

## **1998 INTERIM REPORT**

### **Dear Shareholder!**

Your company showed an excellent performance during the first half of 1998.

Consolidated sales rose 20% to ATS 6,623 million compared to ATS 5,528 million in the previous year.

Net income increased 73% to ATS 517 million (1<sup>st</sup> HY '97: ATS 298 million).

The result on ordinary activities totalled ATS 613 million after ATS 424 million in the 1997 first half-year.

Operating profit also substantially improved by 33% to ATS 666 million. The operating margin increased to 10.1% (1<sup>st</sup> HY '97: ATS 501 million; 9.1%).

This favourable development resulted primarily from the Cartonboard Division with low waste paper prices, stable sale prices and good capacity utilisation. Mayr-Melnhof Packaging's successful acquisition strategy and sound utilisation of capacity also contributed to the improvement of both the Group's sales and its results.

Due to restructuring measures, the Recycling Division results were able to be increased slightly.

In June 1998, Mayr-Melnhof acquired a 40% share in the cartonboard mill Kolicveo Karton, Slovenia, from Reno de Medici and took over control of the mill's management. This was a further step in broadening the co-operation with Reno de Medici.

The conclusion of a supply contact for cartonboard and packaging with Kellogg Europe marked a further milestone in the co-operation with key multinational customers.

In its Shareholder Value Concept, the company management pursues the best use of its capital, sustained growth of profits, and further expansion in the core business areas of the Mayr-Melnhof Group.

With a share price of ATS 964, MM shares reached an all time high on May 25, 1998. Between the beginning of the year (ATS 685) and June 30, 1998 (ATS 830), the shares showed a 21% increase.

**The Managing Board of  
Mayr-Melnhof Karton AG**

## CONSOLIDATED RESULTS

High profitability and good utilisation of capacity in cartonboard and packaging characterised the Group's development in the 1998 first half-year.

Consolidated group sales increased by 20% to ATS 6,623 million (1<sup>st</sup> HY '97: ATS 5,528 million). This increase resulted mainly from a favourable order intake, better cartonboard prices, and new acquisitions, which contributed a total of ATS 333 million to Group sales.

The operating profit was improved by ATS 165 million to a total of ATS 666 million, equivalent to an operating margin of 10.1% (1<sup>st</sup> HY '97: ATS 501 million; 9.1%).

Most of this increase resulted from the Cartonboard Division, which contributed a total of ATS 126 million.

Return on capital employed was 18.2% (1997: 18.0%).

Cash earnings (net income plus depreciation) totalled ATS 956 million, or 14.4% of sales (1<sup>st</sup> HY '97: ATS 688 million; 12.4%).

The result on ordinary activities increased by 44.6% to ATS 613 million (1<sup>st</sup> HY '97: ATS 424 million).

As a result from a successful appeal, the Mayr-Melnhof Group achieved a reduction of the 1994 EU-fine. Due to the reduction of the fine, the provisions could be reversed, which was accounted for as an extraordinary profit. Fifty percent of the interest in Servall, India, was written off. This totals in an extraordinary result of ATS 67 million.

Net income reached ATS 517 million. This represents an increase of 73.5% compared to the previous year (ATS 298 million). Excluding accounting for extraordinary effects, the increase amounted to 58.1%.

The financing of the Group remains very sound with shareholders' equity of ATS 5,675 million, or 44% of total assets (1997: ATS 4,907; 39%). Capital invested in tangible fixed assets was ATS 353 million, which is ATS 94 million above the previous year's figure (ATS 259 million).

## SIGNIFICANT EVENTS AND OUTLOOK

### APPROVAL FOR CO-OPERATION MAYR-MELNHOF – RENO DE MEDICI

The antitrust authorities of the relevant European countries approved the shareholder agreement between San Nicola, the primary shareholder of the Italian company Reno de Medici, and Mayr-Melnhof Karton AG. Mayr-Melnhof holds a 5.48% interest in Reno de Medici and has joint management control of

the company via the shareholder agreement with San Nicola.

Task forces for strategy, procurement/logistics, production and marketing have been installed. Cost reductions, and improvement of service and product quality are the main focus of this co-operation.

### LONG TERM SUPPLY-CONTACT WITH KELLOGG EUROPE

Mayr-Melnhof and Kellogg Europe concluded a long-term supply contract for the European requirements of cartonboard and folding carton of Kellogg Europe's operations. This

agreement intensifies the existing co-operation between the Mayr-Melnhof Group and Kellogg.

### SHAREHOLDING IN SLOVENIAN CARTONBOARD MILL, KOLICEVO KARTON

Mayr-Melnhof Karton AG acquired a 40% interest in the cartonboard mill „Sarrjo Slovenia“ in Kolicevo from Reno de Medici and took over control of the management at the same time. The purchasing price of the mill, which has been renamed „Kolicevo Karton“, amounted to DEM 49 million.

