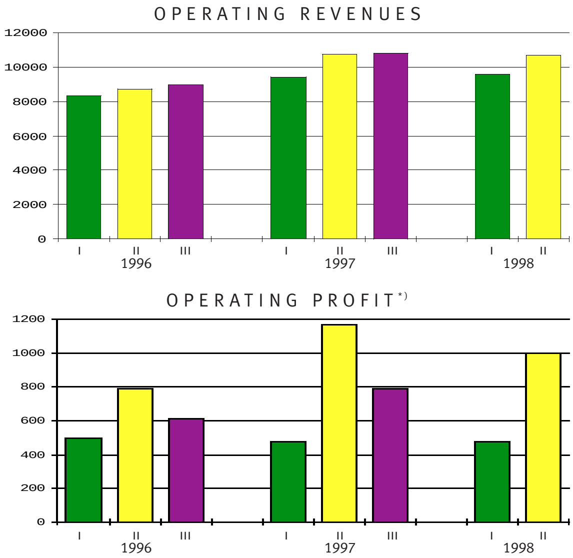
Orkla - First eight months

Group Profit and Loss Account

Amounts in NOK million	1.1.-31.8. 1998	1.1.-31.8. 1997	1.1.-31.12. 1997	1.5.-31.8. 1998	1.5.-31.8. 1997
Operating revenues	**20,271**	20,168	30,970	**10,692**	10,749
Operating expenses	**(17,545)**	(17,361)	(26,777)	**(9,055)**	(8,996)
Ord. depreciation and write-downs	**(977)**	(896)	(1,342)	**(497)**	(444)
Operating profit before goodwill and other revenues and costs	**1,749**	1,911	2,851	**1,140**	1,309
Goodwill amortisation and write-downs	**(275)**	(270)	(419)	**(140)**	(143)
Other revenues and costs	**(259)**	158	181	**(259)**	0
Operating profit	**1,215**	1,799	2,613	**741**	1,166
Financial items, net	**(449)**	(258)	(394)	**(270)**	(104)
Profit from associated companies	**172**	128	442	**85**	93
Portfolio gains	**948**	611	876	**552**	192
Profit before tax	**1,886**	2,280	3,537	**1,108**	1,347
Taxes	**(509)**	(593)	(863)	**(307)**	(332)
Minority interests	**(92)**	(79)	(112)	**(53)**	(55)
Net profit	**1,285**	1,608	2,562	**748**	960
Profit before tax, Industry	**733**	1,467	2,381	**432**	984
Profit before tax, Investment area	**1,153**	813	1,156	**676**	363
Earnings per share (NOK)	**6.7**	8.4	13.4	**3.9**	5.0
Earnings per share (NOK)	**6.7**	8.4	13.3	**3.9**	5.0

Operating revenues and Operating profit*) in NOK million 4 month periods



*) Excluding «Other revenues and costs».

The Orkla Group

Main trends

In the first eight months of the year, profit before tax for the Orkla Group totalled NOK 1,886 million, compared with NOK 2,280 million in the corresponding period last year. Excluding non-recurring items, profit rose by 12%. A 8% drop in profit for the Industry area was more than offset by higher book profit for the Financial Investments area. Of non-recurring items amounting to NOK -412 million, NOK -138 million arising from the devaluation of the Russian and Ukrainian currencies has been posted under financial items. A further NOK -259 million has been allocated for restructuring, most of which is related to the rationalisation programme for the Nordic beverages business. In the same period last year, non-recurring items were positive, amounting to NOK 220 million.

In the second four months alone, it was mainly the beverages business that experienced a significant drop in profit, despite continued profit growth for Baltic Beverages Holding (BBH). The other Branded Consumer Goods businesses have also reported a decline in comparison with last year, although less marked than in the first four-month period: -6% compared with -16%. The Chemicals area reported continued profit growth. So far this year, the return on the investment portfolio has been -8.9%, compared with -22.6% for the Oslo Stock Exchange All Share Index. As of 31 August 1998, unrealised capital gains totalled NOK 3,759 million, equivalent to 30% of the portfolio's market value.

