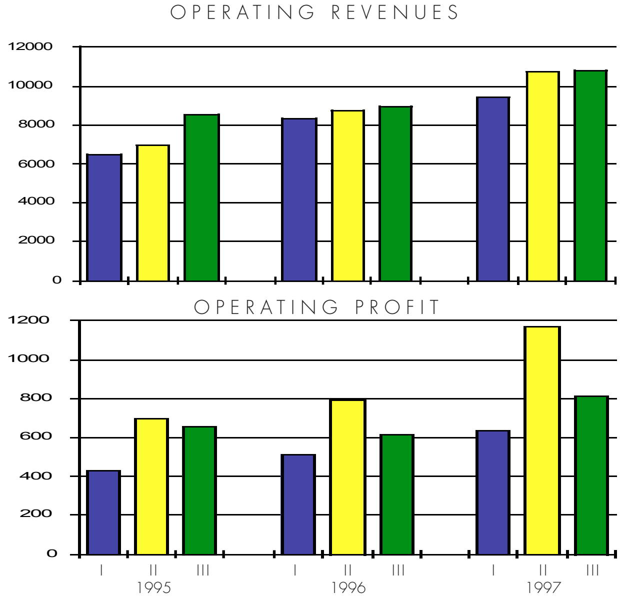
# Orkla

## Last four months - Preliminary results 1997

**GROUP PROFIT AND LOSS ACCOUNT**

| NOK million | 1.1.-31.12. 1997 | 1996 | 1.9.-31.12. 1997 | 1996 |
|---|---|---|---|---|
| OPERATING REVENUES | 30,970 | 25,998 | 10,802 | 8,970 |
| Operating expenses | (26,777) | (22,772) | (9,416) | (7,893) |
| Depreciation/write-downs goodwill | (419) | (283) | (149) | (112) |
| Ord. depreciation and write-downs | (1,342) | (1,047) | (446) | (352) |
| Other revenues and costs | 181 | 20 | 23 | 0 |
| OPERATING PROFIT | 2,613 | 1,916 | 814 | 613 |
| Financial items, net | (394) | (398) | (136) | (138) |
| Profit from associated companies | 442 | 97 | 314 | 16 |
| Portfolio gains | 876 | 816 | 265 | 236 |
| PROFIT BEFORE TAX | 3,537 | 2,431 | 1,257 | 727 |
| Taxes | (863) | (641) | (270) | (188) |
| Minority interests | (112) | (38) | (33) | (22) |
| NET PROFIT | 2,562 | 1,752 | 954 | 517 |
| Profit before tax, Industry | 2,381 | 1,332 | 914 | 413 |
| Profit before tax, Investment area | 1,156 | 1,099 | 343 | 314 |
| EARNINGS PER SHARE (NOK) | 53.7 | 36.9 | 20.0 | 10.9 |
| EARNINGS PER SHARE FULLY DILUTED (NOK) | 53.2 | 36.5 | 19.8 | 10.8 |

**OPERATING REVENUES AND OPERATING PROFIT IN NOK MILLION*) 4 MONTH PERIODS**




*) Inclusive «Other revenues and costs».

# The Orkla Group

**MAIN TRENDS**

1997 was a successful year for Orkla. Profit before tax rose by NOK 1.1 billion to NOK 3.5 billion and earnings per share rose by 46% to NOK 53.20 (fully diluted).

The acquisition of the remaining shares in Pripps Ringnes in February 1997 confirmed the Group's position in the Nordic region, strengthened its position in Eastern Europe and was the main reason for the 19% rise in group operating revenues and the 36% rise in group operating profit.

The net asset value of Orkla's share portfolio increased by NOK 2.6 billion to NOK 11.5 billion in 1997. The return on the portfolio was 24.5%, 7 percentage points lower than the Oslo Stock Exchange All Share Index.

The strong rise in share price in 1997 gave shareholders 42% added value in addition to the dividend. In the period since 1986, when the current strategy and structure were established, the value of the Orkla share has, on average, risen by 24.8% per year.

Profit before tax includes non-recurring items totalling NOK 545 million. Excluding non-recurring items, profit before tax for the year rose by 24% and earnings per share by 18%. In the last four months of the year, profit before tax excluding non-recurring items increased by 28%.

Orkla's Board of Directors proposes increasing the dividend from NOK 7.00 in 1996 to NOK 8.50 in 1997. The Board also proposes splitting the share (A and B) into four parts.

