



# The Orkla Group

## First Eight Months 1998

**2 October 1998**

# Highlights

- Branded Consumer Goods:
    - Substantial profit drop for Nordic beverages
    - Good results for BBH, but setback ahead
    - Other consumer goods show relative improvement from 1st four months
    - Market positions maintained for most product groups
    - Substantial non-recurring costs related to restructuring and RUB devaluation
  - Sustained performance for Chemicals, but uncertain markets
  - Share portfolio outperformed the OSE Index
- ⇒ EPS up by 9% excl. goodwill and non-recurring items  
EPS down by 20% including these items

# Profit and loss account

NOK million

	1.1.- 31.08.		1.5.-31.08.	
	1998	1997	1998	1997
Operating revenues	20 271	20 168	10 692	10 749
<b>Operating profit</b>				
- before goodwill amortisation	<b>1 749</b>	1 911	<b>1 140</b>	1 309
- after goodwill amortisation	<b>1 474</b>	1 641	<b>1 000</b>	1 166
Financial items, net	-311	-320	-132	-104
Associated companies	216	153	116	106
Portfolio gains	948	611	552	192
<b><u>Excl. goodwill amortisation and non-recurring items:</u></b>				
<b>Profit before tax</b>	<b>2 602</b>	2 355	<b>1 676</b>	1 503
<b>EPS fully diluted (NOK)</b>	<b>9.8</b>	9.0	<b>6.2</b>	5.8
<b><u>Incl. goodwill amortisation and non-recurring items:</u></b>				
Goodwill amortisation - Operating profit	-275	-270	-140	-143
Goodwill amortisation -Associated companies	-29	-25	-16	-13
Non-recurring items	-412	220	-412	0
<b>Profit before tax</b>	<b>1 886</b>	2 280	<b>1 108</b>	1 347
<b>Profit after tax and minorities</b>	<b>1 285</b>	1 608	<b>748</b>	960
<b>EPS fully diluted (NOK)</b>	<b>6.7</b>	8.4	<b>3.9</b>	5.0

# Non-recurring items

NOK million

Booked under	1998	1997	Specification	1998	1997
<b>Other revenues and costs</b>	<b>-259</b>	158	Orkla Beverages	-175	170
			Orkla Brands	-25	
			Orkla Media	-27	
			Head Office/unallocated	-32	-12
<b>Financial items</b>	<b>-138</b>	62	Currency losses BBH	-138	
			Gain from sale of Hansa		62
<b>Associated companies</b>	<b>-15</b>		Impact 20.5% stake Hartwall	-15	
<b>Total</b>	<b>-412</b>	220			

# Impact of a 62% RUB devaluation

- RUB/USD exchange rate calculated at 17.0
  - Official closing rate 31.08.98 was 9.33

NOK million

Devaluation effect on balance sheet items	- 205
Accumulated devaluation reserve	67
Net devaluation effect on Financial Items	- 138
Effect on Associated Companies	- 15
<b>Net effect on Profit before tax</b>	<b>- 153</b>
Effect on Minorities	44
Net profit impact for Orkla	- 109

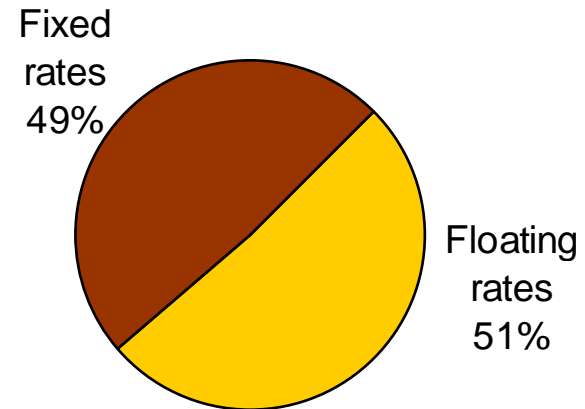
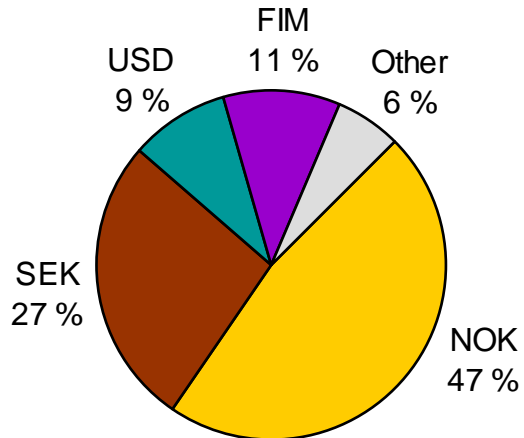
# Cash flow statement

