	<b>65</b>	85	
Dividends	<b>313</b>	293	325	<b>181</b>	195	
Portfolio gains	<b>342</b>	903	769	<b>68</b>	513	
Financial items, net	<b>-605</b>	-697	-999	<b>-294</b>	-426	
<b>PROFIT BEFORE TAX</b>	<b>1,560</b>	1,886	2,057	<b>1,092</b>	1,108	
Taxes	<b>-359</b>	-509	-555	<b>-233</b>	-307	
<b>PROFIT AFTER TAX</b>	<b>1,201</b>	1,377	1,502	<b>859</b>	801	
Minority interests	<b>99</b>	92	124	<b>80</b>	53	
Profit before tax, Industry area	<b>913</b>	733	1,015	<b>851</b>	432	
Profit before tax, Financial Investments	<b>647</b>	1,153	1,042	<b>241</b>	676	
<b>EARNINGS PER SHARE FULLY DILUTED (NOK)</b>	<b>5.8</b>	6.7	7.2	<b>4.1</b>	3.9	
<b>EARNINGS PER SHARE FULLY DILUTED(NOK)*)</b>	<b>7.0</b>	9.8	11.4	<b>4.5</b>	6.3	

\*) Excluding goodwill amortisation and non-recurring items

## Group Balance Sheet

Amounts in NOK million	31.8. 1999	31.8.1998*)	31.12.1998*)
<b>ASSETS:</b>			
Long-term assets	<b>21,216</b>	20,880	21,079
Portfolio investments etc.	<b>9,984</b>	8,980	8,851
Short-term assets	<b>9,269</b>	8,767	8,702
<b>TOTAL ASSETS</b>	<b>40,469</b>	38,627	38,632
<b>EQUITY AND LIABILITIES:</b>			
Equity and Minority interests	<b>13,975</b>	13,322	13,240
Interest-bearing liabilities	<b>17,798</b>	16,775	16,453
Interest-free liabilities and provisions	<b>8,696</b>	8,530	8,939
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>40,469</b>	38,627	38,632
Equity to total assets ratio (%):			
Book	<b>34.5</b>	34.5	34.3
Incl. unrealised gains before tax	<b>42.6</b>	40.3	40.6

\*) Deferred tax benefits is deducted from deferred tax according to the new accountancy law.

## Operating Income

## Operating Profit\*)

Amounts in NOK million	1.1.-31.8.		1.1.-31.12.		1.5.-31.8.		1.1.-31.8.		1.1.-31.12.		1.5.-31.8.	
	1999	1998	1998	1999	1998	1999	1998	1999	1998	1999	1998	
Orkla Foods	<b>6,691</b>	6,495	10,238	<b>3,393</b>	3,402	<b>424</b>	331	579	<b>257</b>	227		
Orkla Beverages	<b>4,287</b>	4,719	6,741	<b>2,557</b>	2,746	<b>384</b>	465	508	<b>419</b>	395		
Orkla Brands	<b>2,863</b>	2,735	4,273	<b>1,432</b>	1,400	<b>269</b>	270	456	<b>161</b>	153		
Orkla Media	<b>2,126</b>	2,014	3,153	<b>1,046</b>	1,003	<b>73</b>	91	208	<b>11</b>	32		
Elimination	<b>-90</b>	-99	-167	<b>-35</b>	-45	<b>0</b>	0	0	<b>0</b>	0		
<b>BRANDED CONSUMER GOODS</b>	<b>15,877</b>	15,864	24,238	<b>8,393</b>	8,506	<b>1,150</b>	1,157	1,751	<b>848</b>	807		
<b>CHEMICALS</b>	<b>3,692</b>	3,827	5,777	<b>1,823</b>	1,894	<b>146</b>	311	402	<b>97</b>	174		
H.O./Unallocated/Elimination	<b>337</b>	286	429	<b>174</b>	138	<b>-24</b>	-45	-85	<b>5</b>	1		
Other income and expenses	<b>0</b>	0	0	<b>0</b>	0	<b>93</b>	-259	-335	<b>93</b>	-259		
<b>INDUSTRY</b>	<b>19,906</b>	19,977	30,444	<b>10,390</b>	10,538	<b>1,365</b>	1,164	1,733	<b>1,043</b>	723		
<b>FINANCIAL INVESTMENTS</b>	<b>271</b>	294	375	<b>154</b>	154	<b>48</b>	51	64	<b>29</b>	18		
<b>GROUP</b>	<b>20,177</b>	20,271	30,819	<b>10,544</b>	10,692	<b>1,413</b>	1,215	1,797	<b>1,072</b>	741		

\*) The business areas' operating profit is shown exclusive of «Other income and expenses». Other income and expenses NOK 93 million in first eight months 1999: NOK +110 million in Orkla Foods and NOK -17 million in Chemicals. In first eight months 1998 NOK -259 million: NOK -175 million in Orkla Beverages, NOK -25 million in Orkla Brands, NOK -27 million in Orkla Media and NOK -32 million in H.O./Unallocated.