

# INTERIM REPORT JANUARY – JUNE 2000



SEK M	Second quarter		First six months	
	2000	1999	2000	1999
Order bookings	<b>3 199</b>	3 547	<b>6 952</b>	6 741
Sales	<b>3 873</b>	3 785	<b>6 965</b>	6 690
Operating profit	<b>276</b>	256	<b>317</b>	352
Profit after net financial items	<b>188</b>	192	<b>163</b>	329
Profit after tax	<b>121</b>	148	<b>78</b>	249

After a strong first quarter, order bookings weakened during the second quarter. Adjusted for currency fluctuations and acquisitions, order bookings for the first half of the year improved marginally compared with a year earlier. Order bookings for service and parts rose 8% during the first six months, while large project sales, mainly to the mining industry, were at a low level.

However, within the global mining industry, the activity level is rising. In general, raw material prices are higher than a year earlier which, combined with increased demand and production, is expected to result in successively increased order bookings. In South America, which today is the region representing the largest portion of the world's ongoing mining investments, order bookings during the first six months showed a favorable trend.

Growth and the activity level for Svedala's products within the European construction industry continued at a relatively high level, while a weakening in some segments of the product range was noted in the US. After a weak 1999, stronger market growth is expected in South America and Asia.

Overall, order bookings are expected to improve in the second half of the year compared with last year.

Invoiced sales increased 4% during the first half of the year, a slight improvement after taking into account acquisitions and currency fluctuations. Operating profit declined compared with the corresponding period in 1999 as a result of too high cost levels.

Malmö, August 10, 2000  
Alf Göransson  
President and CEO

## **METSO CORPORATION MAKES OFFER FOR SVEDALA**

### **The offer**

On June 21, 2000, the Finnish group Metso Corporation made a public offer to the shareholders and holders of convertibles issued by Svedala Industri AB. The offer is a cash bid in which all shareholders and convertible holders are being offered a cash payment of SEK 185 each to tender their shares and SEK 245 plus accrued interest through the transfer date of the offer for each convertible.

The offer represents a premium of about 54% in excess of the last paid price on June 20, 2000. Based on a weighted average of the price during the most recent 12 months prior to the announcement, the offer corresponds to a premium of approximately 29%.

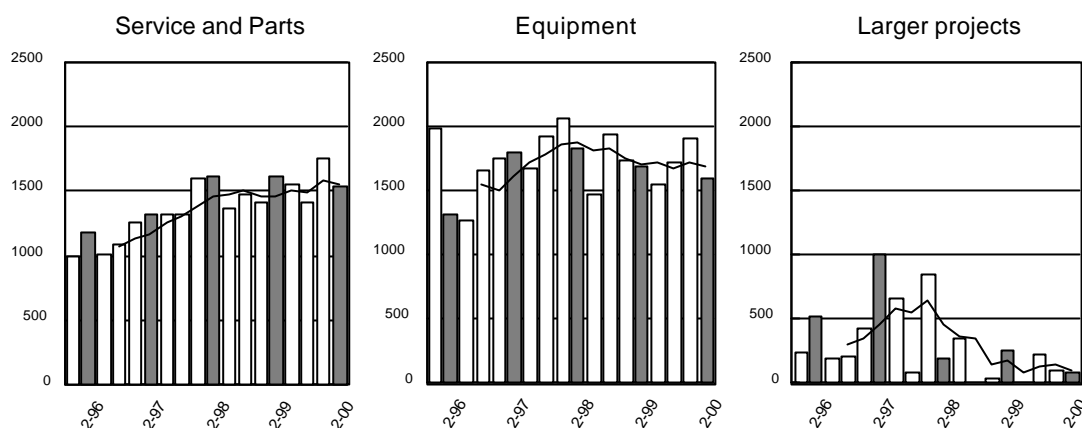
The offer, with an acceptance period of July 17 through September 21, is valid under the condition that it is accepted to such an extent that Metso becomes the owner of more than 90% of the share capital in Svedala. However, Metso reserves the right to implement the offer also at a lower level of acceptance. Moreover, receipt of the necessary approvals and permits from the appropriate competition authorities, under terms reasonably acceptable to Metso, are required. The matter is currently being processed by the authorities concerned.