NOK million	1.1.-31.08.		Year
	1998	1997	1997
<b>Cash flow from operations</b>	2 116	2 462	4 200
Net capital expenditure	-1 069	-1 179	-1 526
Financial items paid	-447	-385	-565
<b>Free cash flow Industry</b>	600	898	2 109
<b>Free cash flow Financial Investments</b>	93	130	168
Taxes and dividends paid	-1 035	-739	-999
Miscellaneous	-398	439	762
<b>Self-financing capacity</b>	-740	728	2 040
Expansion investments, industry	-1 010	-5 280	-5 935
Net acquisitions/sales portfolio investments	276	-373	-994
<b>Net cash flow</b>	-1 474	-4 925	-4 889

# Balance sheet - some key figures

NOK million	31.08.98	31.12.97
Portfolio investments	8 980	8 188
Other current assets	8 767	9 042
Long-term assets	20 987	19 635
<b>Total assets</b>	<b>38 734</b>	<b>36 865</b>
<b>Equity to total assets ratio</b>		
- Book	34.4%	32.9%
- Incl. unrealised capital gains before tax	40.2%	42.6%
<b>Net interest-bearing debt</b>	<b>15 141</b>	<b>13 667</b>

# Interest rate exposure



Breakdown of total debt portfolio NOK 15.1 billion (August 31 1998)

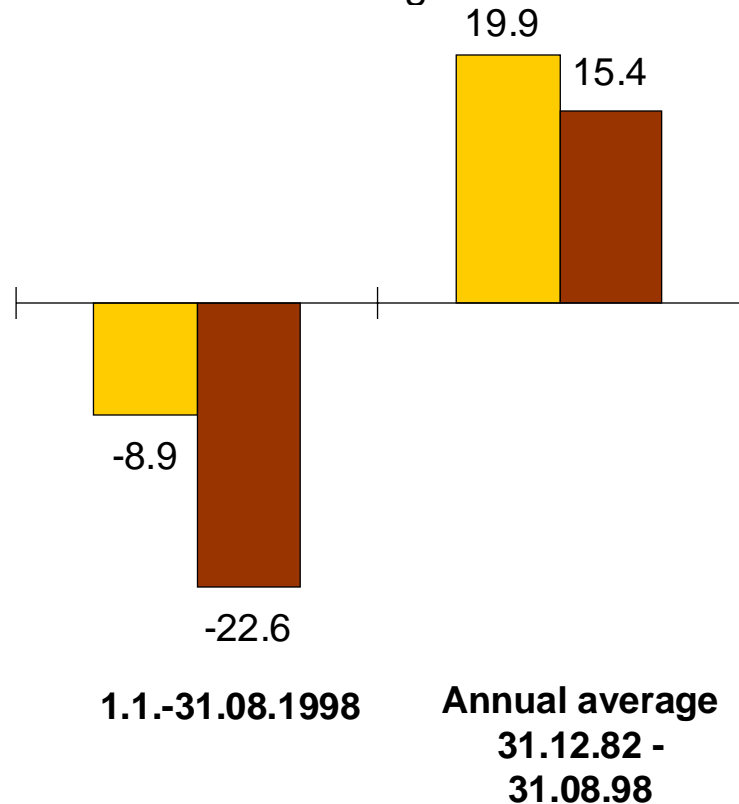
- Share of NOK fixed rate contracts increased
  - Average remaining interest period for Orkla's fixed debt is 3.5 years
- Less than 20% of debt exposed to floating NOK rates



