ORKLA

# First quarter results 2012

Oslo 3 May 2012

# Agenda

- Introduction
  Åge Korsvold, Acting President & CEO
- Highlights Q1-12
  Terje Andersen, CFO
- Orkla Brands
  Torkild Nordberg, CEO Orkla Brands
- Sapa
  Svein Tore Holsether, CEO Sapa


# Q1-12 RESULTS

## TERJE ANDERSEN, CFO

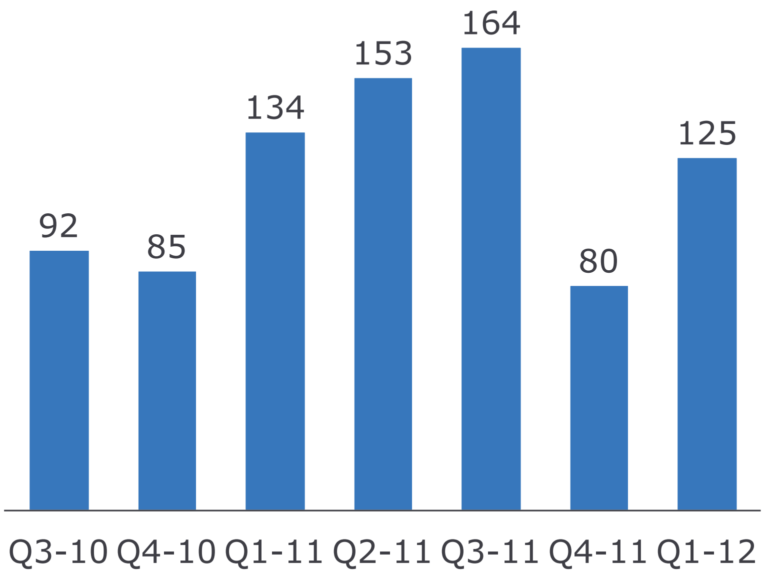
# Highlights Q1-12

- Orkla Brands in line with last year
  - Underlying top line growth +4%
- Continued weak European markets for Sapa
  - Actions taken in Sapa Heat Transfer improved results compared with Q4-11
- A strong quarter for Borregaard
  - Market conditions still strong,  however high raw material prices
- Net sale of shares NOK 1.1 billion in the quarter
  - Market value of the Share Portfolio at NOK 5.0 billion at 31 Mar 2012
- Gain from sale of real estate EBITA effect of NOK 103 million


# Divestment of Borregaard
# - a dual process

- A strong Q1-12 for Borregaard, with continued favourable market conditions
- Borregaard's industrial activities, separated from the hydro power assets as of 1 April 2012
- Preparations for IPO at full speed
- Targeting potential industrial buyers
- Ambition to complete the process by the end of 2012