The mill has an annual capacity of 120,000 tonnes of white-lined chipboard and is serving the European market. An investment program will bring the qualities and quantities produced on Board Machine 3 in Kolicevo closer to those of its highly efficient “sister machine“ (annual capacity: 220,000 tonnes) in Frohnleiten.

### OUTLOOK

In view of good cartonboard demand in Europe satisfactory utilisation of capacities can be expected for the rest of the year despite a considerable quantity inflow from Asian production into overseas markets. European cartonboard prices are expected to remain stable. The order inflow of MM-Packaging shall continue on its good level. Projected sales into Russia have been reduced. Accounting for expected seasonal impacts, results of the

1998 2<sup>nd</sup> half-year will be below 1<sup>st</sup> half-year figures. From today's point of view, net income can be expected to exceed ATS 800 million (1997: ATS 644 million).

The acquisition strategy in both cartonboard and packaging will be continued. The decision concerning the future of the recycling business should be finalised in due time.

## THE CARTONBOARD DIVISION

		1st half-year '97	1st half-year '98	Percentage Change
Sales <sup>1</sup>	ATS million	3,331	<b>3,869</b>	+16 %
Operating profit	ATS million	346	<b>472</b>	+36 %
Tonnes produced	000's of tonnes	508	<b>572</b>	+13 %
Number of employees		1,957	<b>2,304</b>	+18 %

<sup>1</sup> including interdivisional sales

Due to good capacity utilisation, slightly increased prices and a higher sales volume in Europe, results of the Cartonboard Division were further improved. Sales in Europe accounted for 87% (1997: 83%). Stable low waste paper prices also contributed positively to the division's results.

Including the acquisition of Kolicveo Karton, cartonboard production amounted to 572,000 tonnes (1<sup>st</sup> HY '97 508,000 tonnes). This is equivalent to a 96% utilisation of capacity. Sales of ATS 3,896 exceeded the previous year's figure (ATS 3,331 million) by 16%.

Approximately two-thirds of this growth can be attributed to acquisitions. The operating profit increased by ATS 126 million to reach ATS 472 million (1<sup>st</sup> HY '97: 346 million), representing 12.2% of sales (1<sup>st</sup> HY '97: 10.4%).

Following the Kolicveo Karton acquisition, the number of employees rose to 2,304. After a slight decline in May and June, the order backlog remained stable throughout the summer months (50,000 tonnes), which can be attributed to good demand in Europe.

## MAYR-MELNHOF PACKAGING

		1 <sup>st</sup> half-year '97	1 <sup>st</sup> half-year '98	Percentage Change
Sales <sup>1</sup>	ATS million	2,057	<b>2,600</b>	+26 %
Operating profit	ATS million	156	<b>189</b>	+21 %
Tonnes processed	000's of tonnes	101	<b>121</b>	+20 %
Number of employees		2,333	<b>2,553</b>	+9 %

<sup>1</sup> including interdivisional sales

During the first half-year of 1998, sales of the Packaging Division increased by ATS 543 million to reach ATS 2,600 million

(1<sup>st</sup> HY '97: 2,057 million). Approximately two thirds of this increase resulted from acquisitions in the previous year.

The packaging facilities showed good capacity utilisation and converted 121,000 tonnes of cartonboard in the period (1<sup>st</sup> HY '97: 101,000). A converted tonnage of 240,000 can be expected for 1998. The operating profit increased by ATS 33 million to ATS 189 million (1<sup>st</sup> HY '97: ATS 156 million). Despite higher prices for cartonboard and start-up costs in Eastern Europe, the operating margin remained at the high level of 7.3% (1<sup>st</sup> HY '97: 7.6%). The market for folding cartons is still very competitive.

## THE RECYCLING DIVISION

<i>without Austrian minority interest</i>		1 <sup>st</sup> half-year '97	1 <sup>st</sup> half-year '98	Percentage Change
Sales <sup>1</sup>	ATS million	722	<b>711</b>	-2 %
Operating profit	ATS million	0	<b>4</b>	
Tonnes sold <sup>2</sup>	000's of tonnes	489	<b>442</b>	-10 %
Number of employees		581	<b>582</b>	0 %

<sup>1</sup> including interdivisional sales

<sup>2</sup> includes only tonnages of consolidated companies

Due to restructuring measures, results of the Recycling Division could be slightly improved during the first half-year of 1998. As a consequence of ongoing low waste paper prices, division results are still unsatisfactory. Accounting for the sustained low contribution to Group earnings (through 1995, Recycling had contributed sound results) and a general trend demanding total waste management encompassing all recyclable materials (waste paper, synthetic materials, metals etc.) the Group's strategy in this division has been put

However, Mayr-Melnhof Packaging was able to successfully hold its position pursuing its Supply Chain Management Strategy. This program offers the opportunity for achieving sustainable cost reductions, benefiting both the Group's packaging companies and its multinational customers. Signing a long-term contract with Kellogg Europe was a further milestone in Mayr-Melnhof Packaging's business with key multinational customers.

under reconsideration. Future possibilities range up to a total divestment.