The offer is presented in its entirety in an offer document that was distributed to the shareholders in July.

### **Recommendation of Svedala AB's Board of Directors**

The Board of Directors elected by the Annual General Meeting has unanimously concluded that the offer is reasonable, whereby the shareholders are recommended to accept the offer. This statement is based on careful consideration supported by a fairness opinion from Lehman Brothers and Enskilda Securities.

## ORDER BOOKINGS



The bars in the diagram show the distribution of the quarterly order bookings among Service and Parts, Equipment and Larger projects. The lines show the average order bookings per quarter rolling full year.

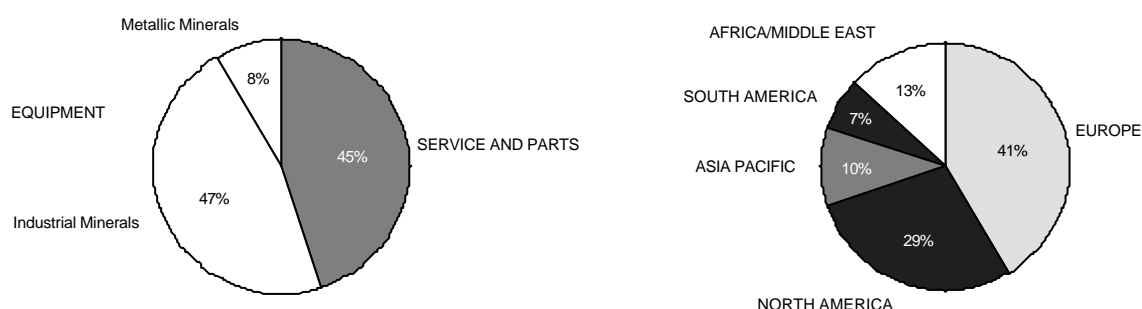
Svedala's order bookings during the second quarter of 2000 amounted to SEK 3,199 M, compared with SEK 3,547 M in the corresponding period last year. The decline in the quarter is due mostly to delays in placement of orders for major projects in the mining industry as well as to a certain saturation regarding machinery for the construction industry in the US.

In total, order bookings for the first six months of 2000 amounted to SEK 6,952 M (6,741). Acquired companies and currency movements accounted for about 2% of the improvement. Sales of service and parts rose 8%, while equipment and projects declined somewhat compared with a year earlier.

Two significant orders were received during the first half of the year for bulk handling equipment in the US, with the total order value amounting to about SEK 175 M. The orders are for new installations and upgrading of existing facilities for handling of coal and other bulk materials at coal-fired power plants.

The first half of the year also involved a breakthrough for Svedala's new crushers for the mining industry. Orders for about SEK 100 M were received from copper mines in Chile, which is the world's largest producer of copper, and in China.

## INVOICED SALES



The diagram shows the distribution of sales July 1999 to June 2000 between Service and Parts, and Equipment used in processing of metallic minerals and industrial minerals

Sales per region July 1999 to June 2000

Invoiced sales rose by SEK 88 M to SEK 3,873 M during *the second quarter* of 2000 compared with second quarter sales in 1999 (3,785). Sales of service and parts rose by SEK 165 M to SEK 1,707 M (1,542) during the second quarter of 2000, while equipment and projects declined by SEK 77 M to SEK 2,166 M (2,243). Exchange rate fluctuations and acquisitions did not have any notable effect on sales during the second quarter.

Total sales invoiced by the Svedala Group during *the first half of 2000* amounted to SEK 6,965 M, compared with SEK 6,690 M during the corresponding period last year. Accordingly, the total improvement amounts to 4%, most of which is attributable to currency movements and acquisitions. Sales of service and parts amounted to SEK 3,159 M (2,890), a 9% improvement, while equipment and projects was unchanged during the period.