Orkla's operating revenues totalled NOK 30,970 million in 1997. Underlying growth in revenues from continuing business*) adjusted for exchange rate fluctuations was 5%. Growth was stronger in the last four months than in the preceding two periods.

Trends on the most important markets for the Group's branded consumer goods business were mixed in 1997. There was a slight rise in volumes on both the Norwegian and the Swedish grocery markets. Although competition remains strong, the Group has largely maintained its market positions. However, the beverages market in the Nordic region is affected by the changes that are taking place in markets and competition. Pripps Ringnes' shares of the beer markets were somewhat lower, while the company's own carbonated soft drinks and water brands showed a rising trend. The breweries in Eastern Europe achieved strong volume growth.

In the Chemicals area, specialty pulp prices were stable, although lower than in 1996. Demand for Ingredients (Denofa) was satisfactory.

Group operating profit rose by 36% to NOK 2,613 million in 1997. Both in 1997 and in 1996, operating profit was favourably affected by «Other revenues and costs» of NOK 181 million and NOK 20 million respectively. Adjusted for these items, acquisitions and divestitures and exchange rate fluctuations, operating profit increased by approximately 14%. Adjusted for exchange rate fluctuations, underlying growth in the Branded Consumer Goods area was 23%, while for Chemicals it fell by 31%. In the last four months, the Group achieved a marked rise in profit and underlying growth

**) Continuing business has been adjusted for acquisitions and divestitures. New businesses for 1997 have been adjusted into the 1996 figures for the corresponding period, while divested businesses have been excluded in both 1996 and 1997.*

in operating profit was just over 30%.

In spite of a significant increase in debt in 1997, net financial items are on a par with the same period in 1996 due to a 2 percentage points reduction in the Group's average borrowing rate.

Profit after tax and minorities was NOK 2,562 million compared with NOK 1,752 million in 1996. Minority interests' share of profit increased in 1997 as a result of profit growth at Baltic Beverages Holding (BBH). In 1997 the Group's tax charge was 24.4%, 2 percentage points lower than in 1996.

Profit before tax was favourably affected by NOK 545 million in non-recurring items, of which NOK 325 million was taken to income in the last four-month period. The largest items in 1997 were related to Orkla's share (41.8%) of the gain on Jotun's sale of the polymer business (NOK 283 million, recorded under «Profits from associated companies»), compensation for the winding up of the agreement with The Coca-Cola Company and a restructuring provision for Ringnes (NOK 171 million, recorded under «Other revenues and costs») and gains on the sale of Hansa (NOK 61 million, recorded under «Financial items, net»).

## ORKLA FOODS

Operating revenues in 1997 totalled NOK 10,094 million. For continuing business adjusted for exchange rate fluctuations, this represented growth of 3%. Sales rose more strongly in the last four months than in the two foregoing periods.

Operating profit excluding other revenues and costs rose by 8% to NOK 655 million. Improved profit for Abba Seafood and volume growth for the Norwegian companies made a positive contribution. Operating profit was negatively affected by costs relating to the international division, which comprises operations in Austria, Poland, Czechia and Hungary.

In order to strengthen product development and brand building, a new organisational structure was introduced towards the end of 1997. The nucleus of the new organisation consists of product categories spanning national markets and six divisions.

The realisation of synergy gains at Orkla Foods is developing rather better than planned. Some of the synergy effects have been used to increase the competitiveness of this business area.

Operating revenues for Procordia Food (in Sweden) were SEK 3,515 million. Adjusted for exchange rate fluctuations and companies sold, operating revenues were 2% lower than last year. The decline is due to lower sales on the Swedish market, particularly the catering market. In the last four months of the year, sales increased by approximately 3%. Operating profit in 1997 was higher than in the previous year.

Abba Seafoods' operating revenues totalled SEK 1,318 million. The winding up of unprofitable units in 1996, measures to improve the efficiency of existing operations and an improved product mix led to a clear improvement in profits. The market positions of important product groups in Sweden were strengthened.

Stabburet's operating revenues amounted to NOK 2,292 million. On the Norwegian grocery market, Stabburet achieved a 6% rise in sales and strengthened the market positions of a majority of its product groups. In the catering sector, sales trends were satisfactory on a market where the concentration of chains is increasing.

Orkla Foods' industry division reported growth in both operating revenues and operating profit. Regal Mølle strengthened its position on the Norwegian flour and cereals market.