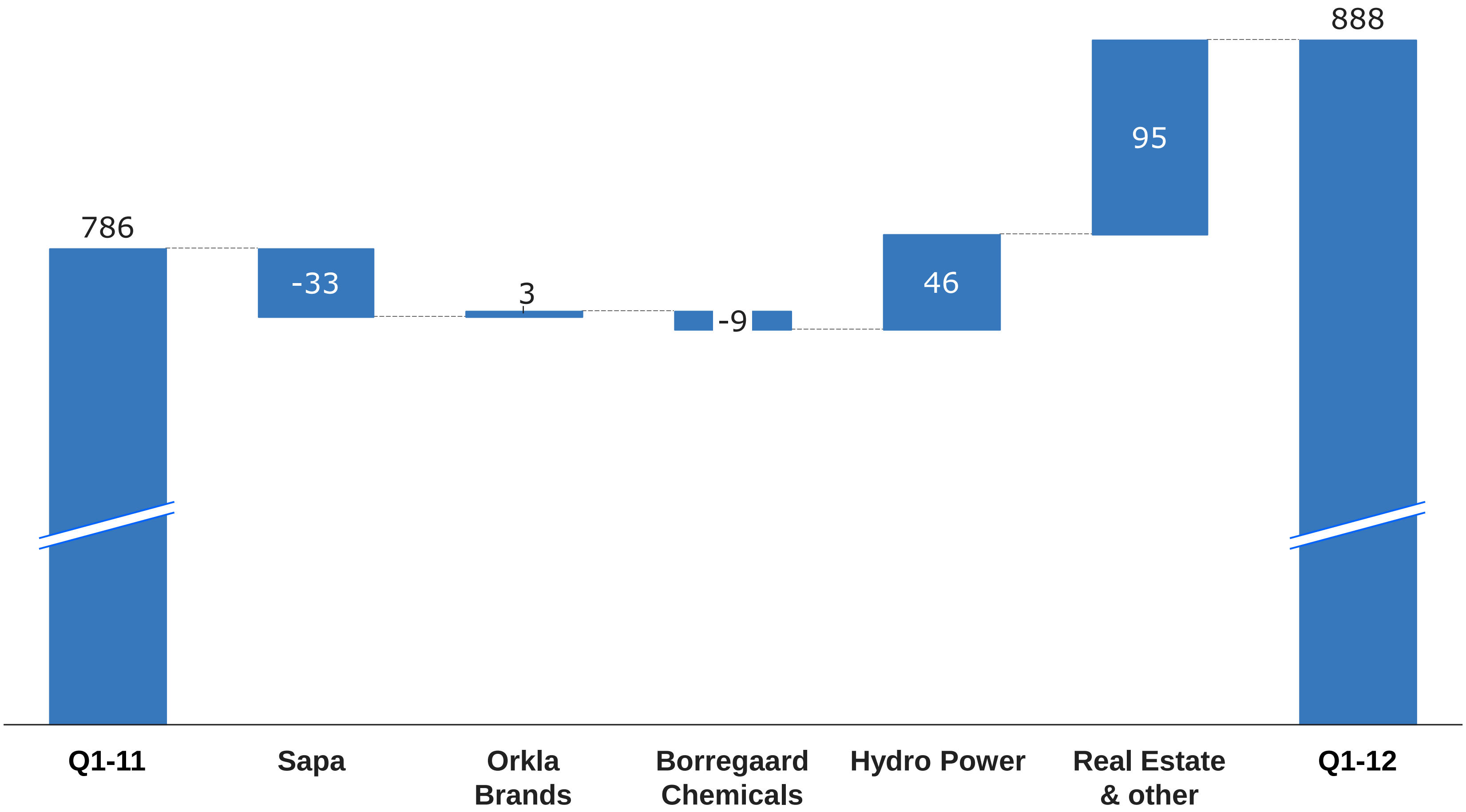
EBITA in NOK million per quarter



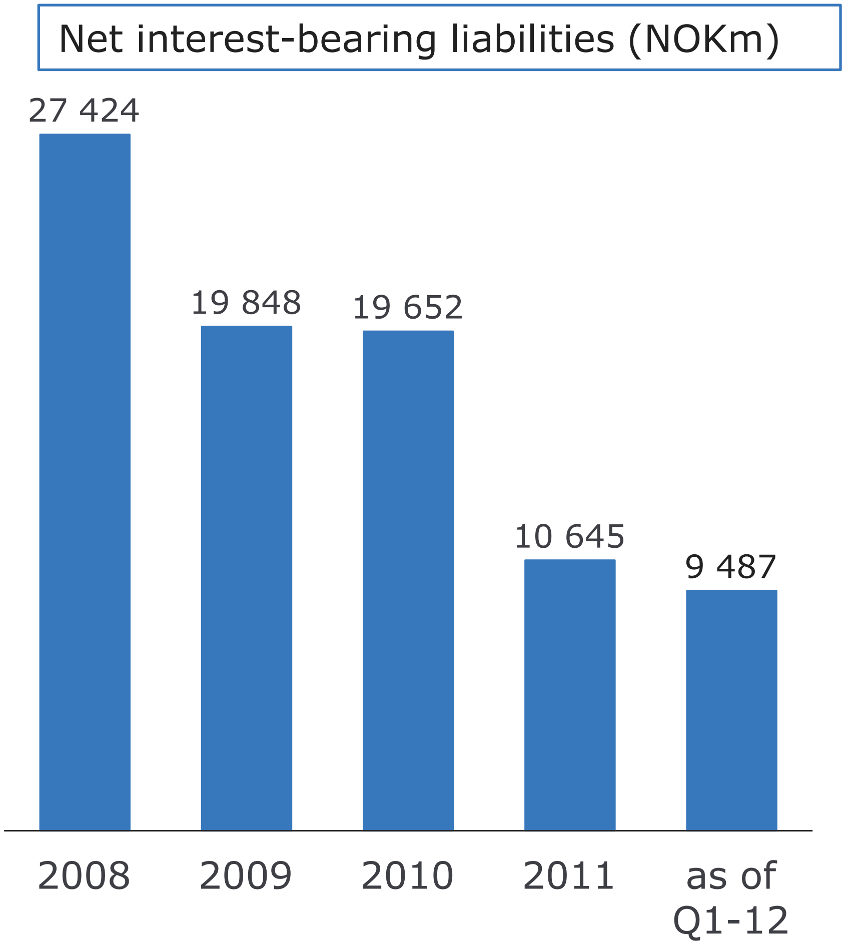

# Key figures Q1-12

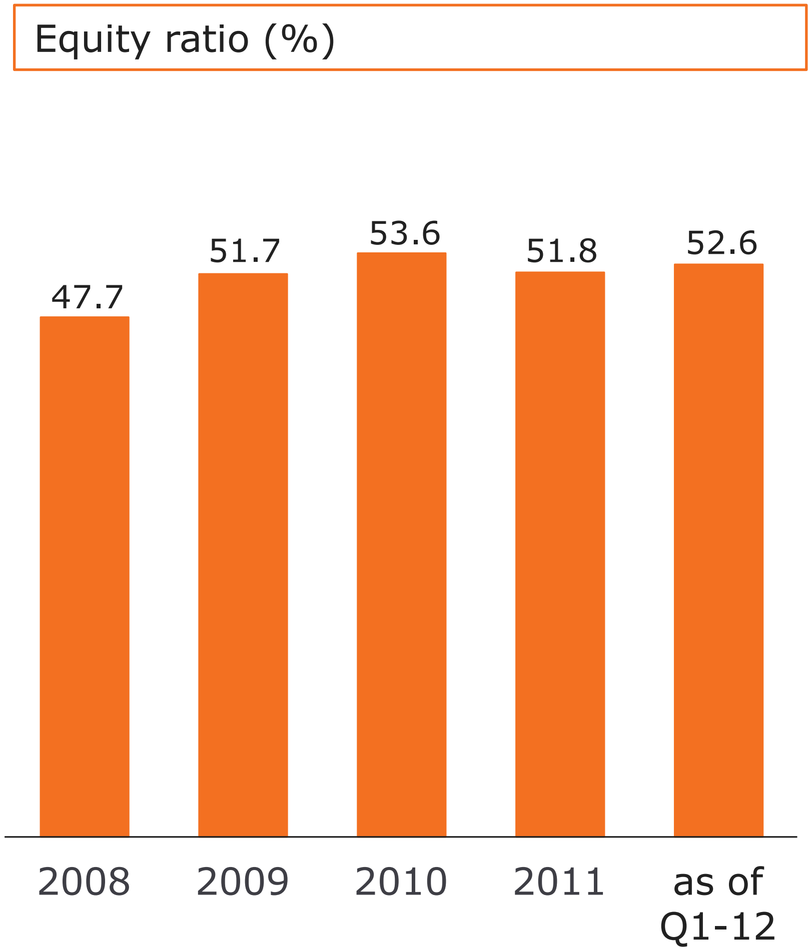
| | Q1-12 | Q1-11 | Change |
|---|---|---|---|
| **Operating revenues** | **14 792** | **15 000** | -1% |
| **EBITA** | **888** | **786** | 13% |
| Amortisation intangibles | -11 | -7 | |
| Other revenues and expenses | -40 | -66 | |
| | | | |
| **EBIT** | **837** | **713** | |
| Profit/loss from associates | 353 | 920 | |
| Dividends received | 52 | 84 | |
| Gains, losses and write-downs Share Portfolio | 427 | 361 | |
| Financial items, net | - 119 | - 118 | |
| | | | |
| **Profit/loss before taxes** | **1 550** | **1 960** | |
| Taxes | -245 | -219 | |
| | | | |
| **Profit for the period continuing operations** | **1 305** | **1 741** | |
| Gains/profit discontinued operations | 0 | 1 213 | |
| **Profit/loss for the period** | **1 305** | **2 954** | |
| | | | |
| Cash Flow from operations | 16 | - 437 | |
| | | | |
| Earnings per share diluted (NOK) | 1.3 | 2.9 | |

# Change in EBITA Q1-11 to Q1-12



# Strong financial flexibility and expansion capacity






*Developing people – creating value*

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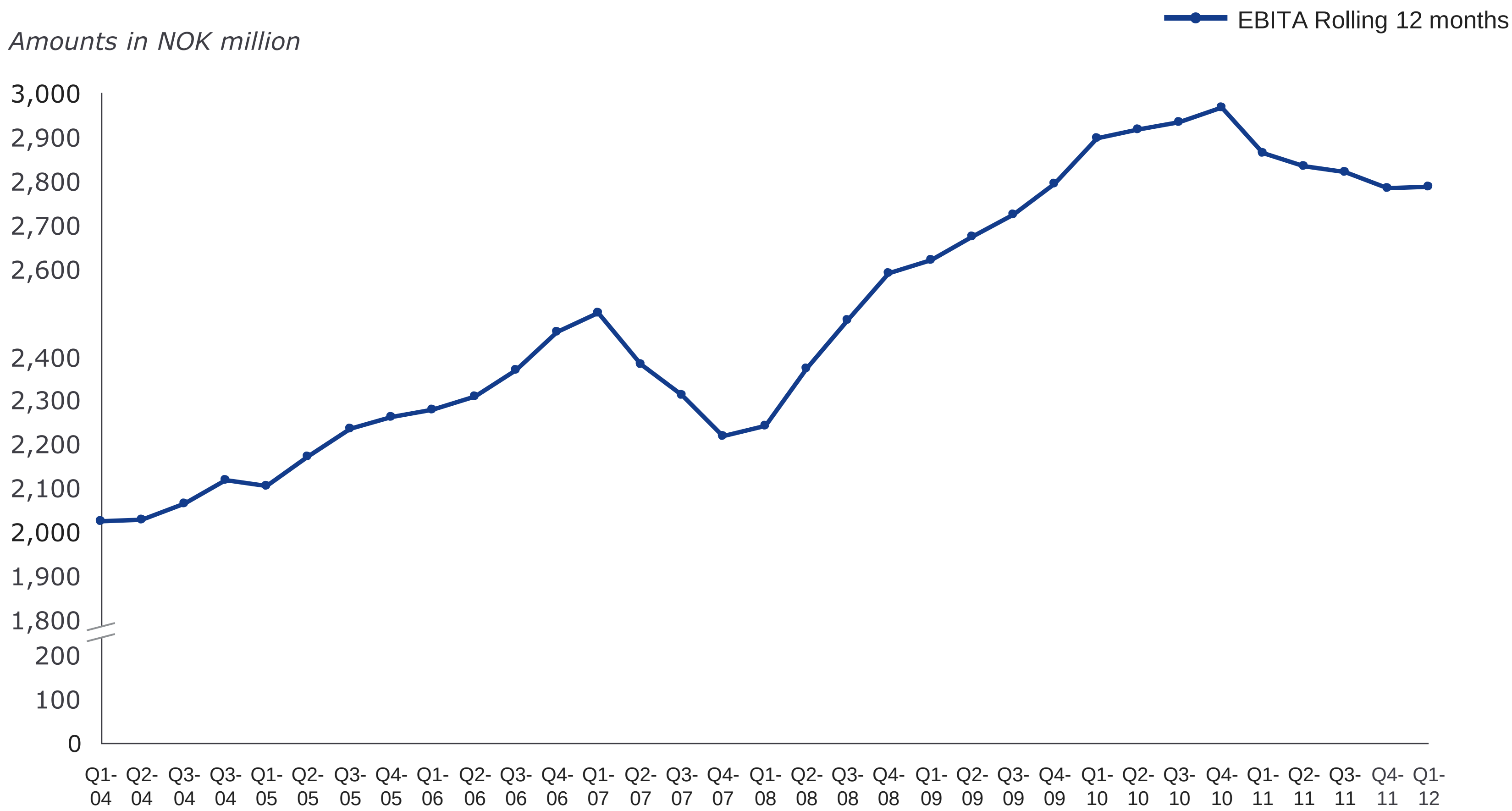
# ORKLA BRANDS