## PROFIT

### Second quarter

*Operating profit* amounted to SEK 276 M (256) in the second quarter of 2000. Repayment of the pension funds from SPP affected operating profit favorably by SEK 86 M, while restructuring costs had a negative impact amounting to SEK 26 M during the period. The operating profit from sales of service and parts was SEK 197 M (188), corresponding to an operating margin of 12% (12), while equipment accounted for SEK 103 M (94), with an operating margin of 5% (4).

*Profit after net financial items* including nonrecurring items amounted to SEK 188 M (192) in the second quarter of 2000.

SEK M	2000 Q 2	1999 Q 2	2000 6 mos.	1999 6 mos.
Operating profit	276	256	317	352
Adjustment for restructuring costs	26		96	
Adjustment for pension funds from SPP	-86		-86	
<b>Adjusted operating profit</b>	<b>216</b>	<b>256</b>	<b>327</b>	<b>352</b>
Profit after net financial items	188	192	163	329
Adjustment for currency gain				-104
Adjustment for restructuring costs	26		96	
Adjustment for pension funds from SPP	-86		-86	
<b>Adjusted profit after net financial items</b>	<b>128</b>	<b>192</b>	<b>173</b>	<b>225</b>

### First half

*Operating profit* for the first half of 2000 amounted to SEK 317 M (352). Operating profit attributable to service and parts amounted to SEK 344 M (333), corresponding to an operating margin of 11% (12). Operating profit from equipment sales amounted to SEK 93 M (74), with an operating margin of 2% (2). A stronger dollar affected part of the payment flow positively, while previously contracted futures hedging of the USD at lower rates than now prevailing eliminated this effect so that operating profit was not affected by exchange rate differences during the period (see table).

### CURRENCY EFFECTS ON OPERATING PROFIT

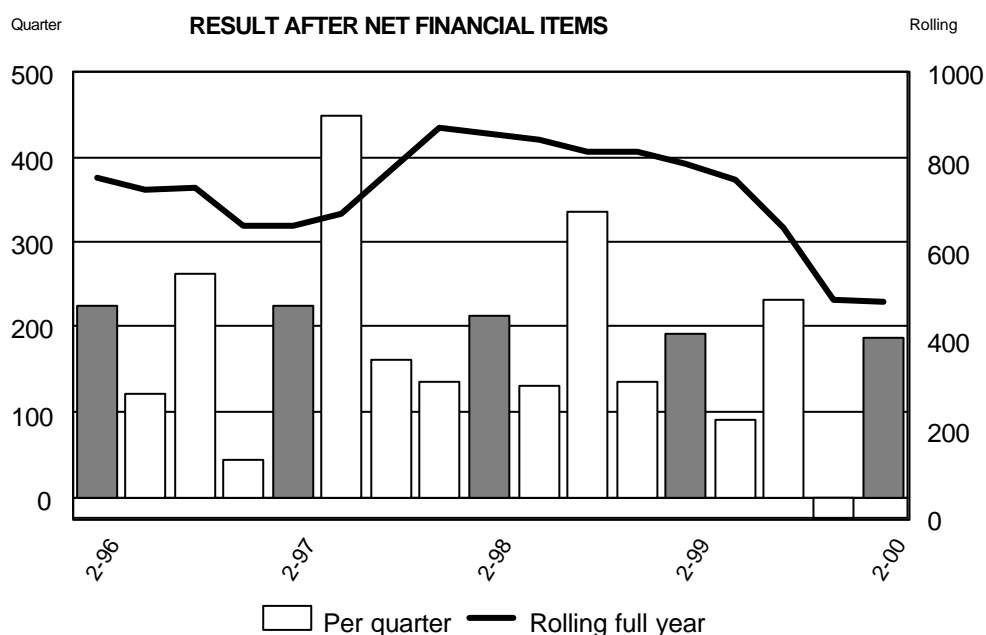
	Jan-Jun	Jan-Jun	
SEK M	2000	1999	Change
Translation of flow	31		31
Translation of earnings	-2		-2
Forward contract	-34	-5	-29
Total	-5	-5	0