Bakers reported increased sales and profits.

## ORKLA BEVERAGES

In 1997, Orkla Beverages' operating revenues totalled NOK 7,656 million. Adjusted for new businesses and exchange rate fluctuations, this was approximately 5% higher than in 1996. Operating profit excluding other revenues and costs was NOK 799 million. Underlying growth adjusted for exchange rate fluctuations was just over 50%, primarily due to improved profits at BBH and the favourable impact of a warm summer.

The Nordic business reported operating revenues of NOK 6,393 million. Adjusted for exchange rate fluctuations, this was 2% lower than in 1996. Operating profit excluding other revenues and costs was NOK 529 million, compared with NOK 512 million in 1996. Volume growth for Ringnes and improved profitability for Pripps' product range made a positive contribution but the transition to toll-filling of Coca-Cola products had a negative effect on profits.

Pripps' operating revenues declined by 5% to SEK 3,583 million in 1997. Sales volume for beer was 8% lower, mainly due to a high level of imports and increased competition. The total market for beer with a 2.8% alcohol content developed rather more slowly than expected while beer with a 3.5% alcohol content did somewhat better. Volume growth for Pripps' own brands of carbonated soft drinks was 22% and for water products 8%. Pripps' operating profit was slightly higher than in 1996. The favourable price and product mix for beer and increased volumes of carbonated soft drinks and water largely offset the lower volume of beer sold and the transition to toll-filling of Coca-Cola products.

Ringnes' operating revenues rose by 3% to NOK 3,125 million in 1997, mainly due to the warm summer. For the year as a whole, Ringnes achieved total volume growth of 7%, although its share of the beer market was somewhat lower, mainly as a result of strong competition from private labels. Ringnes' own carbonated soft drinks and water products performed well, achieving volume growth of 23% and 20% respectively. Ringnes' operating profit was on a par with 1996.

In 1997, operating revenues for BBH (50% basis) totalled SEK 1,358 million, compared with SEK 605 million the year before. This can mainly be ascribed to volume growth for the Russian brewery, Baltika, following a rise in capacity and a stronger market position in the St. Petersburg region, and the acquisition of new breweries. Operating profit (50% basis) was SEK 475 million, compared with SEK 164 million in 1996. Total production was approximately 600 million litres, compared with 318 million litres in 1996 (100% basis). Approximately half the growth in volume can be ascribed to the new breweries. In comparison, the total volume of beer produced by the Nordic business was approximately 340 million litres.

In 1997 Pripps Ringnes entered into an agreement with PepsiCo for the production, distribution and sale of Pepsi Cola and 7UP in Sweden, starting at the latest on 1 January 2001. The parties will also be discussing possible cooperation in Norway.

In connection with the phasing out of cooperation with The Coca-Cola Company, the toll-filling period for Ringnes was extended from 31 August 1998 to 31 December 1998.

## ORKLA BRANDS

Orkla Brands' operating revenues totalled NOK 4,146 million. Adjusted for exchange rate fluctuations, underlying growth was 2%. Operating profit excluding other revenues and costs was NOK 458 million. Adjusted for exchange rate fluctuations, profit from continuing business rose by 8%. All segments with the exception of Snacks achieved profits that were higher than, or on a par with 1996.

The operating margin excluding other revenues and costs rose by 0.8 percentage points to 11.0%, mainly due to lower production and raw materials costs. The ongoing effort to improve products and the effects of investments in production plants also made a positive contribution. The new production line for Chocolate/Confectionery became operational in the last four months, while the new liquid detergent factory is almost fully operational after a start-up period which resulted in somewhat higher costs than anticipated.

The continuous effort to achieve improvements and reduce costs contributed to somewhat lower fixed and indirect expenses.

Investments in advertising increased by 12% in 1997. There was weak growth in markets and market shares were generally stable.

