

## Half Year Report 1999

- Prices stabilised during the second quarter.
- Sharp drop in prices towards the end of last year and at the beginning of this year resulted, however, in profit after financial items during the first half of the year declining by SEK 919 million to SEK 347 (1,266) million.
- Operating profit during the second quarter improved by SEK 140 million compared with the first quarter as a result of improved margins and higher volumes.
- Cash flow improved to SEK 454 (206) million.

### Consolidated Profit and Loss Account (unaudited)

SEK millions	1998 Jan-June	1999 Jan-June	1998 Full year	July 98- June 99
Sales	9,743	<b>8,696</b>	17,835	<b>16,788</b>
Cost of goods sold	<u>-7,743</u>	<u><b>-7,440</b></u>	<u>-14,798</u>	<u><b>-14,495</b></u>
Gross profit	2,000	<b>1,256</b>	3,037	<b>2,293</b>
Sales and administrative expenses	-867	<b>-856</b>	-1,727	<b>-1,716</b>
Other net operating revenues and expenses	4	<b>-25</b>	-3	<b>-32</b>
Affiliated companies	<u>40</u>	<u><b>3</b></u>	<u>48</u>	<u><b>11</b></u>
Operating profit	1,177	<b>378</b>	1,355	<b>556</b>
Financial items	<u>89</u>	<u><b>-31</b></u>	<u>69</u>	<u><b>-51</b></u>
Profit after financial items	1,266	<b>347</b>	1,424	<b>505</b>
Tax	-350	<b>-106</b>	-427	<b>-183</b>
Minority shares	<u>-16</u>	<u><b>-6</b></u>	<u>-15</u>	<u><b>-5</b></u>
Profit after tax	900	<b>235</b>	982	<b>317</b>
Return on capital employed before tax (%)	-	-	11	<b>5</b>
Return on equity after tax (%)	-	-	8	<b>3</b>
Earnings per share (SEK)	7.10	<b>2.10</b>	8.20	<b>2.80</b>
Equity per share (SEK)	87.80	<b>86.10</b>	88.70	<b>86.10</b>
Equity ratio (%)	60	<b>58</b>	58	<b>58</b>
Number of shares at end of period (millions)	112.11	<b>112.11</b>	112.11	<b>112.11</b>

### The Market

Steel consumption in western Europe reached a peak at the end of the first half of last year and since then has declined. In combination with a substantial decrease in net exports from western Europe, this resulted in prices coming under considerable pressure during the second half of last year.

In order to deal with this development, the steel producers in western Europe reduced their production during the autumn of 1998 and the beginning of this year. Accordingly, the balance on the market gradually improved during the first half of the year and production once again increased during the second quarter. Crude steel production within the EU was, however, still 8% lower than during the first half of last year.

The improved balance on the market has also allowed limited price increases for hot rolled sheet, while prices for metal-coated sheet continued to be under pressure. Accordingly, in local currencies the Group's steel prices during the second quarter were largely unchanged compared with the

preceding quarter. A somewhat improved product mix has, however, resulted in prices during the quarter increasing by 1% in Swedish kronor. Prices during the first half of the year were, however, on average 16% lower than during the first half of last year.

### **Production and Deliveries**

Reduced orders for slabs and sheet meant that both crude steel and sheet production in the steel operations were reduced during the final quarter of last year. Improved orders at the end of last year, however, allowed for an increase in sheet production once again to a normal level at the end of the year. Crude steel production increased gradually during the first quarter to a normal level.

Sheet production during the second quarter amounted to 733 thousand tonnes, which entailed a somewhat higher rate of production per working day than during the preceding quarter. Production during the first half of the year was thus 12% higher than during the first half of last year.

Crude steel production amounted to 916 thousand tonnes, which was 4% higher than during the first quarter. Production during the first half of the year was, however, 5% lower than last year.

Deliveries from the steel operations were 3% higher than during the preceding quarter. During the first half of the year, deliveries were thus 9% higher than during the preceding year. Volumes in the trading operations which are dependent on the Swedish market, as well as the steel operations' deliveries to Swedish customers, increased during the second quarter but were nevertheless 9% lower than during the first half of last year.

### **Sales and Profit**

Sales declined by 11% to SEK 8,696 (9,743) million. The entire reduction is due to lower prices in both the steel operations and the trading and processing operations.

Prices for iron ore and coal are quoted in dollars. In the agreements which were signed for 1999, there was a reduction in prices of just under 15% for iron ore and approximately 13% for coal. In Swedish kronor, these agreements have resulted in cost reductions of just under 14% and 9% respectively. However, the new coal agreement will not have a full impact on profit before the end of the second quarter.