Group earnings per share before goodwill amortisation and non-recurring items amounted to NOK 9.8, compared with NOK 9.0 last year.

Group operating revenues, which totalled NOK 20.271 million, were on a par with last year. With the exception of Orkla Beverages, all areas reported operating revenues higher than or on a par with last year. Adjusted for the loss of revenue in connection with The Coca Cola Company (TCCC), Group operating revenues for continuing business* rose by some 4%, which is incidentally the same growth as at the end of the first four months.

The Norwegian grocery market has shown positive volume growth so far this year, while there has been a slight downward trend in Sweden. The cold summer weather in the Nordic region had a negative impact on the demand for beer, carbonated soft drinks and water products in both Norway and Sweden. In Sweden, stronger competition has resulted in increased pressure on market positions and, to a certain extent, a loss of market shares for beer and some Orkla Foods products. With the exception of carbonated soft drinks, market positions in Norway were largely maintained. The East European beer markets continued to grow in the second four months of the year

Increased sales of fine chemicals and speciality cellulose

**) Continuing business has been adjusted for acquisitions and divestitures, exchange rate fluctuations and non-recurring items. New businesses in 1998 have been included in the 1997 figures for the corresponding period, while divested businesses have been excluded in both 1997 and 1998.*

combined with the continuing good performance of the edible oils business resulted in profit growth for the Chemicals area. Speciality cellulose prices were at the same level as last year.

Orkla's operating profit at the end of the first eight months totalled NOK 1,215 million, compared with NOK 1,799 million last year. Adjusted for non-recurring items, operating profit was 10% lower.

Net financial items of NOK -449 million include a currency loss of NOK 138 million related to the loss on translation of BBH balance sheet items. The calculations were based on a RUB/USD exchange rate of 17, equivalent to a devaluation of approximately 62%. There were also minor losses on the Ukrainian currency. Last year, financial items included a gain of NOK 62 million from the sale of Hansa. Taking these factors into account, financial items were NOK 9 million down on last year. Dividends received were up NOK 51 million.

The results at the end of the first eight months of this year were negatively affected by non-recurring items totalling NOK -412 million. In addition to the above-mentioned currency losses, NOK -259 million has been charged against other revenues and costs in connection with the restructuring of Beverages, Biscuits and Magazines and the winding up of the Branded Consumer Goods activities in Asia.

Profit after tax and minorities was NOK 1,285 million, compared with NOK 1,608 million last year. Adjusted for goodwill amortisation and non-recurring items, profit rose by 9%.

The Group anticipates a tax charge of 27%, compared with 24.4% in 1997.

Orkla Foods

Orkla Foods' operating revenues at the end of the first eight months totalled NOK 6,495 million. Operating revenues from continuing business were 2% higher. Operating profit, which amounted to NOK 331 million, was 14% lower than last year. In the second four months alone, profit was 7% lower than last year. The main reasons for the drop in profit were a decline in sales for Procordia Food, higher raw materials costs for Stabburet and high establishment costs in Poland.

Several of Orkla Foods' divisions have initiated cost-cutting measures. Procordia Food and Abba Seafood gave notice of dismissal to 120 employees in the second four months of the year. The effects of these measures will gradually become apparent in the latter months of this year and the beginning of 1999.

Procordia Food's operating revenues from continuing business declined by 3% to SEK 2,272 million. As a result of a weak trend in parts of the Swedish grocery market and tougher competition from the rest of the European food industry, operating profit was down on the same period last year. In Sweden, market shares for some product groups are under pressure. In Finland, market positions were maintained or improved.

Stabburet's operating revenues from continuing business rose by 3% to NOK 1,575 million. Higher raw materials prices are gradually being offset by higher sales prices. Particularly in the first four months, operating profit was affected by non-recurring items, mainly in connection with the start-up of the new pizza factory. Market shares were on a par with last year.

Orkla Foods' Industry Division achieved operating revenues of NOK 1,118 million in the first eight months of the year, NOK 565 million of which were generated in the second four months. This is equivalent to 8% and 10% growth respectively in comparison with last year. So far this year, operating profit has been higher than in the same period last year.