The rationalization program introduced during 1999 is proceeding as planned. Costs for the program amount to SEK 96 M for the first half of the year. In total, the costs are estimated to amount to SEK 145 M during 2000. The number of employees has been reduced by about 300 during the first half of the year as a result of the program. About 1,000 persons have left the company since the start of the program. The impact of cost-savings realized on operating profit was offset by normal cost increases, somewhat lower gross margin, market investments and costs in conjunction with the offer from Metso.

The decided repayment from SPP, in which SEK 86 M was recognized as income during the first half of the year, had a positive effect on operating profit. With application of SPP's rules, Svedala will receive payment of the entire amount already this year.

*Profit after net financial items* during the first half amounted to SEK 163 M (329). The financial net in 1999 included a positive exchange rate difference of a nonrecurring nature amounting to SEK 104 M. Net interest fell SEK 24 M as a result of increased borrowing and higher interest rates compared with the corresponding period in the preceding year.

*Profit after tax* during the first half of 2000 amounted to SEK 78 M, corresponding to SEK 1.60 per share, compared with SEK 249 M and SEK 5.20, respectively, in the year-earlier period. Earnings per share over the most recent 12-month period amounted to SEK 8.30.



## **ACQUISITIONS**

All shares in the formerly partly owned company Mukand-McNally Wellman Ltd in India were acquired during the first quarter. The company is active in the area of bulk handling and has annual sales of slightly more than SEK 30 M, with about 40 employees.

During the second quarter, Strachan & Henshaw's bulk and material handling division was acquired in Great Britain. The acquired operations have 45 employees and annual sales corresponding to about SEK 180 M.

## **INVESTMENTS AND DEPRECIATION**

Group investments in property, plant and equipment, not including the existing assets of acquired companies, totaled SEK 224 M (266) during the first half of 2000. Depreciation amounted to SEK 216 M (195) during the same period.

## **CASH FLOW AND FINANCING**

Cash flow before investments was negative in the amount of SEK 194 M (174) during the first six months of 2000.

Net borrowing as of June 30, 2000 totaled SEK 5,108 M, an increase of SEK 756 M since the beginning of the year. The increase is due mainly to an increase in working capital referring to larger projects. The capital rationalization program has been expanded to also include accounts receivable. The goal to reduce the average inventory level by at least SEK 500 M from the beginning of 1999 has not been achieved. During the first half of the year the inventory level was about SEK 200 M lower than in the corresponding period a year earlier. The previously announced long-term goal of reduced tied-up capital by SEK 1,000 M from the level prevailing after the first quarter of 1999 remains unchanged.

## **PERSONNEL**

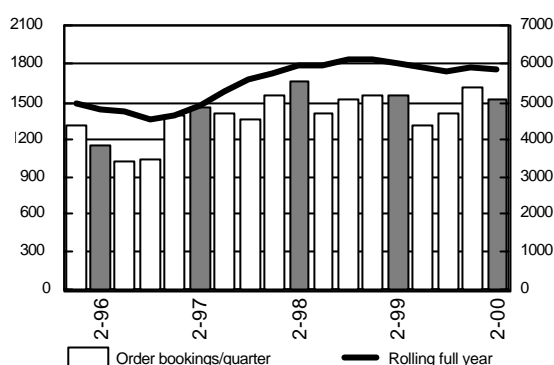
The number of employees in the Group was slightly more than 10,600 at June 30, 2000. The labor force has been reduced by about 300 since year-end 1999, not including acquisitions.

## **PARENT COMPANY**

The Parent Company's operating revenue during the first half of 2000 amounted to SEK 41 M (72). Earnings after net financial items amounted to a loss of SEK 180 M (loss: 9).