## TORKILD NORDBERG, CEO ORKLA BRANDS

# EBITA in line with Q1 last year



# Underlying top line growth of 4%

- Volume growth in retail sector, while loss of industry contracts hurt B2B sales
- Profit in line with last year
  - Positively affected by Easter
  - Front-loaded advertising investments
- Stable market share
- Continued profit improvement in Russia and increased market investments
- Add-on acquisitions

| Operating revenues | Q1-12 | Q1-11 | Change |
|---|---|---|---|
| **Orkla Brands** | **5 583** | **5 714** | -2% |
| Orkla Foods Nordic | 2 026 | 2 213 | -8% |
| Orkla Brands Nordic | 1 924 | 1 937 | -1% |
| Orkla Brands International | 452 | 445 | 2% |
| Orkla Food Ingredients | 1 232 | 1 192 | 3% |
| Eliminations Orkla Brands | - 51 | - 73 | |

| Operating profit - EBITA | Q1-12 | Q1-11 | Change |
|---|---|---|---|
| **Orkla Brands** | **523** | **520** | 1% |
| Orkla Foods Nordic | 197 | 186 | 6% |
| Orkla Brands Nordic | 334 | 363 | -8% |
| Orkla Brands International | - 37 | - 63 | 41% |
| Orkla Food Ingredients | 29 | 34 | -15% |
| **EBITA margin (%)** | **9.4** | **9.1** | |

Underlying top line growth: Excluding acquired and sold operations and currency translation effects

# Raw material prices still high

- Orkla Brands has compensated for increased input cost

- Some difference compared to the FAO index* due to:
  - Norwegian agriculture policy, EU exposure and some time lag effects

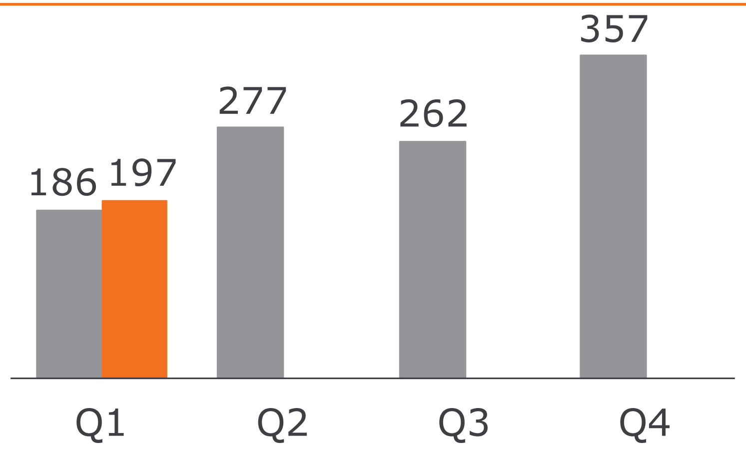
- Increased packaging cost due to high crude oil prices

** FAO Food Price Index*

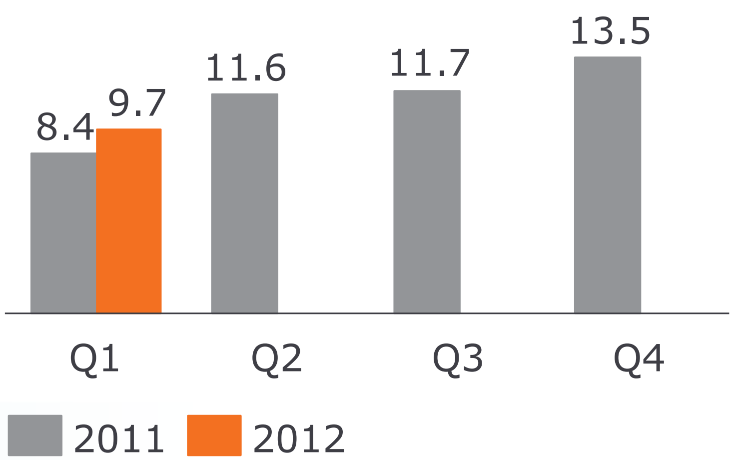
# Orkla Foods Nordic

- Underlying profit growth of 2%
  - Front-loaded advertising investments
  - Positively affected by Easter
- Underlying top-line growth of 5%
  - Positively affected by Easter
- Continued profit growth for Stabburet, Norway
- Strong top-line and profit growth for all 4 companies in the Baltics
- Mixed performance in Finland

EBITA in NOK million



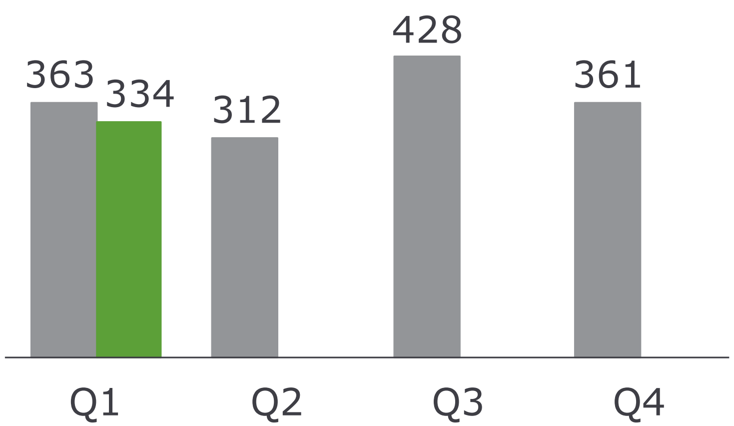

EBITA margin in %



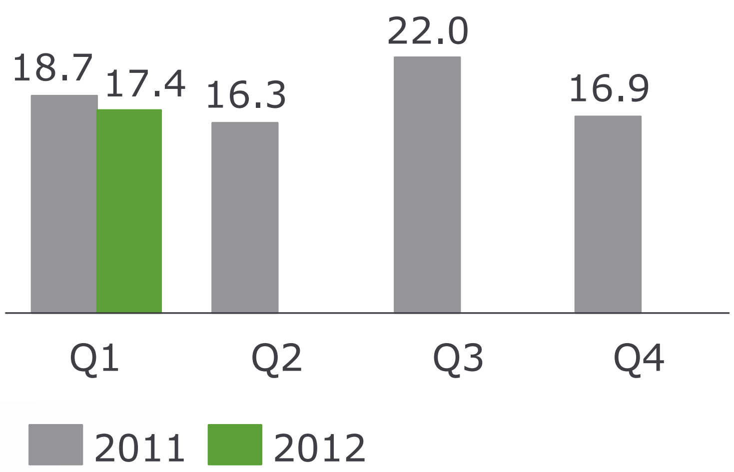
# Orkla Brands Nordic

- Profit weaker than last year
  - Loss of contract production
  - Front-loaded advertising investments
- Underlying top line on par with last year
- Continued good development for Chips Group
- Restructuring of biscuit production
- Add-on acquisitions in Dietary Supplements

EBITA in NOK million




EBITA margin in %





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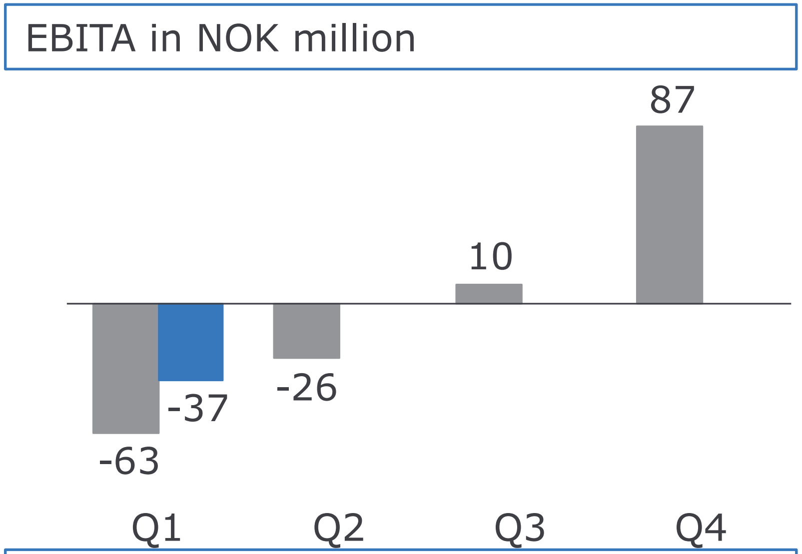
# Orkla Brands International