# Portfolio performance

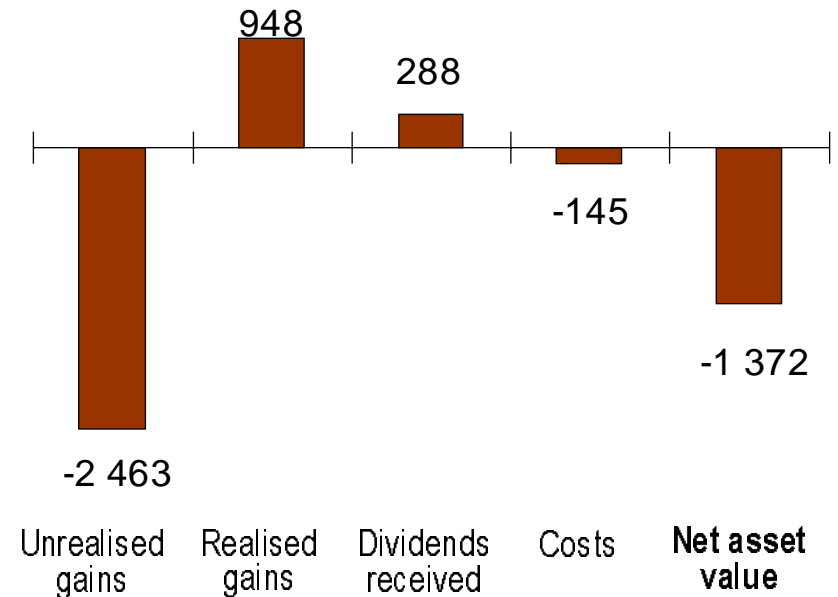
## Return %

- Orkla's portfolio
- Oslo Stock Exchange



## Value reduction 1.1.-31.08.1998

NOK million



## Portfolio - key figures

NOK million	<b>31.08.98</b>	<b>31.12.97</b>	<b>Change 1998</b>
Market value	12 707	14 410	- 1 703
Net asset value	10 170	11 542	- 1 372
Unrealised gains before tax	3 759	6 222	- 2 463
Debt to total assets	20%	20%	-

# Portfolio 31 August 1998

Principal holdings	Industry	Share of equity (%)	Share of portfolio (%)	Market value (NOK million)
Storebrand	Insurance	10.0	10.3	1 313
NetCom	Telecommunications	11.0	9.6	1 220
Elkem	Metals	25.3	8.8	1 110
Dyno	Chemicals	18.1	4.1	522
Hafslund	Energy	8.3	2.8	356
Nokia	Telecommunications	0.1	2.8	352
Nycomed Amersham	Pharmaceuticals	1.1	2.6	330
Lindex	Retailing	9.7	2.6	322
Bergesen d.y.	Shipping	3.7	2.3	296
Steen & Strøm Invest	Real estate	9.9	2.2	277
<b>Total principal holdings</b>			<b>48.1</b>	<b>6 098</b>

# Orkla Foods

NOK million	1.1.-31.08.		1.5.-31.08.	
	1998	1997	1998	1997
<b>Operating revenues</b>	6 495	6 585	3 402	3 459
Goodwill amortisation	-108	-104	-55	-53
<b>Operating profit*</b>	331	384	227	244
<b>Operating margin</b>	5.1%	5.8%	6.7%	7.1%

\* Excluding other revenues and costs

- Reduced profits mainly related to Kotlin in Poland, Procordia Food and Stabburet
- Procordia Food still facing weaker market share for important product groups
- Market shares maintained or increased for other businesses

# Orkla Beverages

NOK million	1.1.-31.08.		1.5.-31.08.	
	1998	1997	1998	1997
<b>Operating revenues</b>	4 719	5 300	2 746	3 067
Goodwill amortisation	-95	-89	-49	-46
<b>Operating profit*</b>	465	638	395	565
<b>Operating margin</b>	9.9%	12.0%	14.4%	18.4%

\* Excl. other revenues and costs

- Substantial profit decline on Nordic markets
- Volume and profit growth for BBH - turbulence ahead

# Weak Nordic markets

## First 8 months 1998 vs. 1997

	Norway			Sweden		
	Beer	Soft drinks	Water	Beer	Soft drinks	Water
<b>Pripps Ringnes</b>						
Market share	58.8%	15.3%	71.6%	38.9%	20.4%	56.1%
Change from 1997	+1%-p	-3%-p	-2%-p	-1%-p	+2%-p	-2%-p
Market decline	- 6%	-3%	-5%	-7%*	-2%	-4%

\* Excl. private imports of beer

- Total market decline for the three product categories in both Norway and Sweden

# Nordic markets

NOK million	1.1.-31.08.		1.5.-31.08.	
	1998	1997	1998	1997
<b>Operating revenues</b>	3 389	4 475	1 903	2 505
<b>Operating profit*</b>	74	445	110	388
<b>Operating margin</b>	2.2%	9.9%	5.8%	15.5%

\* Before goodwill amortisation and other revenues and costs

- High beer taxes result in falling beer sales
  - Taxes up 12% in Norway
  - Swedish taxes twice the Danish level - private imports increasing
- Substantial negative impact from a cold summer
- Overcapacity
  - Reduced prices for soft drinks
  - Low capacity utilisation
- Need for further substantial cost reductions