During the latter part of last year, measures were implemented in order to reduce processing costs. During the second quarter, processing costs from a seasonal perspective were somewhat higher than during the first quarter, but in total costs were 1% lower during the first half of the year than during the previous year.

The operating profit during the second quarter was SEK 140 million higher than during the first quarter as a result of improved margins and increased volumes. Compared with the first half of 1998, however, the operating profit declined by just under SEK 800 million and amounted to SEK 378 (1,177) million. As is evident from the table on next page, the decline in profit is primarily due to weakened margins in the steel operations.

Change in operating profit between the first half of 1999 and the first half of 1998 (SEK millions)	
Steel operations	
- Weakened margins	-750
- Increased volumes	+50
Trading and processing operations	
- Lower volumes	-30
Reduced processing costs	+40
Increased depreciation	-100
Other	-9
Decline in operating profit	-799

Following last year's redemption of shares in the amount of SEK 3,305 million, considerably lower liquid assets resulted in the financial income during the first half of the year declining by SEK 120 million to SEK -31 (89) million. Profit after financial income and expenses declined by SEK 919 million and amounted to SEK 347 (1,266) million.

### Capital Expenditures

During the first half of the year, decisions were taken to carry out new capital expenditures totalling SEK 258 (1,473) million.

Within the steel operations, the two major projects, Development Plan Domex 2000 and General Plan OX 2000, which together comprise investments of approximately SEK 3 billion, are largely completed. Through these two projects, the conditions are being created for continued expansion within the niche products of high strength sheet and quenched steel.

SSAB HardTech's investment in a new production facility in the United States is also largely completed. Production commenced at the end of last year in both of the facilities' production lines.

During 1998, a decision was taken to build a new blast furnace in Luleå for SEK 850 million. The blast furnace is being constructed on the foundation of the larger of the two existing furnaces. In this manner, large parts of the existing infrastructure can be utilised, thereby reducing capital expenditures.

A new raw material handling facility for the new furnace which accounts for just over SEK 200 million of the investment was completed during the second quarter and was brought into operation after the summer holidays. The blast furnace itself will be constructed during the summer holidays of next year, after which production will start in the new blast furnace.

Capital expenditures during the first half of the year amounted to SEK 506 (861) million, of which just under SEK 200 million were related to the four projects mentioned above. In total, remaining expenditures on these projects during this and next year will be just over SEK 850 million.

## Financing and Liquidity

Since the beginning of the year, accounts receivable have increased seasonally while inventories have decreased. In total, therefore, working capital has declined by SEK 176 million. In combination with lower investments, this has resulted in an improvement in cash flow to SEK 454 (206) million, notwithstanding the decline in profit.

Net debts at the end of the half-year period amounted to just over SEK 1,650 million. Liquid assets amounted at the end of the half year period to SEK 924 (1,991) million, of which SEK 286 (1,466) million were held by the parent company.

For long-term financing, there is a Medium Term Note programme totalling SEK 1,500 million. Short-term borrowing takes place primarily through a Swedish commercial paper programme in the amount of SEK 1,500 million. At the end of the first half of the year, borrowing in both of these two programmes amounted to approximately SEK 2,050 million.

## Prospects for the rest of the Year

As during the second quarter, the price structure will be fragmented. The increased balance on the market has also resulted, for the third quarter, in continued price increases on a limited scale for hot-rolled sheet on most markets in western Europe. Prices for metal-coated sheet will, however, continue to come under pressure.

No general improvement in demand for steel has yet been noted, but the higher rate of delivery and production which was achieved during the second quarter can be expected to be maintained also during the second half of the year.

As is evident from the sensitivity analysis set forth below, steel price trends are the decisive factor for profit for the rest of the year.

## Sensitivity Analysis

	Change during second half of the year, %	Effect on profit, SEK millions	Effect on earnings per share, SEK
Prices - steel operations	5	225	1.50
Volume - steel operations	5	100	0.65
Volume - trading operations	5	25	0.15
Margin - trading operations	2% points	60	0.40
SEK index	5	150	1.00

The sensitivity analysis provides a description of how the changes in the stated factors compared with the first half of the year affect profit before tax and earnings per share.

Stockholm, 17 August 1999

Torsten Sandin

17 August 1999

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The report for the first three quarters will be published on 27 October.

