

# ORKLA

FIRST EIGHT MONTHS 1995

## BRANDED CONSUMER GOODS

ORKLA IS A LEADING SUPPLIER  
OF BRANDED CONSUMER  
GOODS TO THE SCANDINAVIAN  
MARKET. BRANDED GOODS  
REPRESENT AROUND 80%  
OF THE GROUP'S TOTAL SALES.

## FINANCIAL INVESTMENTS

ORKLA OWNS ONE OF NORWAY'S  
LARGEST INVESTMENT PORTFOLIOS  
WHICH REPRESENTS AROUND 25%  
OF THE GROUP'S BALANCE SHEET.  
THE PORTFOLIO HAS PROVIDED A  
BETTER RETURN THAN THE OSLO  
STOCK EXCHANGE OVER A NUMBER  
OF YEARS.

## CHEMICALS

ORKLA HAS STRONG GLOBAL  
MARKET POSITIONS IN SELECTED  
NICHES OF SPECIALITY AND FINE  
CHEMICALS. MORE THAN 80%  
OF SALES ARE OUTSIDE NORWAY.  
THE CHEMICALS BUSINESS REPRESENT  
AROUND 15% OF THE  
GROUP'S SALES AND IS SHOWING  
GOOD GROWTH.

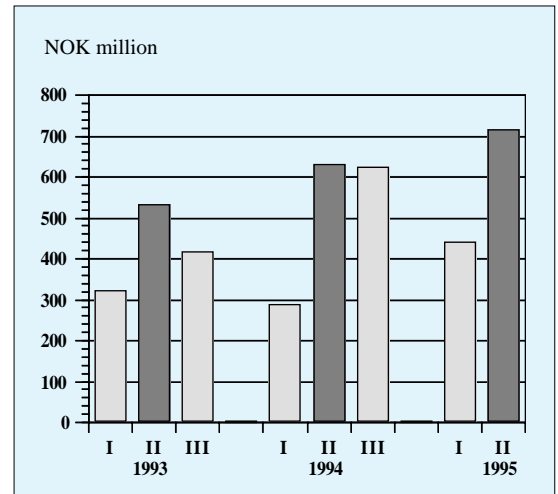


ORKLA

**Group profit and loss account <sup>\*)</sup>**

NOK million	1.1.-31.8. 1995		1.1.-31.12. 1994		1.5.-31.8. 1995		1994	
<b>Operating revenue</b>	<b>13,250</b>	13,360	20,780	<b>6,808</b>	6,937			
Operating expenses	(11,347)	(11,727)	(18,121)	(5,713)	(5,942)			
Ordinary depreciation	(748)	(715)	(1,118)	(380)	(366)			
<b>Operating profit</b>	<b>1,155</b>	918	1,541	<b>715</b>	629			
Financial items, net	(218)	(309)	(514)	(31)	(111)			
Profit from ass. companies, etc.	112	111	129	64	72			
Gains/losses on sale of shares, etc.	358	257	418	63	88			
<b>Profit before tax, Group</b>	<b>1,407</b>	977	1,574	<b>811</b>	678			
Taxes and minority interests	(346)	(264)	(425)	(199)	(183)			
<b>Profit after tax, Group</b>	<b>1,061</b>	713	1,149	<b>612</b>	495			
Profit before tax, Industry	974	703	1,224	632	548			
Profit before tax, Investment area	433	274	350	179	130			
Earnings per share (NOK)	22.1	14.9	24.0	12.8	10.3			
Cashflow per share (NOK)	37.9	29.3	46.6	20.7	17.8			

<sup>\*)</sup> Completion of the agreement with Volvo which was signed on 02.04.1995 has now taken place. No results from the companies covered by this agreement are included in this interim report.

**Operating profit, 4 month periods**


## Orkla Group First eight months of 1995

### Main aspects

The Group's profit before tax for the first eight months was NOK 1,407 million, an increase of NOK 430 million in relation to the same period last year. The operating profit was NOK 1,155 million. NOK 114 million of this represents gains on the sale of industrial operations. For the second four months in isolation the profit before tax was NOK 811 million, an advance of NOK 133 million from last year. Beverages in particular reported a good improvement in profits for the period. Net financial items improved by NOK 91 million for the first eight months due, among other things, to an increase in dividend receipts. Unrealised gains on the share portfolio rose by NOK 335 million during the second four months to total NOK 2,726 million at 31.08.1995.

Orkla's operating revenue in the second four months totalled NOK 6,808 million, a reduction of NOK 129 million in relation to the same period last year. The decrease is due to the sale of businesses. Adjusted for businesses bought and sold, operating revenue increased by some 3.5% from the second four months of last year.