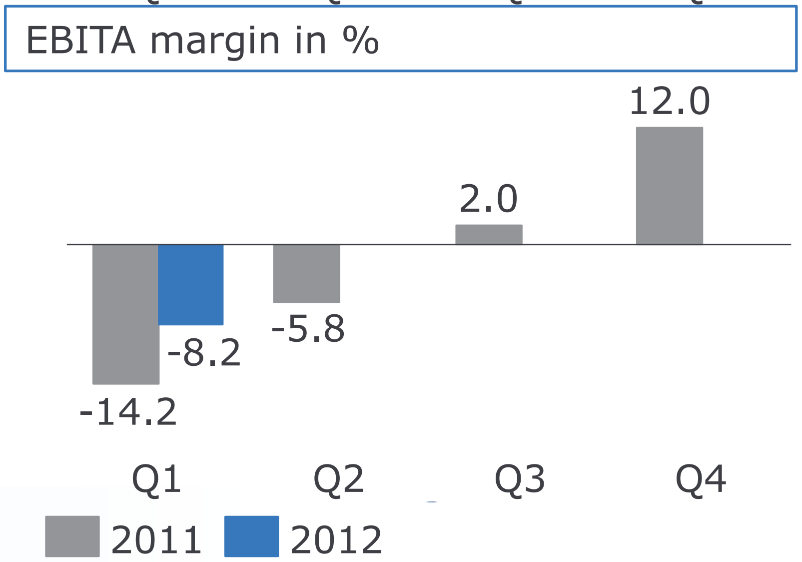
**Russia**

- Profit improvement
- Increased advertising investments
- Realised synergies due to the merger of SladCo and Krupskaya
- Strong increase in sales to modern trade and lower sales of non-branded products

**India**

- Strong top-line growth in MTR, driven by both volume and price
- Profit reinvested in growth initiatives
  - Plan to expand MTR into neighbouring states

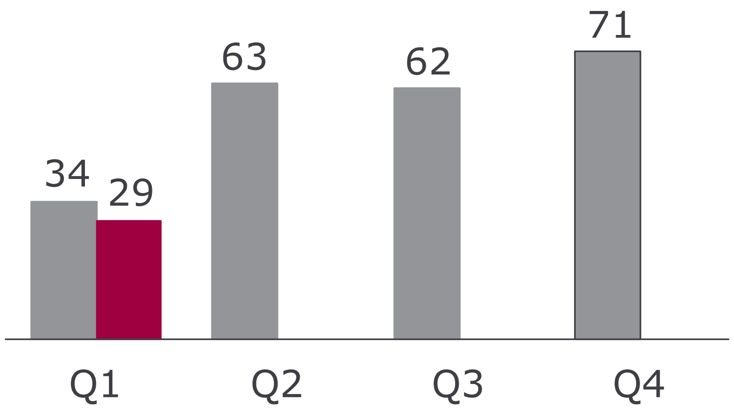


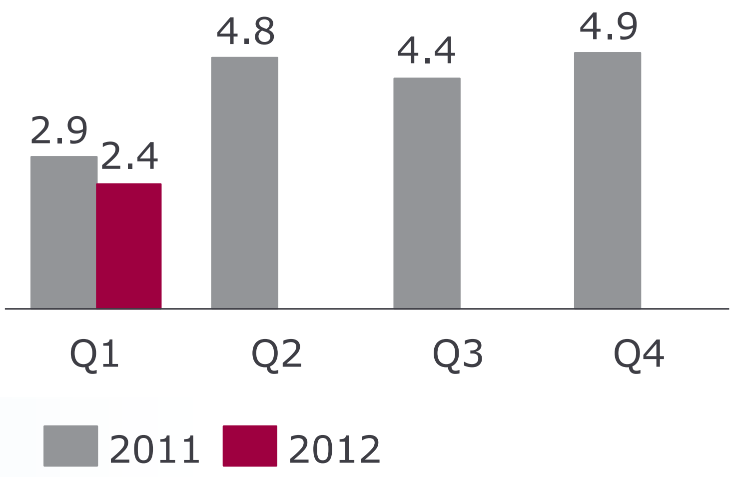
# Orkla Food Ingredients

- Challenging markets and increased competition
  - From artisan to industrial customers
  - Significant increase in raw material prices
- Price increases have been implemented, but profit was slightly lower than last year
- Structural growth:
  - 4 sales and distribution companies acquired in last 4 months, with total revenues of NOK 270 million

EBITA in NOK million




EBITA margin in %



# Examples of innovations









# Short-term outlook

- Contract production at lower levels than in 2011
- Volatile raw material prices going forward
  - Raw material prices expected to increase in Norway
  - Higher raw material costs to be compensated for in pricing
- Strong focus on cost in every part of the value chain
- Negative Easter effect in Q2 (NOK 25-30 million)

# SAPA

## SVEIN TORE HOLSETHER, CEO SAPA

# Weaker European markets impact Q1 results

- Volume growth, share gain, and improved results for Profiles North America
- Restructuring on plan
  - Not sufficient to mitigate European market decline
- Despite soft markets, strong profitability improvement in Heat Transfer from Q4-11
- Integration, ramp-up and knowledge transfer key focus for Asia

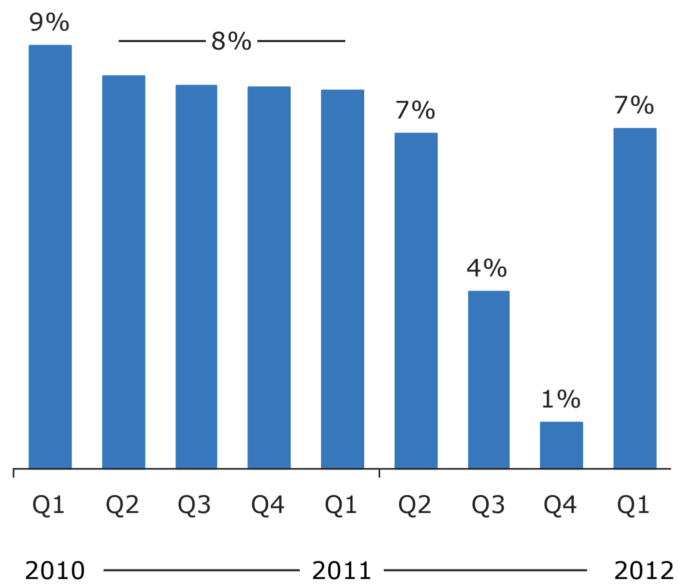
| Operating Revenues | Q1-12 | Q1-11 | Change |
|---|---|---|---|
| **Sapa** | **7 712** | **7 882** | **-2%** |
| Profiles | 6 093 | 6 168 | -1% |
| Heat Transfer and Building System | 1 822 | 1 941 | -6% |
| Eliminations | - 203 | - 227 | |

| EBITA | Q1-12 | Q1-11 | Change |
|---|---|---|---|
| **Sapa** | **182** | **215** | -15% |
| Profiles | 110 | 119 | -8% |
| Heat Transfer and Building System | 72 | 96 | -25% |
| | | | |
| **EBITA margin (%)** | 2.4 | 2.7 | |

# Actions to improve Heat Transfer are taking effect

- Price increases implemented
- Volume transfer from Sweden to China to leverage lower cost position ongoing
- Operational improvements according to plan
  - Cast house and cold rolling mills to increase productivity in Sweden

Sapa Heat Transfer
EBITA margin performance

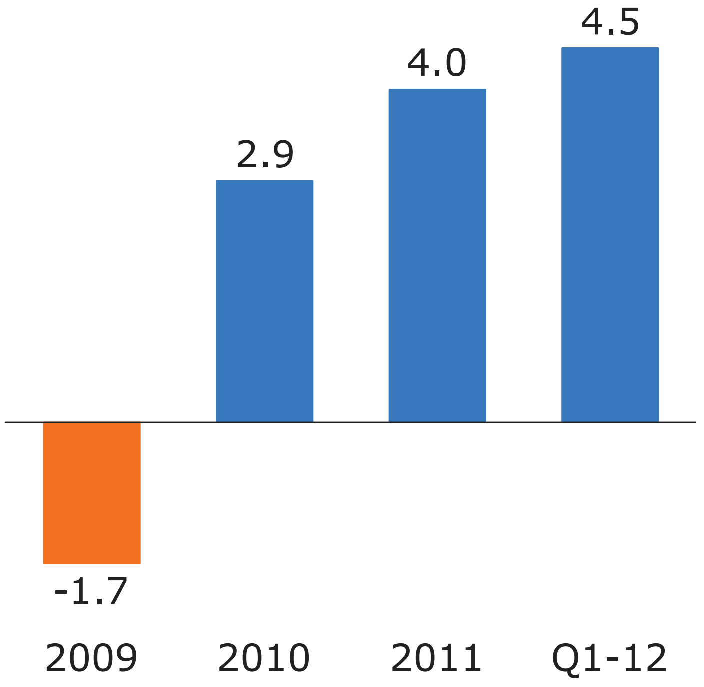


# Profiles North America continues to improve

- Continued market share gain
  - Volume up 13 000 tonnes compared with Q1 last year (+13%)