The International Division reported operating revenues of NOK 327 million, which is 7% higher than last year for continuing business. Operating profit was negative due to high costs in connection with the development of Kotlin as a national supplier in Poland.

Abba Seafood's operating revenues at the end of the first eight months totalled SEK 761 million. The 5% drop in revenues in comparison with last year was due to the winding up of unprofitable product groups outside the Nordic region and the cold summer in Sweden. Market shares were improved or maintained. Cost reductions throughout the added value chain have led to improved performance.

Beauvais in Denmark increased its operating revenues by 9% to DKK 239 million and operating profit improved.

Orkla Beverages

Orkla Beverages' operating revenues dropped 11% to NOK 4,719 million, primarily due to the loss of and changes in TCCC production, which accounted for just under NOK 1 billion in value. Excluding TCCC products, volume growth was 10%. In the second four months alone, sales were 10% lower than last year; excluding TCCC, sales rose by 4%. Operating profit before other revenues and costs totalled NOK 465 million at the end of the first eight months, compared with NOK 638 million last year. In the second four months alone, operating profit before other revenues and costs was NOK 395 million, compared with NOK 565 million last year.

Operating revenues for the Nordic business at the end of the first eight months were 24% lower, amounting to NOK 3,389 million. For comparable business, i.e. excluding TCCC, operating revenues were 4% lower. The drop in revenues for the Nordic operations in the second four months alone was 24%, while the decline for comparable business was 10%. At the end of the first eight months, operating profit before other revenues and costs for the Nordic operations was NOK 74 million compared with NOK 445 million last year. One important reason for the drop in revenues and profit was the changes in the contract with TCCC in both Norway and Sweden. In the second four months, the cold summer also contributed to the decline. Increased beer taxes in Norway since the beginning of the year and the continued high level of taxation in Sweden have also had a negative impact on beer sales. So far this year, the Norwegian beer market has fallen 6%. Ringnes' sales have declined by 5% and the company's market share has therefore increased. Pripps has lost market shares in a market that has dropped 7%. Pripps' market share fell in the low price segment of class II beer but was maintained for class I beer. Production capacity for carbonated soft drinks in the beverages sector as a whole has increased in both countries, resulting in increased pressure on prices and excess capacity. Ringnes reported a 17% drop in volume for its own carbonated soft drinks brands, primarily due to an increase in market shares for private labels. So far, sales of Pepsi in Norway are lower than anticipated. Pripps increased its share of the carbonated soft drinks market.

In order to increase competitiveness and at the same time adapt the Nordic beverages business to lower volumes, a decision has been made to implement a cost- cutting programme within the parameters of the current production structure, in addition to the changes consequent upon the end of cooperation with TCCC. The programme will involve substantial restructuring and will be implemented over a two-year period. No extraordinary investments are anticipated. Pripps Ringnes has made a provision of NOK -175 million under other revenues and costs in connection with the programme. The restructuring costs are mainly related to possible manpower reductions and reductions in production capacity. Over a two-year period, the annual cost level will therefore be reduced by more than NOK 600 million. The move of Ringnes' beer tapping operations by the year 2000 is proceeding according to plan and comes in addition to the new project.

At the end of the first eight months, BBH's operating revenues had risen by 61% in comparison with last year, to NOK 1,330 million (50%). The volume sold increased by 48% in the first eight months of the year, to 310 million litres (50%). Operating profit was NOK 512 million (50%) compared with NOK 297 million in the same period last year.