Division sales declined slightly by ATS 11 million to ATS 711 million. The operating profit was ATS 4 million in the 1998 first half-year after ATS 0 million in the previous year's period. Total volume of material collected amounted to 339,000 tonnes, while another 191,000 tonnes were traded.

**QUARTERLY RESULTS**

Consolidated in ATS millions      3<sup>rd</sup> Qu.97   4<sup>th</sup> Qu.97   1<sup>st</sup> Qu.98      **2<sup>nd</sup> Qu.98**   2<sup>nd</sup> Qu.97   Change in %

**MAYR-MELNHOF GROUPE**

<b>Sales</b>	2,940	3,057	3,106	<b>3,517</b>	2,947	<b>+19 %</b>
<b>Operating profit</b>	312	233	322	<b>344</b>	284	<b>+21 %</b>
in % sales	10.6%	7.6%	10.4%	<b>9.8%</b>	9.6%	
<b>Net income incl. min. interests</b>	197	149	199	<b>318</b>	170	<b>+87 %</b>
in % sales	6.7%	4.9%	6.4%	<b>9.0%</b>	5.8%	
<b>Net income after min. interests</b>	194	152	194	<b>318</b>	170	<b>+87 %</b>
in % sales	6.6%	5.0%	6.2%	<b>9.0%</b>	5.8%	

**DIVISIONS****Sales**

Cartonboard	1,700	1,732	1,795	<b>2,074</b>	1,706	<b>+22 %</b>
MM-Packaging	1,162	1,300	1,271	<b>1,329</b>	1,156	<b>+15 %</b>
Recycling	360	381	372	<b>339</b>	405	<b>-16 %</b>

**Operating profit**

Cartonboard	207	115	228	<b>244</b>	186	<b>+31 %</b>
MM-Packaging	100	120	92	<b>97</b>	99	<b>-2 %</b>
Recycling	6	-4	2	<b>2</b>	-1	

**Operating margin**

Cartonboard	12.2%	6.6%	12.7%	<b>11.8%</b>	10.9%	
MM-Packaging	8.6%	9.2%	7.3%	<b>7.3%</b>	8.6%	
Recycling	1.7%	-1.0%	0.5%	<b>0.6%</b>	-0.2%	

**Tonnage produced**

Cartonboard	267	257	259	<b>313</b>	258	<b>+21 %</b>
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**Tonnage processed**

MM-Packaging	52	62	62	<b>59</b>	54	<b>+9 %</b>
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**Tonnage sold**

Recycling	247	238	213	<b>229</b>	287	<b>-20 %</b>
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## KEY INDICATORS OF THE MAYR-MELNHOF GROUP

<i>Consolidated figures in millions of Austrian Schillings</i>	1 <sup>st</sup> half-year '97	1 <sup>st</sup> half-year '98	Percentage Change
Sales	5,528	<b>6,623</b>	+20 %
Depreciation and amortisation of fixed tangible and intangible assets	390	<b>439</b>	+13 %
Operating profit	501	<b>666</b>	+33 %
Result on ordinary activities	424	<b>613</b>	+45 %
Result on extraordinary activities	-1	<b>67</b>	
Net income (including minority interests)	298	<b>517</b>	+73 %
Net income (excluding minority interests)	291	<b>512</b>	+76 %
Cash earnings	688	<b>956</b>	+39 %
Investments infixed assets	259	<b>353</b>	+36 %
Number of employees (including employees of pro-rata consolidated companies)	4,871	<b>5,439</b>	+12 %
	31/12/97	<b>30/06/98</b>	
Fixed assets	6,840	<b>7,552</b>	+10 %
Current assets (including prepaid expenses)	5,663	<b>5,454</b>	-4 %
Total assets	12,503	<b>13,006</b>	+4 %
Nominal share capital	1,200	<b>1,200</b>	
Shareholders' equity (including minority interests in equity)	4,907	<b>5,675</b>	+16 %
Liabilities (including provisions and deferred income)	7,596	<b>7,331</b>	-3 %
Return on equity <sup>1</sup>	11.3 %	<b>14.9 %</b>	
Return on capital employed <sup>1</sup>	18.0 %	<b>18.2 %</b>	
Enterprise value	8,575	<b>11,604</b>	+35 %
Net debt to equity	7.2 %	<b>19.1 %</b>	

<sup>1</sup> annualised

## Share Price Performance

Price as of August 27, 1998	ATS 649
Total number of shares	12,000,000
Market capitalisation	ATS 7,788 Mio.
High in 1998	ATS 964
Low in 1998	ATS 649

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Relative Performance of Mayr-Melnhof Karton Shares 1996/97  
 1.7.1996 = 100