- Footprint optimisation and productivity improvement

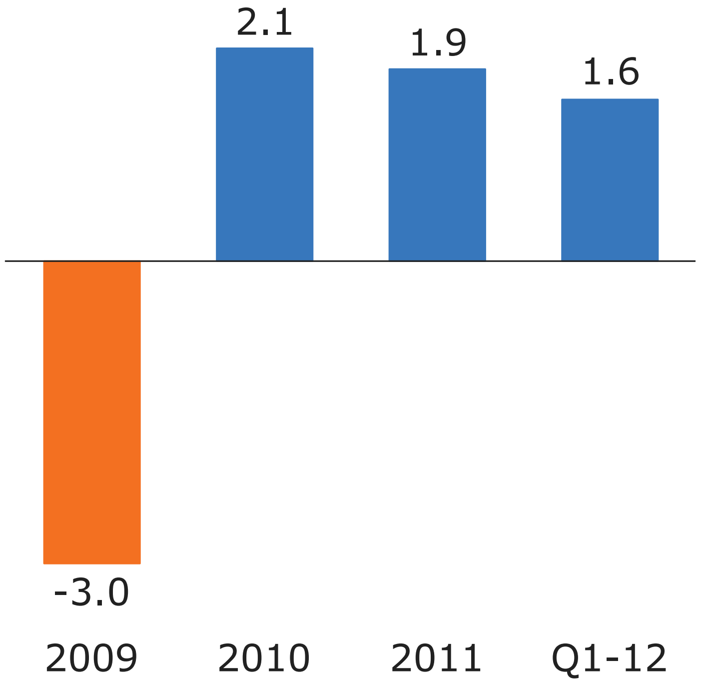
Sapa Profiles North America
EBITA margin in %



# Declining profitability in Profiles Europe

- Market-driven volume reduction
  - Down 9% to 106 000 tonnes compared with Q1-11
  - Margin pressure, especially in Southern Europe
- European restructuring according to plan
- Strengthened European sales organisation

Sapa Profiles Europe
EBITA margin in %



# Investing in build-up and knowledge transfer in Asia

- Considerable resources allocated to accelerate development
  - Short-term ramp-up costs
  - Positive cash contribution as from mid-2013

- Installation of large press in Shanghai area
  - Target industrial markets
  - Leverage on customer solutions capability

# Growth expectations for NA, weak trend continues in Europe

**Expected Development by Geographic Region & End-Use Market 2012 vs. 2011**






| | Distribution | Industrial | Com. B&C | Res. B&C | Transport | Automotive |
|---|---|---|---|---|---|---|
| North America | 0% to 5% | 0% to 5% | 0% to -5% | 0% to 5% | 5% to 10% | 5% to 10% |
| Europe | 0% to -5% | 0% to -5% | -5% to -10% | 0% to -5% | 0% to -5% | -5% to -10% |
| China | 5% to 10% | 10% to 15% | 5% to 10% | 5% to 10% | 0% to 5% | 0% to 5% |

*Source: The Aluminium Association, EuroConstruct, Alcoa, Sapa Analysis*

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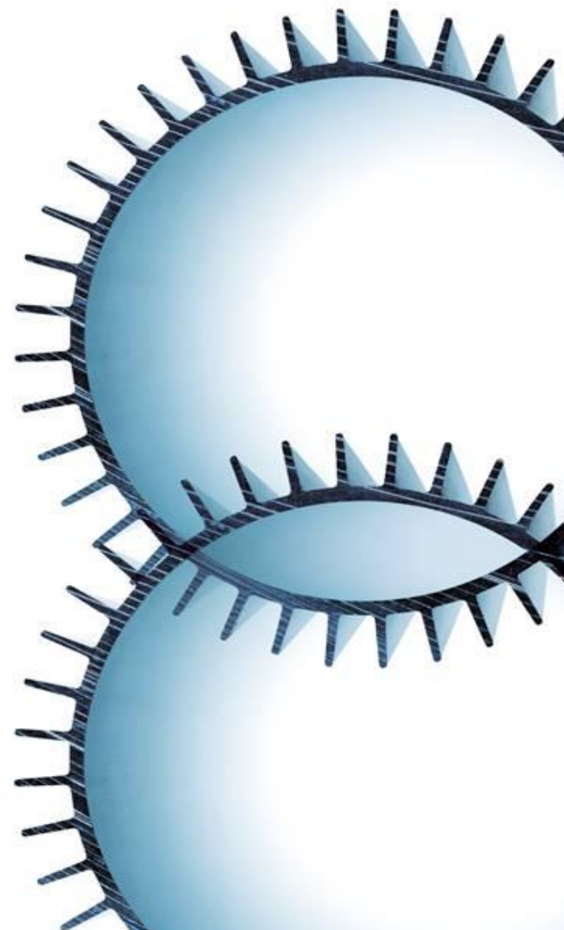
# Short-term outlook

- Slower market growth expected for Profiles North America, while the weak market trend in Europe is expected to continue
- Q2 seasonally stronger than Q1 for Profiles
- Heat transfer markets expected to be in line with Q1
- Restructuring programmes on track
  - Reduction of ~900 employees effectuated
  - NOK 250-300 million EBITA effect; full effect end of 2012



# Q&A

- Åge Korsvold, Acting President & CEO
- Terje Andersen, CFO
- Torkild Nordberg, CEO Orkla Brands
- Svein Tore Holsether, CEO Sapa

# APPENDIX

# A strong quarter for Borregaard

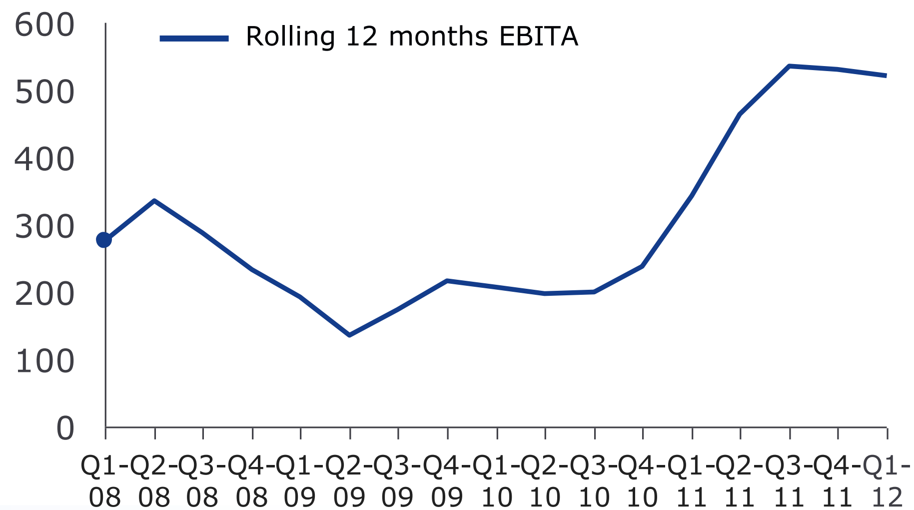
- Overall market conditions favourable
- Strong NOK and high raw material and energy costs put pressure on margins

Amounts in NOK million

| Operating revenues | Q1-12 | Q1-11 | Change |
|---|---|---|---|
| Borregaard Chemicals | 981 | 1 032 | -5% |

| EBITA | Q1-12 | Q1-11 | Change |
|---|---|---|---|
| Borregaard Chemicals | 125 | 134 | -7% |
| **EBITA-margin %** | 12.7 | 13.0 | |