Economic developments in Russia and Ukraine since mid-August will affect BBH's future profits. The significantly weaker exchange rate will naturally have a negative impact on BBH's profit when it is converted into western currency. Moreover, BBH has substantial raw materials costs in foreign currency, which will affect margins. Future price increases will partially offset these factors. There is considerably uncertainty about future market and economic trends in these countries, but in the longer term continued positive growth is expected in both Russia and Ukraine. Local producers with modern plants will then have an

	Operating revenues					Operating profit				
	1.1.-31.8.		1.1.-31.12.	1.5.-31.8.		1.1.-31.8.		1.1.-31.12.	1.5.-31.8.	
Amounts in NOK million	**1998**	1997	1997	**1998**	1997	**1998**	1997	1997	**1998**	1997
Orkla Foods	**6,495**	6,585	10,094	**3,402**	3,459	**331**	384	655	**227**	244
Orkla Beverages	**4,719**	5,300	7,656	**2,746**	3,067	**465**	638	799	**395**	565
Orkla Brands	**2,735**	2,640	4,146	**1,400**	1,296	**270**	278	458	**153**	155
Orkla Media	**2,014**	1,589	2,569	**1,003**	800	**91**	107	204	**32**	38
Elimination	**(99)**	(102)	(169)	**(45)**	(44)	**0**	0	0	**0**	0
Branded Consumer Goods	**15,864**	16,012	24,296	**8,506**	8,578	**1,157**	1,407	2,116	**807**	1,002
Chemicals	**3,827**	3,533	5,733	**1,894**	1,860	**311**	224	324	**174**	145
H.O./Unallocated/Elimination	**286**	384	525	**138**	201	**(45)**	(55)	(111)	**1**	(8)
Other revenues and costs	**0**	0	0	**0**	0	**(259)**	158	181	**(259)**	0
Industry	**19,977**	19,929	30,554	**10,538**	10,639	**1,164**	1,734	2,510	**723**	1,139
Investment area	**294**	239	416	**154**	110	**51**	65	103	**18**	27
Group	**20,271**	20,168	30,970	**10,692**	10,749	**1,215**	1,799	2,613	**741**	1,166

*) The business areas' operating profit is shown exclusive of «Other revenues and costs». Other revenues and costs NOK -259 million in first eight months result 1998: 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. In first eight months result 1997: NOK 170 million in Orkla Beverages and NOK -12 million in H.O./Unallocated.

advantage. BBH is working to secure future supplies of locally-produced malt and packaging.

In September, BBH acquired a 24.5% interest in Koloss, a brewery in Lviv in the western Ukraine. The brewery has an annual capacity of 50 million litres and 500 employees. BBH will increase its interest to 42% as soon as the acquisition is approved.

As of 31 August 1998, Orkla's share of BBH's balance sheet total (50%) including goodwill was NOK 1.9 billion, of which 60% was related to fixed assets.

Orkla Brands

Orkla Brands' operating revenues rose by 4% to NOK 2,735 million. In the second four months alone, operating revenues rose by 8%.

Operating profit, which amounted to NOK 270 million, was 3% lower than last year, but in the second four months operating profit was on a par with last year. Investments in advertising and fixed costs were somewhat higher than in the same period last year, the latter being partly due to planned strengthening of certain business areas. With a few exceptions, market shares were stable.

All business areas except Biscuits reported higher sales than last year. In connection with the new production structure for Biscuits, a decision has been made to move some production from Finland to Sweden. NOK -25 million has been charged against other revenues and costs in connection with the restructuring programme.

Chocolate/confectionery is continuing to follow its strategy of increasing focus on its main brands, and profits have improved.

Snacks have performed well, particularly in Denmark. In Norway, the successful launch of EasyChips and Anywhere have contributed to increased sales.

Lilleborg Home and Personal Care has reduced the prices of some of its laundry products while at the same time unfavourable exchange rates have led to higher raw materials prices. The new liquid detergent factory is fully operational, but the anticipated cost reductions will be realised somewhat more slowly than planned.

Orkla Media

Orkla Media increased its operating revenues from continuing business by 6% to NOK 2,014 million. Growth in the second four months alone was 5%. For continuing business operating profit excluding other revenues and costs fell 13% to NOK 91 million. The decline in profit at the end of the first eight months was primarily due to increased wage costs for Norwegian Newspapers. Measures have been initiated to reduce manpower costs in this area. A provision of NOK -27 million has been made under non-recurring items, primarily in connection with a new printing press for Magazines. The profitability of the investment will be good.