**Cash Flow** (unaudited)

SEK millions	1998 Jan-June	1999 Jan-June	1998 Full year	July 98- June 99
Cash flow from operations	1,462	<b>784</b>	2,020	<b>1,342</b>
Change in working capital	-395	<b>176</b>	-614	<b>-43</b>
Investing activities	<u>-861</u>	<u><b>-506</b></u>	<u>-2,021</u>	<u><b>-1,666</b></u>
Cash flow	206	<b>454</b>	-615	<b>-367</b>
Financing activities	<u>-2,107</u>	<u><b>-595</b></u>	<u>-2,212</u>	<u><b>-700</b></u>
Change in liquid assets	-1,901	<b>-141</b>	-2,827	<b>-1,067</b>

**Consolidated Balance Sheet** (unaudited)

SEK millions	30 June 1998	31 Dec. 1998	30 June 1999
<b><i>Assets</i></b>			
Fixed assets	8,319	9,018	<b>8,997</b>
Inventories	3,367	3,905	<b>3,329</b>
Accounts receivable	2,973	2,531	<b>2,864</b>
Other assets	555	607	<b>566</b>
Liquid assets	<u>1,991</u>	<u>1,065</u>	<u><b>924</b></u>
Total assets	17,205	17,126	<b>16,680</b>
<b><i>Equity and liabilities</i></b>			
Equity	10,242	9,941	<b>9,648</b>
Minority shares	157	159	<b>149</b>
Deferred tax and other provisions	1,764	1,851	<b>1,848</b>
Long-term liabilities	1,197	1,289	<b>1,480</b>
Current liabilities	<u>3,845</u>	<u>3,886</u>	<u><b>3,555</b></u>
Total equity and liabilities	17,205	17,126	<b>16,680</b>

**Subsidiaries' Sales, Profit/Loss and Return on Capital Employed (unaudited)**

SEK millions	Sales		Operating profit/loss		Profit/loss after financial items		Return on capital employed (%)	
	1998 Jan- June	<b>1999</b> <b>Jan- June</b>	1998 Jan- June	<b>1999</b> <b>Jan- June</b>	1998 Jan- June	<b>1999</b> <b>Jan- June</b>	1998 Full year	<b>July 98- June 99</b>
<i>Subsidiaries:</i>								
SSAB Tunnplåt	4,846	<b>4,249</b>	711	<b>7</b>	685	<b>-25</b>	15	<b>2</b>
SSAB Oxelösund	2,363	<b>2,210</b>	244	<b>259</b>	197	<b>216</b>	8	<b>8</b>
Plannja	489	<b>455</b>	30	<b>28</b>	28	<b>25</b>	19	<b>18</b>
SSAB HardTech	183	<b>244</b>	55	<b>39</b>	49	<b>27</b>	17	<b>12</b>
Dickson PSC	59	<b>57</b>	9	<b>6</b>	10	<b>7</b>	21	<b>20</b>
Tibnor	3,450	<b>3,063</b>	155	<b>65</b>	150	<b>56</b>	12	<b>6</b>
Other subsidiaries	281	<b>239</b>	-1	<b>-1</b>	27	<b>28</b>	-	<b>-</b>
<i>Parent company units:</i>								
SSAB Finance	0	<b>0</b>	-6	<b>-8</b>	63	<b>9</b>	-	<b>-</b>
Other parent company units*	0	<b>0</b>	-36	<b>-20</b>	41	<b>1</b>	-	<b>-</b>
Affiliated companies	-	<b>-</b>	26	<b>7</b>	26	<b>7</b>	-	<b>-</b>
Group adjustments	<u>-1,928</u>	<u><b>-1,821</b></u>	<u>-10</u>	<u><b>-4</b></u>	<u>-10</u>	<u><b>-4</b></u>	<u>-</u>	<u><b>-</b></u>
Total	9,743	<b>8,696</b>	1,177	<b>378</b>	1,266	<b>347</b>	11	<b>5</b>

\*Excluding dividends from subsidiaries and affiliated companies. The profit in other parent company units is primarily comprised of administrative costs and a positive figure for financial items.

**Profit per quarter**

SEK millions	1/97	2/97	3/97	4/97	1/98	2/98	3/98	4/98	1/99	2/99
Sales	4,325	4,640	3,788	4,721	4,929	4,814	3,785	4,307	4,256	4,440
Operating expenses	-3,710	-3,892	-3,464	-3,940	-4,114	-4,070	-3,630	-3,834	-3,876	-3,923
Depreciation	-194	-194	-203	-198	-208	-214	-216	-242	-260	-262
Affiliated companies	16	28	19	21	18	22	9	-1	-1	4
Financial items	<u>33</u>	<u>26</u>	<u>34</u>	<u>50</u>	<u>52</u>	<u>37</u>	<u>-15</u>	<u>-5</u>	<u>-11</u>	<u>-20</u>
Profit after financial items	470	608	174	654	677	589	-67	225	108	239