Snacks Denmark has decided to concentrate all Danish production in one place. The costs in this connection are included in «Other revenues and costs». The snacks operation in Lithuania was officially opened towards the end of the year and local production and sales are proceeding according to plan.

| NOK million | OPERATING REVENUES 1.1.-31.12. 1997 | 1996 | 1.9.-31.12. 1997 | 1996 | OPERATING PROFIT*) 1.1.-31.12. 1997 | 1996 | 1.9.-31.12. 1997 | 1996 |
|---|---|---|---|---|---|---|---|---|
| Orkla Foods | **10,094** | 10,527 | **3,509** | 3,563 | **655** | 608 | **271** | 257 |
| Orkla Beverages | **7,656** | 3,265 | **2,356** | 1,020 | **799** | 300 | **161** | 34 |
| Orkla Brands | **4,146** | 4,213 | **1,506** | 1,511 | **458** | 431 | **180** | 173 |
| Orkla Media | **2,569** | 2,220 | **980** | 831 | **204** | 175 | **97** | 87 |
| Elimination | **(169)** | (168) | **(67)** | (63) | **0** | 0 | **0** | 0 |
| **BRANDED CONSUMER GOODS** | **24,296** | 20,057 | **8,284** | 6,862 | **2,116** | 1,514 | **709** | 551 |
| **CHEMICALS** | **5,733** | 5,161 | **2,200** | 1,852 | **324** | 441 | **100** | 115 |
| H.O./Unallocated/Elimination | **525** | 514 | **141** | 156 | **(111)** | (124) | **(56)** | (79) |
| Other revenues and costs | **0** | 0 | **0** | 0 | **181** | 20 | **23** | 0 |
| **INDUSTRY** | **30,554** | 25,732 | **10,625** | 8,870 | **2,510** | 1,851 | **776** | 587 |
| **INVESTMENT AREA** | **416** | 266 | **177** | 100 | **103** | 65 | **38** | 26 |
| **GROUP** | **30,970** | 25,998 | **10,802** | 8,970 | **2,613** | 1,916 | **814** | 613 |

*) The business areas' operating profit is shown exclusive of «Other revenues and costs». Other revenues and costs NOK 181 million in 1997: NOK 46 million in Orkla Foods, NOK 171 million in Orkla Beverages, NOK 20 million in Orkla Brands, NOK 16 million in Orkla Media, NOK -50 million in Chemicals and NOK -22 million in H.O./Unallocated. Other revenues and costs in 1996: Orkla Foods NOK 20 million.

Chocolate/Confectionery focused more strongly on its own brands. Despite strong competition, the market share for the company's own brands increased and the total market share was maintained. Towards the end of the year, Nidar launched a new chocolate product, SOHO, which is innovative in terms of design, flavour and the production process.

### ORKLA MEDIA

Orkla Media's operating revenues totalled NOK 2,569 million. Adjusted for businesses bought and sold, underlying growth was 5%. Operating profit excluding other revenues and costs totalled NOK 204 million. For continuing business, profit growth was 16% and the operating margin improved. Profit growth for Magazines and Orkla Media Poland made a positive contribution. Paper prices were, on average, 17% lower in 1997.

In 1997, advertising volume for Norwegian Newspapers rose by 3% while circulation increased by 1% to 360,000 copies. In conjunction with reduced paper prices, this contributed towards profit growth. However, profit was affected by investments in local radio and TV and by increased competition from some no. 2 newspapers.

Magazines recorded a 21% growth in advertising volume in 1997. In combination with reduced paper prices, this led to a rise in profits. The total advertising market increased by 18%. In terms of volume, the market share increased from 46% in 1996 to 47% in 1997. Family magazines fell slightly while the other magazines increased their market shares. Circulation was on a par with 1996.

The favourable performance of Polish newspapers and the full year effect of Rzeczpospolita, Orkla Media's largest Polish newspaper, increased operating profit for Orkla Media Poland.

Direct Marketing achieved weaker profit than in previous years due to reduced sales. Forbrukerkontakt was sold at a profit of NOK 16 million (recorded under «Other revenues and costs»).

Investments in electronic publishing affected group operating profit negatively compared to 1996.

### CHEMICALS

Borregaard's operating revenues increased by 11% to NOK 5,733 million in 1997. Operating profit excluding other revenues and costs was NOK 324 million, compared with NOK 441 million in 1996. The fall in profit can be ascribed to Specialty Pulp and Fine Chemicals. Ingredients achieved a marked improvement in profits. Profit in the last four months was 13% lower than in the same period in 1996. The favourable trend for Ingredients in this period was offset by lower profits from Fine Chemicals and Energy.

Borregaard LignoTech increased its operating revenues by 11% to NOK 1,206 million and reported good profit growth. This can be ascribed to a higher contribution margin resulting from an improved product mix, lower freight rates and the favourable impact of the strong dollar and sterling. Sales volume was on a par with 1996. The company's share of sales to Asia increased from 19% to 22%.