Circulation figures for Norwegian Newspapers increased and advertising volume was 4% higher than in the first eight months of last year. So far this year, paper prices have risen 3%. Operating losses from local radio/TV had a negative impact on operating profit. The phasing-in of newspapers at Orkla Media's new printing plant in Vestfold county has been somewhat delayed due to running-in problems in connection with the new production equipment, and the anticipated gains will therefore come rather later than planned.

Advertising volumes for Magazines rose 3% while total market growth was 8%. Magazines' share of the advertising market is currently 39%, 2 percentage points lower than at the same time last year. There was a rise in frequency-adjusted circulation for Magazines. So far this year, paper prices have increased by 13%. Adjusted for non-recurring items, operating profit was on a par with last year.

Direct Marketing is still reporting weak sales from parts of its business. The new acquisition, Mitcom (made on 1 January 1998), is developing satisfactorily.

Orkla Media Poland achieved higher revenues than last year due to increased advertising revenues. Operating profit at the end of the first eight months was somewhat weaker than last year, mainly due to start-up costs in connection with the launch of a weekly magazine for the newspaper Rzeczpospolita.

Orkla Media has acquired 50% of the shares in the regional newspaper Vysokyj Zamok in Ukraine, effective from 1 July 1998. In 1997 the newspaper had a circulation of 83,000.

Chemicals

Borregaard's operating revenues rose 8% to NOK 3,827 million due to higher sales from the Specialty Chemicals and Fine Chemicals businesses.

Operating profit was NOK 311 million, compared with NOK 224 million last year. Profit growth can primarily be ascribed to improved production and increased sales of fine chemicals and speciality cellulose. Trends in important currencies, particularly the US dollar, have had a favourable effect.

The lignin business reported profit on a par with last year. An improved product mix and the favourable impact of the US dollar and sterling have so far compensated for the decline in sales to the Asian market.

So far this year, specialty cellulose has achieved higher profits than last year. Improved regularity and quality of production and lower variable costs have contributed to the good performance. The introduction of new highly processed products is making progress but in the case of certain qualities productivity must still be improved. NOK prices for specialty cellulose are on a par with last year.

Fine chemicals achieved clearly improved profit in comparison with last year. The Italian business achieved sales volume and profit growth by implementing productivity measures. The performance of intermediates for the pharmaceutical industry has also improved.

Denofa reported operating profit on a par with last year. High sales volumes of fish oil for fish feed and other markets and favourable terms of purchase have up to now made a substantial

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Financial information about Orkla can be found at the internet address: http://www.huginonline.com/Norway/ORK

Group Balance Sheet

Amounts in NOK million	**31.8. 1998**	31.8. 1997	31.12 1997
Assets:			
Current assets	**8,767**	8,819	9,042
Share portfolio	**8,980**	7,413	8,188
Long-term assets	**20,987**	18,366	19,635
Total assets	**38,734**	34,598	36,865
Liabilities and Equity:			
Interest-free liabilities	**8,637**	8,285	9,067
Interest-bearing liabilities	**16,775**	14,888	15,679
Minority interests	**548**	480	478
Equity	**12,774**	10,945	11,641
Total liabilities and equity	**38,734**	34,598	36,865
Equity to total assets ratio (%):			
Book	**34.4**	33.0	32.9
Incl. unrealised gains before tax	**40.2**	44.1	42.6

Cash flow

Amounts in NOK million	**1.1.-31.8. 1998**	1.1.-31.8. 1997	31.12. 1997	**1.5.-31.8. 1998**	1.5.-31.8. 1997
Cash flow Industry:					
Operating profit	**1,164**	1,734	2,510	**723**	1,139
Depreciation and write-downs	**1,296**	1,240	1,862	**686**	582
Changes in net working capital	**(344)**	(512)	(172)	**(260)**	(341)
Cash flow from operations	**2,116**	2,462	4,200	**1,149**	1,380
Net replacement expenditure	**(1,069)**	(1,179)	(1,526)	**(531)**	(601)
Free cash flow from operations	**1,047**	1,283	2,674	**618**	779
Financial items paid	**(447)**	(385)	(565)	**(272)**	(206)
Free cash flow - Industry	**600**	898	2,109	**346**	573
Cash flow from Investment area before net purchases/sales	**93**	130	168	**(153)**	643
Taxes and dividends paid	**(1,035)**	(739)	(999)	**(544)**	(462)
Miscellaneous capital transactions, foreign exchange differences	**(398)**	439	762	**(173)**	10
Group's self-financing capacity	**(740)**	728	2,040	**(524)**	764
Expansion investments Industry	**(1,010)**	(5,280)	(5,935)	**(315)**	(316)
Net purchases/sales portfolio investments	**276**	(373)	(994)	**294**	(410)
Net cash flow	**(1,474)**	(4,925)	(4,889)	**(545)**	38
Change in net interest-bearing debt	**1,474**	4,925	4,889	**545**	(38)
Net interest-bearing debt	**15,141**	13,703	13,667		