The increase in the Group's operating profit in the second four months was mainly due to a favourable shift in the product mix and efficiency improvements in the beverages business. This also largely contributed to the rise in the Group's operating margin in the second four months from 9.1% to 10.5%.

During the second four months the Group sold A/S Høvellast realising a gain of NOK 33 million.

Orkla has now received all necessary permissions from the competition authorities in Norway and Sweden to complete the purchase of Volvo's food business following real, albeit limited, concessions by Orkla in the area of squashes and jams in Sweden. The EU Commission has given its approval to the merger of Pripps and Ringnes following an undertaking by Orkla and Volvo to divest Hansa Bryggerier.

The agreement with Volvo has now

been completed and settlement took place on 29.09.1995. Procordia Food and Abba Seafood will be included in Orkla's consolidated accounts from 01.10.1995, while Orkla's share of Pripps Ringnes will be included with effect from 01.01.1995. For the first eight months only Ringnes' results are included. The overall development in the Swedish businesses so far this year has corresponded to Orkla's expectations. The foods business has an aggregate profit in line with last year. Pripps in Sweden has had a slightly weaker development as a result of not being able to obtain full price compensation for higher raw material prices in the first part of the year. The development for Baltic Beverages Holding has been positive.

Discussions with The Coca-Cola Company (TCCC) on new agreements with Pripps Ringnes remain to be resolved. Pripps Ringnes only wishes to sign new long-term agreements with TCCC if it is possible to find solutions which provide acceptable profitability for both parties.

### ORKLA BEVERAGES

Operating revenue increased in the second four months by NOK 41 million to NOK 1,368 million.

The operating profit rose by NOK 59 million to NOK 230 million. The domestic business' profit for the period improved by NOK 63 million to NOK 234 million. The improvement was mainly due to higher sales of high margin beers, higher sales of bottled water and lower cost levels.

Domestic sales grew by 1% for beer, while there was a slight decrease in the volume of carbonated soft drinks sold. There was substantial growth (32%) in the sale of water products. Ringnes' market shares were stable. "Farris" recorded growth during the period of 30%, helped by the launch of "Farris" Lime. The products from The Coca-Cola Company performed well in a market characterised by increasing competition from other producers and own brands. In the beer market, thanks to improved design and the launch of "Lysholmer Ice", "Lysholmer" did very well during the period (+55%).

Work to reduce cost levels in the business has had a positive effect, particularly for the areas distribution and production. Commissioning of the Gjelleråsen plant has now been completed and it is operating well. The delivery situation has been satisfactory throughout the summer season.

In Poland volume has increased by

## Operating revenue

## Operating profit

NOK million	1.1.-31.8.		1.1.-31.12. 1994	1.5.-31.8.		1.1.-31.8.		1.1.-31.12. 1994	1.5.-31.8.	
	1995	1994		1995	1994	1995	1994		1995	1994
Orkla Beverages	2,356	2,272	3,322	1,368	1,327	223	139	163	230	171
Orkla Foods	3,620	3,424	5,286	1,844	1,765	193	207	362	115	118
Orkla Brands	3,625	3,349	5,386	1,802	1,719	317	261	421	170	150
Orkla Media	1,137	1,049	1,726	569	536	82	62	140	36	28
Elimination	(418)	(444)	(709)	(195)	(220)	(21)	(12)	(32)	(17)	(10)
<b>Branded Consumer Goods</b>	<b>10,320</b>	<b>9,650</b>	<b>15,011</b>	<b>5,388</b>	<b>5,127</b>	<b>794</b>	<b>657</b>	<b>1,054</b>	<b>534</b>	<b>457</b>
<b>Chemicals</b>	<b>2,264</b>	<b>1,954</b>	<b>3,155</b>	<b>1,106</b>	<b>989</b>	<b>235</b>	<b>203</b>	<b>349</b>	<b>132</b>	<b>136</b>
H.O./Unalloc./Elimination	560	1,645	2,456	245	771	115	37	122	30	28
<b>Industry</b>	<b>13,144</b>	<b>13,249</b>	<b>20,622</b>	<b>6,739</b>	<b>6,887</b>	<b>1,144</b>	<b>897</b>	<b>1,525</b>	<b>696</b>	<b>621</b>
<b>Investment area</b>	<b>106</b>	<b>111</b>	<b>158</b>	<b>69</b>	<b>50</b>	<b>11</b>	<b>21</b>	<b>16</b>	<b>19</b>	<b>8</b>
<b>Group</b>	<b>13,250</b>	<b>13,360</b>	<b>20,780</b>	<b>6,808</b>	<b>6,937</b>	<b>1,155</b>	<b>918</b>	<b>1,541</b>	<b>715</b>	<b>629</b>

23%. This has partly been offset by a fall in average real prices of carbonated soft drinks, so that operating revenue increased by 17%. There was a deterioration in the result of the businesses in Poland in the second four months of NOK 4 million to NOK -4 million. It is expected that agreement will be reached on the sale of the operations in Poland well before the end of the year.