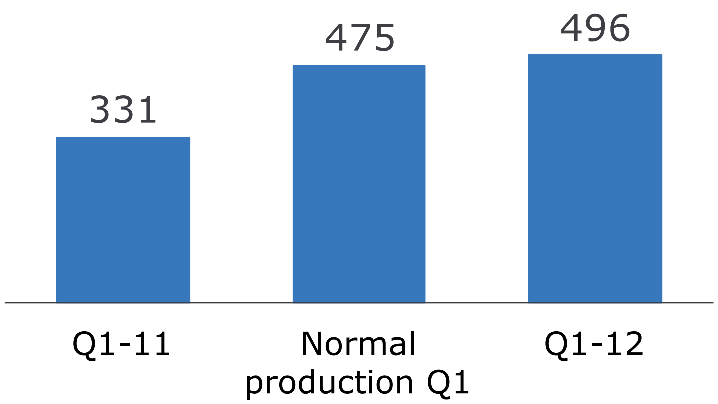
*Amounts in NOK million*

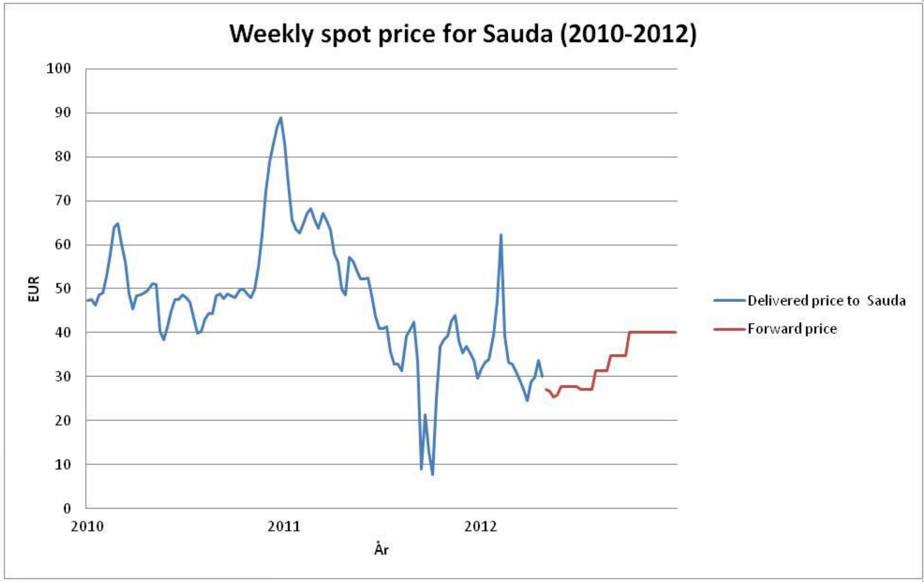


# Hydro Power in Q1-12

- Normal production levels, however seasonally low quarter
- Significant decrease in prices, particularly at quarter end
- Higher snow- and water reservoir levels than normal at quarter end

Production for Hydro Power in GWh




Amounts in NOK million

| EBITA | Q1-12 | Q1-11 |
|---|---|---|
| Hydro Power | 33 | - 13 |

# Share Portfolio in Q1-12

- Return of +12.9% compared with Oslo Stock Exchange (OSEBX) +10.8%
- Net sales of NOK 1.1 bn
- Market value of NOK 5 bn
- 87% of the portfolio is invested in the Nordic region and 74% in listed companies

Amounts in NOK million

| Top 10 holdings<br>Principal holdings | Market value | Share of portfolio (%) | Share of equity (%) |
|---|---|---|---|
| Tikkurila Oyj | 335 | 7% | 7.0 % |
| Amer Sports | 290 | 6% | 3.2 % |
| Kongsberg Gruppen | 262 | 5% | 2.0 % |
| Oslo Børs VPS Holding ASA | 232 | 5% | 8.2 % |
| Ekornes | 223 | 4% | 6.2 % |
| Nobia AB | 216 | 4% | 4.6 % |
| Industri Kapital 2007 | 194 | 4% | 1.9 % |
| Pharmaq Holding AS | 192 | 4% | 36.5 % |
| Saab AB B-aksjer | 173 | 3% | 1.5 % |
| Nokian Renkaat Oyj | 155 | 3% | 0.4 % |
| **Total principal holdings** | 2 271 | 46% | |
| **Market value of entire portfolio** | **4 963** | | |

# REC
# - Orkla's holding: 39.7%

- Orkla will support REC in their work on operational improvements and structural solutions

- Weak solar markets reduce exit opportunities in the short term

- The REC share price increased from 3.32 to 3.38 in the quarter

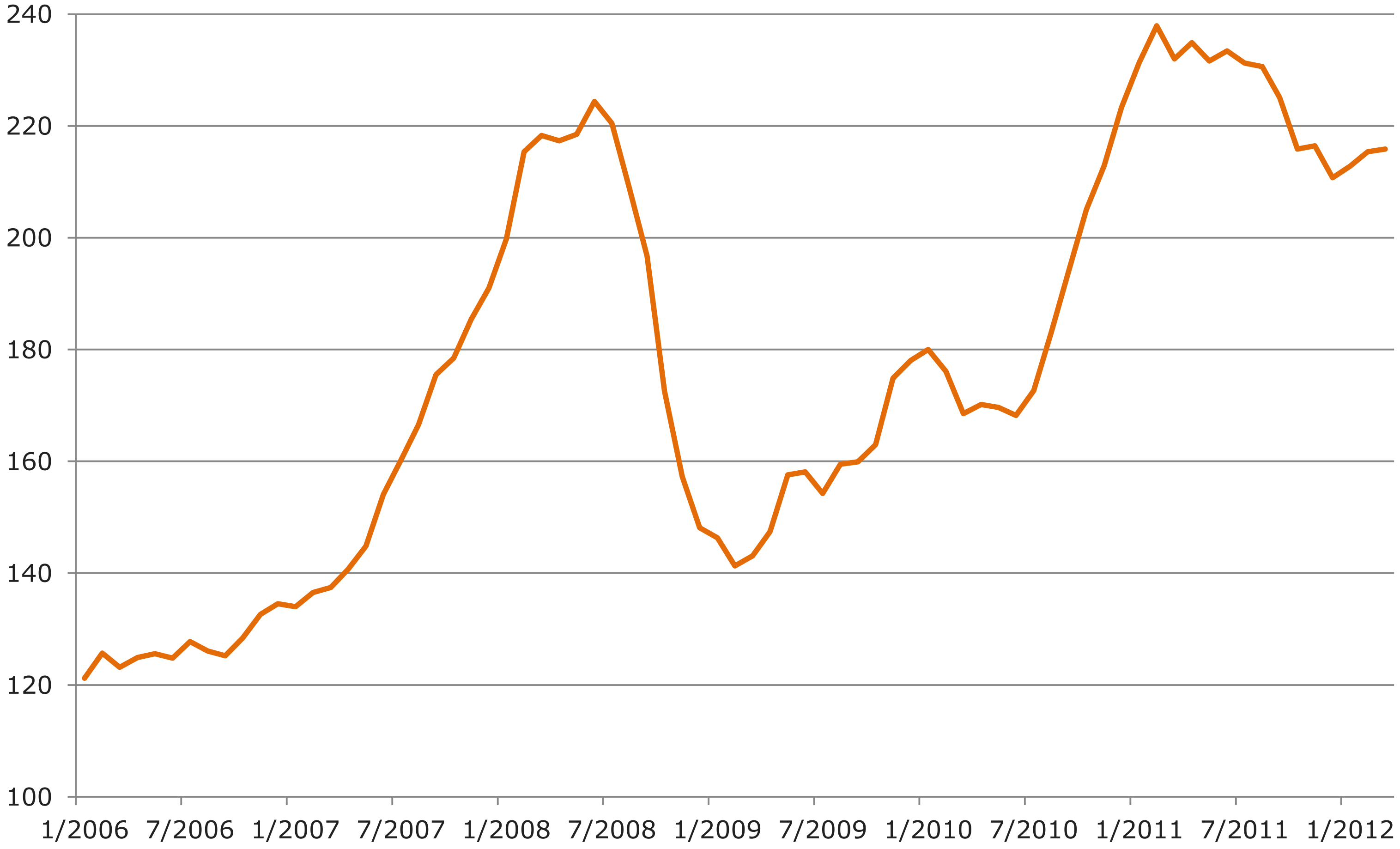
*Amounts in NOK million*

| **REC** | **Q1-12** | **Q1-11** | **Change** |
|---|---|---|---|
| Revenues | 2 138 | 4 109 | -48% |
| EBITDA | 455 | 1 449 | -69% |
| EBIT* | 59 | 772 | -92% |
| Profit/loss before tax | - 259 | - 84 | |