In 1997 Borregaard LignoTech and the South African company Sappi Saiccor established a 50/50 joint venture company for the production of lignin-based products in South Africa, thus laying the foundations for significant lignin operations in the southern hemisphere. A new lignin factory will be built and production is expected to start at the end of 1998.

Operating revenues from Specialty Pulp fell by 9% to NOK 1,275 million. Specialty Pulp reported a significant fall in profits, ascribable to reduced production and increased costs in connection with the start-up of a new plant for highly processed pulp and a general decline in prices from 1996 to 1997. Sales prices were relatively stable throughout 1997.

Operating revenues from Fine Chemicals rose by 8% to NOK 825 million, mainly due to the acquisition of new business. Fine Chemicals reported a fall in profits in 1997, mainly due to declining sales to diagnostica. The utilisation of technology is expected to produce a somewhat broader range of products and thereby a lower risk profile for the product portfolio in the years to come. Sales of advanced fine chemicals to the pharmaceutical industry are expected to rise gradually in 1998, but the full effect of new products will not be seen until 1999.

Operating revenues from Ingredients increased by 32% to NOK 1,995 million and this business area achieved significantly higher profits than in 1996. The rise in profit was due to a rising trend for exports and good coverage of the fish oil market, where supplies were scarce and prices at an all-time high. The positive trend for sales of special fat to Eastern Europe continued.

The other business areas reported a fall in profits due to increased costs in connection with the start-up of the new chloralkali factory, irregular operations, and high maintenance costs in connection with sulphuric acid production.

In connection with the write-down of non-strategic operations NOK 50 million were charged against operating profit (recorded under «Other revenues and costs»).

### FINANCIAL INVESTMENTS

1997 was a good year for the Norwegian stock market. The Oslo Stock Exchange (OSE) All Share Index rose by 31.5%, compared with 32.1% the previous year. The trend on the Norwegian market in 1997 continued to be good compared with international markets. For example, the FT World Index rose by 19.3%, compared with 14.1% in 1996. In the last four months, however, the OSE All Share Index fell by 0.2%.

In 1997, the return on Orkla's portfolio was 24.5%. The relatively weaker return than the OSE All Share Index was due to the weak performance of several of the larger items in the portfolio (Elkem, Dyno, Hafslund, Norway Seafoods and Nera). Moreover, Orkla is underweighted in the offshore sector, which did well in 1997.

The Financial Investments business reported book profit before tax of NOK 1,156 million, NOK 57 million higher than in 1996. Realised portfolio gains totalled NOK 876 million, com-

Return address: **ORKLA ASA, Shareholder Service**
P.O. Box 423 Skøyen, N-0212 Oslo, Norway

When changing address, shareholders are requested to contact their account operator.

Financial information about Orkla can be found at the internet address:
http://hugin.sol.no/ORK/index_e.shtml

## GROUP BALANCE SHEET

| NOK million | 31.12. 1997 | 31.12. 1996 |
|---|---|---|
| **Assets:** | | |
| Current assets | **9,042** | 7,207 |
| Share portfolio | **8,188** | 6,512 |
| Long-term assets | **19,635** | 12,777 |
| **TOTAL ASSETS** | **36,865** | 26,496 |
| **Liabilities and equity:** | | |
| Interest-free liabilities | **9,067** | 6,753 |
| Interest-bearing liabilities | **15,679** | 10,070 |
| Minority interests | **478** | 183 |
| Equity | **11,641** | 9,490 |
| **TOTAL LIABILITIES AND EQUITY** | **36,865** | 26,496 |
| Equity to total assets ratio (%): | | |
| Book | **32.9** | 36.5 |
| Incl. unrealised gains before tax | **42.6** | 45.9 |