### ORKLA FOODS

Operating revenue rose in the four-month period by 4% to NOK 1,844 million. The operating profit in the second four months was NOK 115 million.

The market position in important product areas in the Norwegian groceries sector has been secured, and a number of new products were launched in the period. Correspondingly there was a favourable development in the catering division in the four-month period. With regard to the fresh products sector the results continue to be weak and in line with last year.

The development at BOB Industrier was less satisfactory. The main reasons were higher raw material costs, for which compensation through higher sales prices was obtained later than expected, and a negative development in fixed costs. A detailed programme has been implemented to improve profitability.

Changes in competition regulations as a result of the EEA agreement have led to the ending of cooperation in Møllesentralen on the production and sale of flour and other grain products. As a result of this, the competitive situation of Regal Mølle has changed.

### ORKLA BRANDS

Operating revenue in the second four months rose by 5% to NOK 1,802 million. The growth was due to successful launches and increased or maintained market shares. There has generally

been good market growth for the businesses' product areas in Norway. The decline in Swedish grocery retailing has affected biscuit sales. The Danish snacks market is developing satisfactorily and the acquisition of the snacks producer Party Food is proceeding as planned. Consideration is being given to grouping snacks production in Norway in a single unit.

The operating result for the first eight months of NOK 317 million is NOK 56 million better than last year. The advance in the second four months in isolation was NOK 20 million and mainly relates to snacks and to some extent chocolate, while the improvement in the first four months was mainly due to better markets for edible oils.

The cost side is developing satisfactorily. Priority is being given to reducing costs in administrative support functions where, among other things, it has been decided to establish a joint wages department for most of the Norwegian businesses.

It has been decided to invest almost NOK 90 million in a new plant for the production of liquid detergents. This will commence operation in 1997. The investment will contribute to increased competitiveness and thereby may permit an expansion in exports.

### ORKLA MEDIA

Operating revenue increased in the second four months by 6% to NOK 569 million, mainly as a result of higher advertising revenues in the Newspaper sector and the effect of businesses acquired. So far this year operating revenue has risen by 8% to NOK 1,137 million.

The operating profit for the period increased by NOK 8 million to NOK 36 million. The operating profit for the year to date is thus NOK 82 million. The improvement in profits can mainly be explained by higher advertising revenues in the newspapers and cost

improvements in the magazine business. Higher paper prices have had a negative impact. The operating margin for the period nevertheless increased in relation to last year by 1.1 percentage points to 6.3%. So far this year the operating margin has increased by 1.3 percentage points to 7.2%.

Advertising volume in the Newspaper sector increased by 10.8% in the period in relation to last year. Advertising volume in the Magazine sector rose by 10.4%, while the increase for the Norwegian magazine sector in general was 2.8%.

Orkla Media's newspapers have recorded a positive development in circulation so far this year (+0.5%), while the magazines recorded an aggregate fall in circulation of 3.4%, which is a smaller decline than for the Norwegian magazine sector in total.

### CHEMICALS

Operating revenue rose by NOK 117 million (+12%) compared with the second four months of last year, mainly as a result of the effect of businesses acquired. The operating result is NOK 29 million higher than the previous four-month period and in line with the second four months of last year, when there was a good result due to the timing of deliveries of pharmaceutical intermediates. The development in exchange rates has been less favourable for Borregaard during the four-month period and has limited the positive development in profits. Expansion in Asia is continuing and sales to this region rose during the period.

Specialty chemicals generally had a higher level of activity and increased volume, but a lower result, largely because of unfavourable exchange rate developments.

Fine chemicals recorded a lower result than in the second four months of last year, which was due to the timing of deliveries. The diphenol business in

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## Group balance sheet

NOK million	31.8. 1995	31.8. 1994	31.12. 1994
<b>Assets:</b>			
Current assets	13,778	11,175	11,755
Long-term assets	9,603	10,152	9,647
<b>Total assets</b>	<b>23,381</b>	<b>21,327</b>	<b>21,402</b>
<b>Liabilities and equity:</b>			
Interest-free liabilities	4,816	4,957	5,268
Interest-bearing liabilities	10,283	9,025	8,692
Minority interests	173	213	213
Equity	8,109	7,132	7,229
<b>Liabilities and equity</b>	<b>23,381</b>	<b>21,327</b>	<b>21,402</b>
Equity ratio (%)	35.4	34.4	34.8

Italy and 100% of EuroVanillin are included in the four-month figures for this year. The market for diphenols from the plant in Italy is currently satisfactory.