contribution. Sales of edible oils are lower than last year, both in Norway and on export markets. Due to record high price levels for raw fish oil, this business area's export products have a cost disadvantage compared with vegetable products. Margins for the soya business have been somewhat higher than last year.

The other areas reported profit on a par with last year. In the case of Borregaard Energy, low electricity prices were offset by higher production rates.

Financial Investments

Low oil prices, substantial wage increases in Norway and uncertainty concerning Norway's economic policy led to a clear weakening of the Norwegian krone and a strong rise in interest rates. In conjunction with the weaker international economic situation, this led to a substantial 29.5% drop on the Oslo Stock Exchange All Share Index in the second four months, and a 22.6% drop since the beginning of the year. However, Orkla's portfolio has suffered a negative return of only 8.9% so far in 1998.

At the end of the first eight months, Financial Investments' book profit before tax was NOK 1,153 million compared with NOK 813 million last year. Realised gains totalled NOK 948 million compared with NOK 611 million last year. Dividends received amounted to NOK 288 million compared with NOK 237 million last year. Book profit before tax was NOK 676 million in the second four months, compared with NOK 363 million in the same period last year. In the second four months, realised gains amounted to NOK 552 million.

The Financial Investments area reported net divestments of shares in 1998. The largest divestments comprised the sale of 10 million Storebrand shares and 1.1 million Kværner shares. The proportion of foreign investments continued to increase in 1998, amounting to 28% of the total portfolio at the end of the first eight months.

The net asset value of the share portfolio has been reduced by NOK 1,372 million to NOK 10,170 million since the beginning of the year. The market value of the portfolio as of 31 August 1998 was NOK 12,707 million. Unrealised capital gains have been reduced by NOK 2,463 million to NOK 3,759 million since the beginning of the year.

The Orkla Finance Group contributed with satisfactory profit and has strengthened it's market position in the last four months of the year.

Cash flow, investments and financial situation

The Group's net cash flow of NOK -1,474 million in the first eight months was an improvement of NOK 3,451 million on the same period last year. The difference is mainly ascribable to expansion investments in 1997 in connection with the full takeover of Pripps Ringnes.

The Group's average borrowing rate was 5.6%, somewhat lower than last year. The proportion of interest-bearing debt at floating interest rates has been reduced to 51% while the proportion of interest-bearing debt exposed to Norwegian money market rates has been reduced to less than 20%. Net interest-bearing debt has increased to NOK 15.1 billion.

The book equity ratio has risen 1.5 percentage points to 34.4% since the beginning of the year. Including unrealised gains on the share portfolio (before tax), the equity ratio at the end of the first eight months was 40.2%.

Prospects

Continuing strong competition is anticipated on the Nordic grocery markets. Orkla will further reinforce measures and activities relating to cost reductions, product development and brand building.

The situation in Russia and Ukraine is currently unclear as regards both market and economic parameters. In the short term, significantly lower profit must be expected from BBH. With its modern breweries and market leadership, BBH's long term competitive position is still considered to be good.

The economic crisis in Asia will have a negative impact on Orkla's chemicals business.

The current nervousness on the financial markets is expected to continue, particularly due to uncertainty about the future economic situation in Eastern Europe, Asia and Latin America.

Oslo, 1 October 1998
The Board of Directors of Orkla ASA