*For more information: www.recgroup.com*

# Orkla Brands
# - FAO Food Price Index



# Cash flow as of 31 Mar 2012

| | Q1-12 | Q1-11 | 2011 |
|---|---|---|---|
| **Cash flow Industial Activities:** | | | |
| Operating profit | 734 | 713 | 3 023 |
| Amortisation, depreciations and impairment charg | 449 | 477 | 2 088 |
| Changes in net working capital, etc. | - 789 | -1 254 | -1 094 |
| Net replacement expenditure | - 378 | - 373 | -1 557 |
| **Cash flow from operations** | **16** | **- 437** | **2 460** |
| Financial items, net | - 84 | - 122 | - 488 |
| **Cash flow Industial Activities** | **- 68** | **- 559** | **1 972** |
| **Cash flow from Orkla Financial Investments** | **68** | **356** | **66** |
| Taxes paid | - 255 | - 187 | - 603 |
| Discontinued operations and other payments | 209 | - 773 | - 509 |
| **Cash flow before capital transactions** | **- 46** | **-1 163** | **926** |
| Paid dividends | - 237 | - 3 | -7 436 |
| Net sale/purchase of Orkla shares | - 431 | 18 | - 109 |
| **Cash flow before expansion** | **- 714** | **-1 148** | **-6 619** |
| Expansion Industial Activities | - 137 | - 229 | - 906 |
| Sale of companies/share of companies | 933 | 0 | 13 503 |
| Purchase of companies/share of companies | - 121 | - 351 | -1 498 |
| Net sale/purchase of portfolio investments | 1 050 | 630 | 4 494 |
| **Net cash flow** | **1 011** | **-1 098** | **8 974** |
| Currency effects of net interest-bearing liabilities | 147 | 86 | 33 |
| **Change in net interest-bearing liabilities** | **-1 158** | **1 012** | **-9 007** |
| **Net interest-bearing liabilities** | **9 487** | **20 664** | **10 645** |

# Balance sheet as of 31 Mar 2012

*Amounts in NOK million*

| | 31.3.2012 | 31.12.2011 |
|---|---|---|
| Intangible assets | 12 674 | 12 801 |
| Property, plant and equipment | 17 913 | 18 058 |
| Financial assets | 4 999 | 5 682 |
| **Non-Current assets** | **35 586** | **36 541** |
| Assets in discontinued operations | | 391 |
| Inventories | 8 276 | 8 047 |
| Receivables | 11 206 | 10 462 |
| Share Portfolio etc. | 4 967 | 5 502 |
| Cash and cash equivalents | 6 517 | 5 453 |
| **Current assets** | **30 966** | **29 855** |
| **Total assets** | **66 552** | **66 396** |
| Paid-in equity | 1 984 | 1 997 |
| Earned equity | 32 711 | 32 109 |
| Non-controlling interests | 290 | 280 |
| **Equity** | **34 985** | **34 386** |
| Provisions and other non-current liabilities | 3 107 | 3 165 |
| Non-current interest-bearing liabilities | 15 227 | 15 488 |
| Current interest-bearing liabilities | 1 568 | 1 472 |
| Liabilities in discontinued operations | | 177 |
| Other current liabilities | 11 665 | 11 708 |
| **Equity and liabilities** | **66 552** | **66 396** |
| | | |
| Equity ratio | 52.6% | 51.8% |

# Operating revenues and EBITA per segment

Amounts in NOK million

| Operating revenues | Q1-12 | Q1-11 | Change |
|---|---|---|---|
| **Orkla Group** | **14 792** | **15 000** | -1% |
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| **Sapa** | **7 712** | **7 882** | -2% |
| Sapa Profiles | 6 093 | 6 168 | -1% |
| Sapa Heat Transfer & Building System | 1 822 | 1 941 | -6% |
| Sapa eliminations | - 203 | - 227 | |
| Borregaard Chemicals | 981 | 1 032 | -5% |
| Hydro Power | 208 | 706 | -71% |
| Orkla Financial Investments | 321 | 78 | |
| HQ/Other business | - 13 | - 412 | |

Amounts in NOK million

| Operating profit - EBITA | Q1-12 | Q1-11 | Change |
|---|---|---|---|
| **Orkla Group** | **888** | **786** | 13% |
| **Orkla Brands** | **523** | **520** | 1% |
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| Sapa Profiles | 110 | 119 | -8% |
| Sapa Heat Transfer & Building System | 72 | 96 | -25% |
| Borregaard Chemicals | 125 | 134 | -7% |
| Hydro Power | 33 | - 13 | |
| Orkla Financial Investments | 103 | 0 | |
| HQ/Other business | - 78 | - 70 | |

# Currency translation effects

| Revenues | Q1-12 |
|---|---|
| Orkla Brands | -121 |
| Sapa | -71 |
| Borregaard Chemicals | -8 |
| **Total** | **-200** |

| EBITA | Q1-12 |
|---|---|
| Orkla Brands | -7 |
| Sapa | 6 |
| Borregaard | -1 |
| **Total** | **-2** |

# Financial calendar

- 3 May 2012 - Dividend payment
- 20 July 2012 - Second quarter results 2012
- 31 October 2012 - Third quarter results 2012