Specialty pulp increased its operating profit from the second four months of last year. The improvement is mainly due to the development in the pulp market with higher sales prices. At the same time Specialty pulp has experienced price increases on the raw materials side compared with the second four months of last year. A further improvement in the result from Specialty pulp is expected for the remainder of 1995.

Other areas are in line with the second four months of last year.

Borregaard is investing NOK 190 million in Sarpsborg in order to be able to offer highly processed pulp from the 1996-97 year-end. The investment is in line with the Chemicals area's specialisation strategy by positioning Borregaard in the upper part of the market for specialty pulps. This will also have environmental benefits through a further reduction in emissions.

### FINANCIAL INVESTMENTS

The stockmarkets both in Norway and internationally developed well during the second four months, helped by a fall in interest rates.

The Oslo Stock Exchange All Share Index rose by 9.3% in the second four months and has thus risen by 9.8% since the year-end. Orkla's portfolio had a slightly weaker development with a return (realised and unrealised) so far this year of 7.6%. The rise in share prices on the Oslo Stock Exchange has been greatest for the

smaller companies. This is illustrated by the fact that the OBX Index, which includes the largest companies, has only risen by 1.1% so far this year.

The Investment area's booked result was NOK 179 million against NOK 130 million in the same period last year. Gains of NOK 63 million were realised in the second four months. So far this year gains totalling NOK 358 million (NOK 257 million) have been realised. Dividends received this year amount to NOK 196 million (NOK 124 million). In the second four months the shareholding in Norges-kreditt was sold and the interest in Saga Petroleum reduced. NOK 154 million was invested in Norway Seafoods A.S. Otherwise there have been no major changes in the portfolio.

At 31.08.1995 the market value of the portfolio was NOK 8,652 million. Unrealised gains totalled NOK 2,726 million, which is an increase of NOK 335 million in the four-month period and NOK 63 million since the start of the year.

The financial services business developed well during the second four months.

### CAPITAL SITUATION AND CASHFLOW

The Group's net cashflow in the second four months was NOK 347 million. Net interest-bearing debt has thus been reduced by NOK 590 million since the year-end to NOK 7,036 million. The improvement in cashflow in relation to

## Cashflow

NOK million	1.1.-31.8.		1.1.-31.12.		1.5.-31.8.	
	1995	1994	1994	1995	1994	
<b>Cashflow - Industry:</b>						
Operating profit	1,144	897	1,526	696	621	
Ordinary depreciation	740	709	1,107	376	361	
Changes in net working capital	(23)	(377)	(250)	(92)	(59)	
Cashflow from operations	1,861	1,229	2,383	980	923	
Net replacement expenditure	(492)	(548)	(891)	(260)	(220)	
Free cashflow from operations	1,369	681	1,492	720	703	
Financial items, net	(279)	(286)	(391)	(71)	(54)	
<b>Free cashflow - Industry</b>	<b>1,090</b>	<b>395</b>	<b>1,101</b>	<b>649</b>	<b>649</b>	
Cashflow from Investment area before net purchases/sales	30	(25)	(93)	8	31	
Tax and dividends	(445)	(359)	(522)	(290)	(207)	
Misc. capital transactions, for. exch.diff.	(6)	92	188	95	29	
<b>Group's self-financing capacity</b>	<b>669</b>	<b>103</b>	<b>674</b>	<b>462</b>	<b>502</b>	
Expansion investments Industry	(225)	(863)	(1,175)	(96)	(484)	
Net purchases/sales portfolio inv.	146	(402)	(43)	(19)	(271)	
<b>Net cashflow</b>	<b>590</b>	<b>(1,162)</b>	<b>(544)</b>	<b>347</b>	<b>(253)</b>	
<b>Change in net interest-bearing debt</b>	<b>(590)</b>	<b>1,162</b>	<b>544</b>	<b>(347)</b>	<b>253</b>	

last year is mainly due to the sale of industrial businesses, lower expansion investments and the sale of portfolio investments. So far this year the sale of industrial businesses has contributed to reducing net interest-bearing debt by some NOK 600 million.

The book equity ratio at 31.08.1995 was 35.4%. The Group's total balance sheet has increased as substantial funds were invested in the money market short-term prior to settlement of the agreement entered into with Volvo.

### FUTURE PROSPECTS

No major changes are expected in the operating parameters for the Group's branded goods businesses in the near future. In order to realise expected synergies as rapidly as possible, high priority will be given to the integration of the businesses acquired in Sweden.

The favourable market for specialty pulp is expected to be maintained and to continue to contribute to good results for the Chemicals area.

It still seems that economic growth is not contributing to a significant increase in the rate of inflation. Interest rate levels are therefore expected to remain stable. Combined with improvements in results for the listed companies, this is expected to contribute to a generally positive development in the stockmarkets.

Oslo, 4 October 1995  
The Board of Directors of ORKLA A.S