## ORDER BOOKINGS AND PROFIT PER REGION

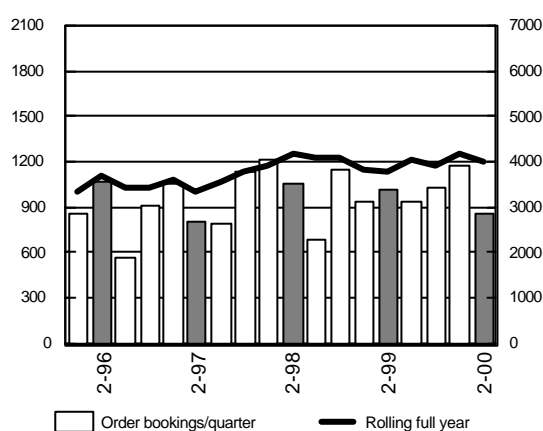
### Europe



SEK M	2000 Q 2	1999 Q 2	2000 6 mos.	1999 6 mos.	1999 12 mos.	July-99- June-00
Order bookings	1 512	1 554	3 121	3 111	5 837	5 847
Invoicing	1 516	1 728	2 736	2 948	6 098	5 886
Operating profit	69	136	103	200	451	354
ROA %			7	12	14	11

Activity in the construction industry in Europe is expected to remain at a high level during the year. The construction industry in Southern Europe continues to show a high rate of growth, while the important German market remains at a low level.

### North America

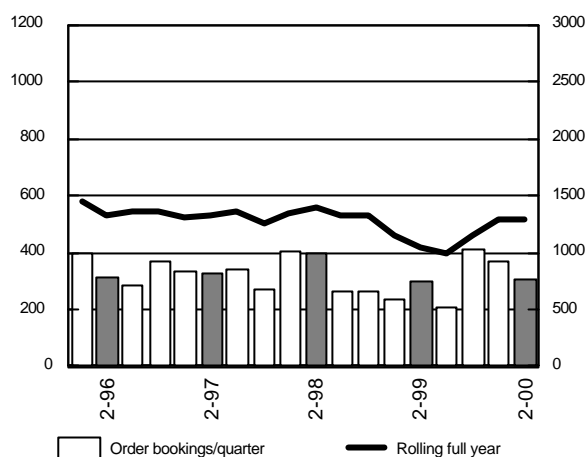


SEK M	2000 Q 2	1999 Q 2	2000 6 mos.	1999 6 mos.	1999 12 mos.	July-99- June-00
Order bookings	853	1 020	2 028	1 968	3 957	4 017
Invoicing	1 205	1 171	2 146	2 194	4 114	4 066
Operating profit	88	94	114	143	216	187
ROA %			8	11	8	7

Continued high activity prevails in the US in the construction and civil engineering sectors, although the rate of growth has peaked during the past 12 months. There are clear tendencies toward increased caution with regard to investment in machinery. The prevailing interest rate situation in the US is a contributing factor.

Investments remain at a low level in North America in the mining industry. However, increased metals prices are leading to higher activity in existing mines and a greater need for service and parts and subsequently also new equipment.

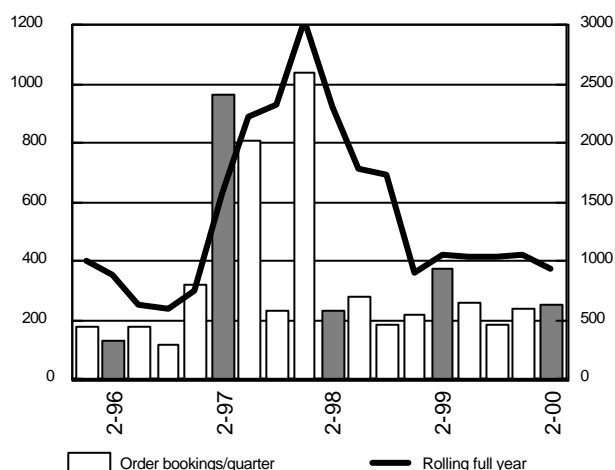
## South America



SEK M	2000 Q 2	1999 Q 2	2000 6 mos.	1999 6 mos.	1999 12 mos.	July-99- June-00
Order bookings	302	298	670	528	1 149	1 291
Invoicing	349	242	553	424	839	968
Operating profit	53	10	65	19	23	69
ROA %			>20	6	4	12

After the weak economic situation in South America in 1999, development in the region during the first half of 2000 was positive. Combined with the measures taken, the general trend resulted in substantially improved order bookings and invoiced sales, particularly in Brazil and Chile. Higher metals prices also results in increased activity in the region's important mining industry.