## CASHFLOW

| NOK million | 1.1.-31.12. 1997 | 1.1.-31.12. 1996 | 1.9.-31.12. 1997 | 1.9.-31.12. 1996 |
|---|---|---|---|---|
| **Cashflow Industry:** | | | | |
| Operating profit | **2,510** | 1,851 | **776** | 587 |
| Depreciation and write-downs | **1,862** | 1,319 | **622** | 460 |
| Changes in net working capital | **(172)** | 420 | **340** | 380 |
| Cashflow from operations | **4,200** | 3,590 | **1,738** | 1,427 |
| Net replacement expenditure | **(1,526)** | (967) | **(347)** | (358) |
| Free cashflow from operations | **2,674** | 2,623 | **1,391** | 1,069 |
| Financial items paid | **(565)** | (613) | **(180)** | (232) |
| **Free cashflow - Industry** | **2,109** | 2,010 | **1,211** | 837 |
| Cashflow from Investment area before net purchases/sales | **168** | 312 | **38** | (89) |
| Taxes and dividends paid | **(999)** | (762) | **(260)** | (204) |
| Misc. capital transactions, foreign exchange diff. | **762** | 204 | **323** | 256 |
| **Group's self-financing capacity** | **2,040** | 1,764 | **1,312** | 800 |
| Expansion investments Industry | **(5,935)** | (664) | **(655)** | (169) |
| Net purchases/sales portfolio investments | **(994)** | 264 | **(621)** | 128 |
| **Net cashflow** | **(4,889)** | 1,364 | **36** | 759 |
| **Change in net interest-bearing debt** | **4,889** | (1,364) | **(36)** | (759) |
| **Net interest bearing debt** | **13,667** | 8,778 | | |

pared with NOK 816 million in 1996. Dividends received totalled NOK 292 million, which was NOK 47 million lower than the previous year.

The net asset value of the share portfolio increased by NOK 2,633 million to NOK 11,542 million in 1997. The market value of the portfolio as of 31 December 1997 was NOK 14,410 million. Unrealised capital gains on the share portfolio increased by NOK 1,610 million to NOK 6,222 million in 1997.

In 1997, the Orkla Finance Group achieved a significant rise in profit, thereby confirming its strong position on the market. Orkla's property projects in the Skøyen district of Oslo are assumed to have increased in value in 1997 as a result of rising rental prices and fixed building costs.

### ASSOCIATED COMPANIES

In 1997 profits from associated companies totalled NOK 442 million. The most important item is Orkla's share of Jotun (41.8%), which contributed NOK 366 million, NOK 283 million of which was a gain from Jotun's sale of the polymer business. The share of profit from Hartwall amounted to NOK 28 million after goodwill amortisation of NOK 29 million.

### HEAD OFFICE/UNALLOCATED

Items relating to Head Office and activities outside the Group's core business areas had an adverse impact on group profit.

The NOK -111 million operating loss excluding other revenues and costs was partly due to the weak performance of Viking Fottøy's Swedish business.

### CASH FLOW, INVESTMENTS AND FINANCIAL SITUATION

Orkla's net cash flow was NOK - 4,889 million in 1997. The reduction of NOK 6,253 million in comparison with 1996 is primarily linked to the acquisition of the remaining shares in Pripps Ringnes. Net interest-bearing debt increased by NOK 4,889 million to NOK 13,667 million.

The Group's average borrowing rate at the end of 1997 was approximately 5.4%, 2 percentage points lower than the year before. Approximately 80% of interest-bearing debt is at floating interest rates.

As of 31 December 1997, the Group's book equity ratio was 32.9%, which is 3.6 percentage points lower than at the same time in 1996. This is mainly due to borrowing in connection with the full takeover of Pripps Ringnes. If unrealised gains on the share portfolio (before tax) are included, the equity ratio was 42.6%.

### FUTURE PROSPECTS

Few changes are expected in the competitive and market situation for Nordic and East European branded consumer goods businesses in 1998.

Chemicals reports satisfactory demand for specialty pulp products. However the economic crisis in Asia has created uncertainty concerning future price trends, also for some of the highly processed products. The running-in period for the new highly processed pulp plant is expected to be completed in the first half of 1998. For other product areas within chemicals, market prospects are variable.

The general financial and industrial operating parameters in the Nordic region may be negatively affected by an expansive economic policy and overly expansive wage settlement. In the longer-term, this type of development may affect Orkla's competitiveness and trends on the financial markets.

### DIVIDEND/SPLIT/RISK

The Board of Directors proposes a dividend of NOK 8.50 per share for 1997, 21% higher than last year. The Board also proposes splitting the share (A and B) into four parts. The nominal value will then be NOK 6.25 per share. The RISK amount as of 1 January 1998 is estimated to be NOK 20.00 per share, while the RISK amount as of 1 January 1997 has been finally set at NOK 24.84 per share.

### ANNUAL GENERAL MEETING

The ordinary annual general meeting will be held on 7 May 1998 at 3 p.m. in Sarpsborg. The annual report will be distributed in week 17.

Oslo 12 February 1998
The Board of Directors of Orkla ASA