# Cost reduction programme 1999-2000

- Extensive programme covering production, sales, logistics/distribution and administrative services
  - Current production structure will be maintained
- Target: To reduce annual costs by more than NOK 600 million
- Modest investments required
- Provisions of NOK 175 million



# BBH - Baltic Beverages Holding

NOK million	1.1. - 31.08.		1-5.-31.08.	
	1998	1997	1998	1997
<b>Operating revenues</b> (50%)	1 330	825	843	562
<b>Operating profit</b> (50%)	512	297	351	231
<b>Operating margin</b>	38.5%	36.0%	41.6%	41.1%
<b>Volume in million litres</b> (100%)	621	418	391	284
<b>Total assets incl. goodwill - NOK b.</b> (50%)	<b>1.9</b>	<b>1.4</b>		

- Volume growth 48% first eight months
  - September volumes increased by 40% in Russia, on par with 1997 in Ukraine
- Market share in Russia increased to 21%
- Stable markets in the Baltic States
- Estimated annual volume of 850-900 mill. litres

# Market trends

	1997 Per capita consumption litres	Market growth % change 1997	8 months 1998	BBH market share end Aug 1998
Russia	19	+ 22	+ 20-25	21 %
Ukraine	14	+ 1	+ 15	13 %
Estonia	39	+ 18	+ 16	51 %
Latvia	29	+ 6	- 3	55 %
Lithuania	40	+ 21	+ 10	30 %

# Topical issue - Russian alcohol policy

- Purpose to control central government and regional tax revenues
- Bill to be debated in the Duma on 14 October 1998
  - Beer is defined as an alcoholic beverage
  - Beverages with an alcohol content >28% to be subject to government control
  - Licence required to produce and distribute alcoholic beverages
    - Licence depends on alcohol content and total production volume
- Current beer tax is 0.6 RUB per litre
  - No change proposed

# Prospects for Russia and Ukraine

- Major macroeconomic changes
  - Impossible to judge impact before a certain stability is reestablished
- Temporary market setback anticipated
- Still confident about long-term prospects
- Modernised local producers will have an advantage
- BBH aims to grow and strengthen market leadership

# Short term impact

- Margins will decline
  - Primarily due to higher cost of imported raw materials
- Profit will decline
  - Lower margins
  - Lower exchange rates
  - Partly compensated by price increases
- Major projects put on hold, awaiting new economic policies
  - Ongoing expansions will be completed

# Orkla Brands

NOK million	1.1.-31.08.		1.5.-31.08.	
	1998	1997	1998	1997
<b>Operating revenues</b>	2 735	2 640	1 400	1 296
Goodwill amortisation	-18	-18	-9	-9
<b>Operating profit*</b>	270	278	153	155
<b>Operating margin</b>	9.9%	10.5%	10.9%	12.0%

\* Excl. other revenues and costs

- Detergents and Personal Products maintain market shares
- Improved profits for snacks in Denmark.
  - Sales growth from product launches in Norway
- Focus on core brands brings profit growth for Nidar
- Unsatisfactory performance for Biscuits
  - Production is being restructured

## Orkla Media

NOK million	1.1.-31.08.		1.5.-31.08.	
	1998	1997	1998	1997
<b>Operating revenues</b>	2 014	1 589	1 003	800
Goodwill amortisation	-42	-40	-22	-21
<b>Operating profit*</b>	91	107	32	38
<b>Operating margin</b>	4.5%	6.7%	3.2%	4.8%
- continuing business at constant exchange rates	4.5%	5.5%		

\* Excl. other revenues and costs

### ● Norway

- Need for cost reductions in the newspaper business
- Expects profit from new newspaper printing press for remainder of 1998
- Profit from new magazine printing press from 2000
- Local TV and electronic publishing still operating at a loss

### ● Poland

- Increased advertising revenues. Circulation still falling
- Investments in product development

# Chemicals

NOK million	1.1.-31.08.		1.5.-31.08.	
	1998	1997	1998	1997
<b>Operating revenues</b>	3 827	3 533	1 894	1 860
<b>Operating profit*</b>	311	224	174	145
<b>Operating margin</b>	8.1%	6.3%	9.2%	7.8%
- continuing business at constant exchange rates	8.1%	8.2%		

\* Excluding other revenues and costs

- Progress for Specialty pulp and Fine Chemicals
- Positive currency effects
- Ingredients maintained profits
- Continued negative impact from Asian crisis expected



# Earnings per share fully diluted

NOK

Book figures

Excl. non-recurring items and goodwill amortisation

■ Annual  
■ 8 months