## Africa and Middle East

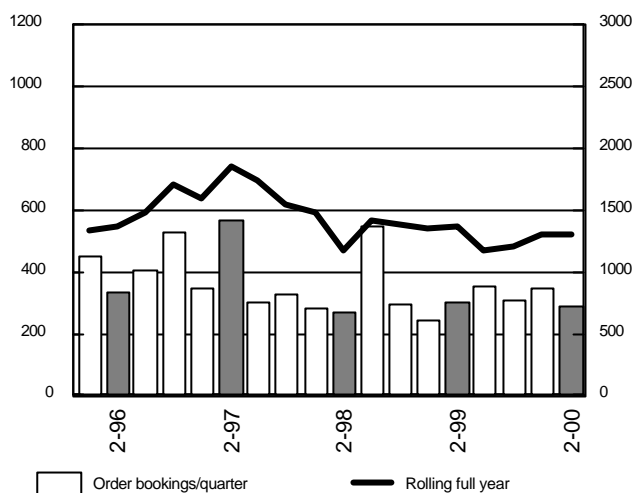


SEK M	2000 Q 2	1999 Q 2	2000 6 mos.	1999 6 mos.	1999 12 mos.	July-99- June-00
Order bookings	251	373	492	588	1 039	943
Invoicing	379	278	738	475	1 613	1 876
Operating profit	59	22	106	15	197	288
ROA %			17	5	>20	>20

Activity in the region remains low. Investments in infrastructure are rising in South Africa from a low level, which will have a positive effect on southern Africa.



## Asia Pacific



SEK M	2000 Q 2	1999 Q 2	2000 6 mos.	1999 6 mos.	1999 12 mos.	July-99- June-00
Order bookings	289	296	637	538	1 204	1 303
Invoicing	415	351	780	640	1 322	1 462
Operating profit	31	20	49	30	44	63
ROA %			9	6	4	6

As a whole, the region showed weak growth. There are favorable prospects for increased volumes as a result of China's focus on expanding its infrastructure, combined with Svedala's investments in the country.

### INVOICED SALES PER PRODUCT GROUP

SEK M	2000 6 mos.	1999 6 mos.	1999 12 mos.	July-99- June-00
Rock Handling	2610	2544	5280	5346
Process	1734	1474	3585	3845
Compaction	1664	1710	2971	2925
Bulk	794	734	1601	1661
Other	163	228	559	494
Total	6965	6690	13996	14271

## KEY RATIOS

	2000 6 mos.	1999 6 mos.	1999 12 mos.	July-99-- June-00
Return on assets employed (ROA) ,%	7	8	9	9
Profit after tax, SEK/share	1.60	5.20	11.90	8.30
Return on shareholders' equity after tax, %	4	12	14	10
Shareholders' equity, SEK/share	84	83	89	84
Equity ratio, %	29	31	34	29
Debt/equity ratio, multiple	1.3	1.2	1.0	1.3