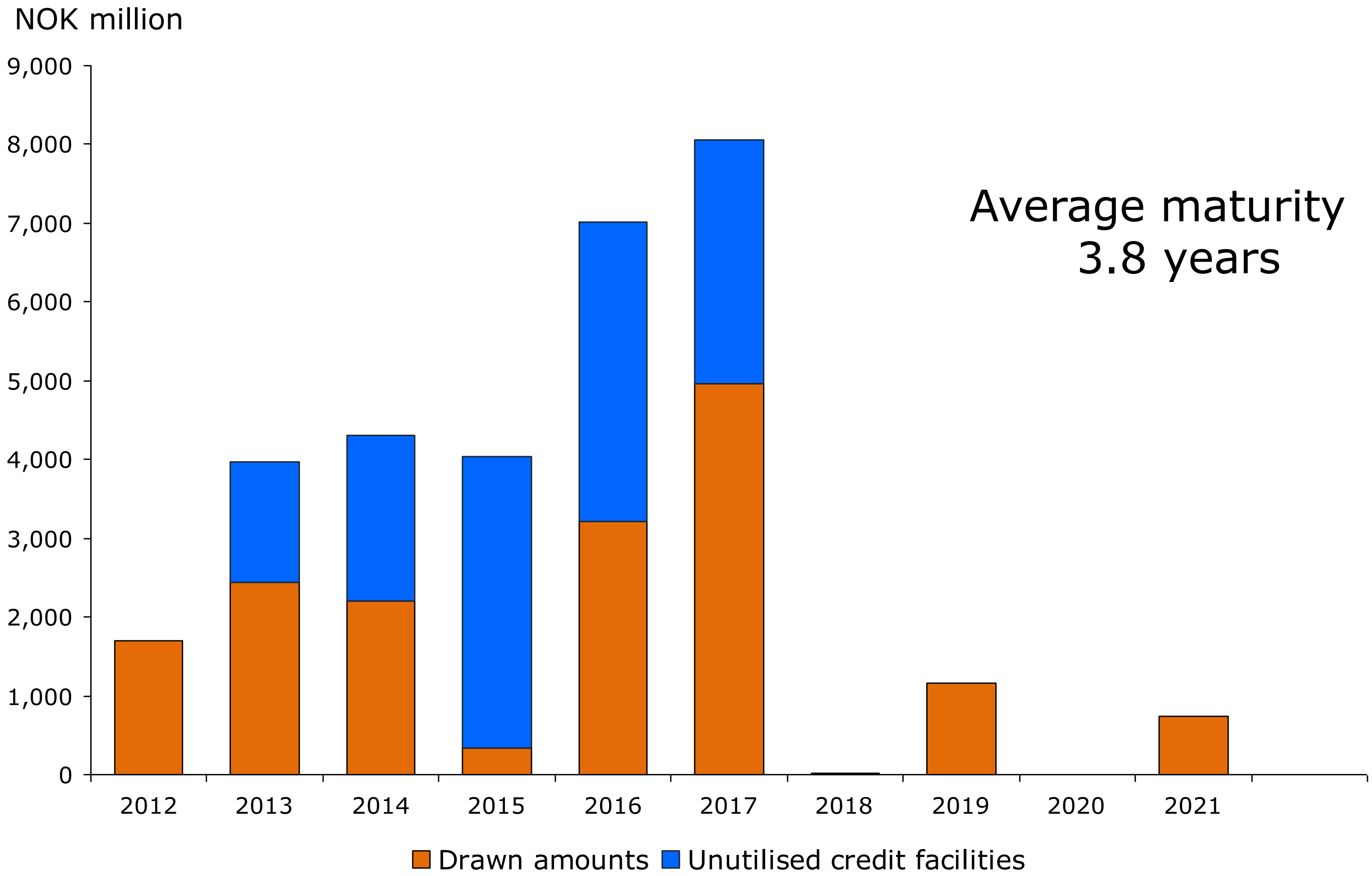

# FINANCIAL ITEMS

# Net financial items

Amounts in NOK million

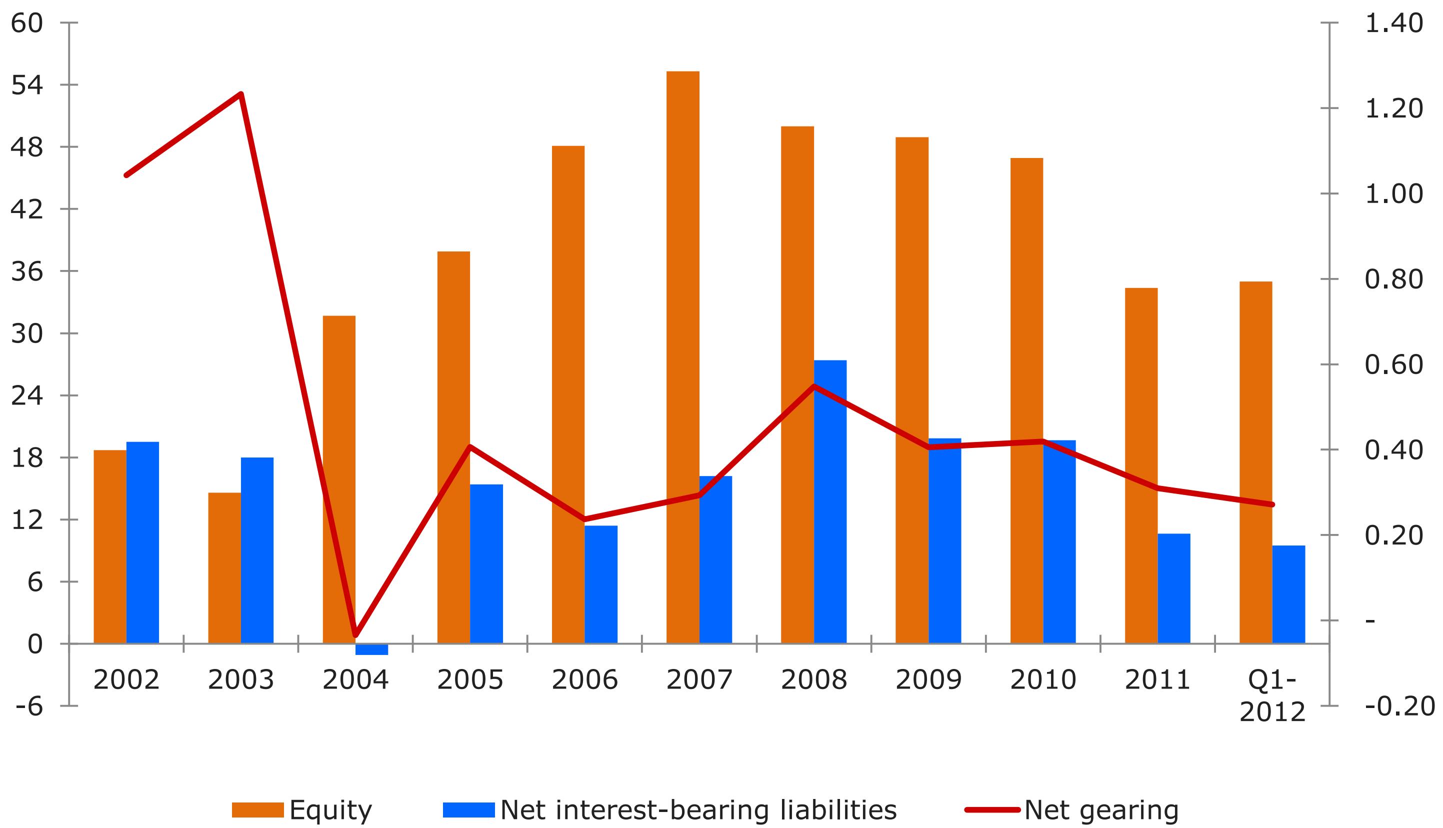
| | Q1-12 | Q1-11 | Full year 2011 |
|---|---|---|---|
| Net interest expenses | -125 | -87 | -378 |
| Currency gain/loss | 5 | 0 | -34 |
| Other financial items, net | 1 | - 31 | - 34 |
| **Net financial items** | **-119** | **-118** | **-446** |

# Debt maturity profile, Orkla Group




Gross Interest-bearing liabilities and Unutilised credit facilities, ref. Note 29 in the Annual Report

# Net gearing 0.27 as of Q1-12





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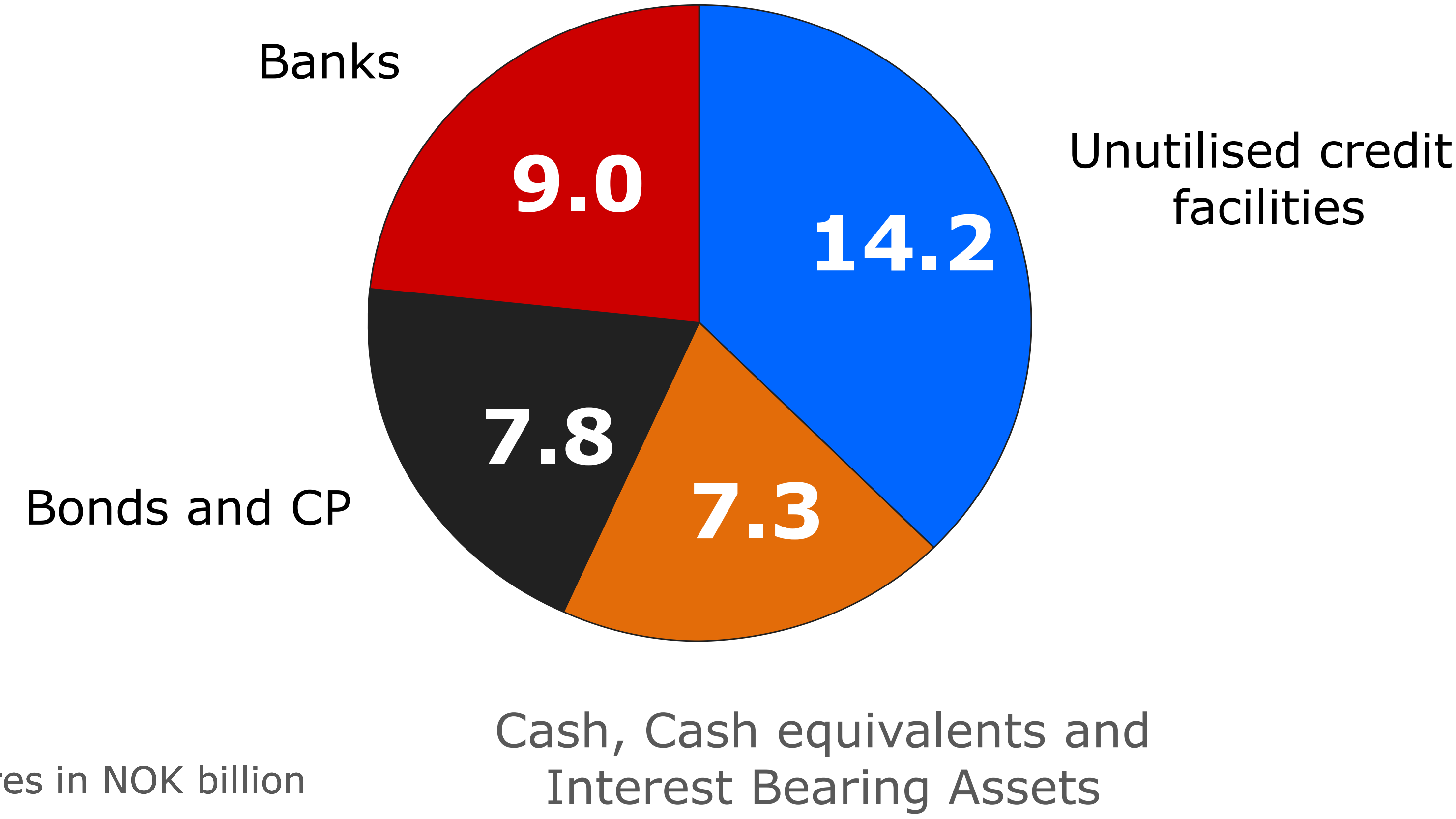
# Funding sources




Figures in NOK billion

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