## PROFIT AND LOSS ACCOUNT

SEK M	2000 6 mos.	1999 6 mos.	1999 12 mos.	July-99-- June-00
Net sales	6 965	6 690	13 996	14 271
Cost of goods sold	-5 107	-4 873	-10 221	-10 455
<b>Gross profit</b>	<b>1 858</b>	<b>1 817</b>	<b>3 775</b>	<b>3 816</b>
Sales, administration and R&D expenses	-1 528	-1 473	-2 911	-2 966
Restructuring costs	-96	0	-45	-141
Other income and expenses	84	7	-11	66
Interest in earnings of associated companies	-1	1	-2	-4
<b>Operating profit</b>	<b>317</b>	<b>352</b>	<b>806</b>	<b>771</b>
Interest, net	-150	-126	-256	-280
Other financial items	-4	103	101	-6
<b>Profit after net financial items</b>	<b>163</b>	<b>329</b>	<b>651</b>	<b>485</b>
Taxes	-85	-81	-79	-88
Minority interests	0	1	1	0
<b>NET PROFIT</b>	<b>78</b>	<b>249</b>	<b>573</b>	<b>397</b>

*The comparative figures for 1999 have been adjusted to enable separate reporting of restructuring costs*

## BALANCE SHEET

SEK M	00-06-30	99-06-30	99-12-31
<b>Assets</b>			
Intangible fixed assets	1 408	1 328	1 394
Tangible fixed assets	2 165	2 130	2 158
Long-term interest-bearing receivables	383	366	375
Other financial fixed assets	512	473	409
Stock	4 191	4 304	3 825
Current receivables	4 814	3 782	4 269
Liquid funds	603	358	297
<b>Total assets</b>	<b>14 076</b>	<b>12 741</b>	<b>12 727</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity	4 049	3 959	4 269
Minority interests	0	0	1
Interest-bearing liabilities	6 094	5 550	5 024
Non-interest-bearing liabilities	3 933	3 232	3 433
<b>Total shareholders' equity and liabilities</b>	<b>14 076</b>	<b>12 741</b>	<b>12 727</b>

## CASH FLOW ANALYSIS

SEK M	2000 6 mos.	1999 6 mos.	1999 12 mos.	July-99-- June-00
<b><u>Operating activities</u></b>				
Operating profit	317	352	806	771
Plus: Depreciation	216	195	418	439
Less: Interest in earnings of associated companies	0	-1	2	3
Financial items	-154	-22	-155	-287
Taxes paid	-85	-81	-70	-74
<b>Cash flow from operating activities before changes in working capital</b>	<b>294</b>	<b>443</b>	<b>1001</b>	<b>852</b>
Change in working capital:				
Stock	-353	-291	200	138
Non-interest-bearing receivables	-612	31	-475	-1118
Non-interest-bearing liabilities	477	-9	84	570
<b>Cash flow from operating activities</b>	<b>-194</b>	<b>174</b>	<b>810</b>	<b>442</b>
<b><u>Investing activities</u></b>				
Companies acquired	-62	-144	-203	-121
Gross investments in property, plant and equipment	-224	-266	-430	-388
Divested assets	45	70	100	75
<b>Cash flow from investing activities</b>	<b>-241</b>	<b>-340</b>	<b>-533</b>	<b>-434</b>
<b><u>Financing activities</u></b>				
Dividend paid	-288	-264	-264	-288
Net decrease(+) / increase(-) in long-term interest-bearing receivables	-7	4	-4	-15
Net increase(+) / decrease(-) in interest-bearing liabilities	1035	400	-93	542
<b>Cash flow from financing activities</b>	<b>740</b>	<b>140</b>	<b>-361</b>	<b>239</b>
<b>NET CASH FLOW</b>	<b>305</b>	<b>-26</b>	<b>-84</b>	<b>247</b>

<b><u>Change in net borrowing during the period</u></b>				
Net borrowing at beginning of the period	4352	4276	4276	4826
Currency translation of net borrowing	33	120	89	2
Net cash flow	-305	26	84	-247
<i>Less cash flow with no influence on the total net borrowing:</i>				
Net decrease(+) / increase(-) in long-term interest-bearing receivables	-7	4	-4	-15
Net increase(+) / decrease(-) in interest-bearing liabilities	1035	400	-93	542
<b>Net borrowing at end of the period</b>	<b>5108</b>	<b>4826</b>	<b>4352</b>	<b>5108</b>

<b><u>Change in liquid assets during the period</u></b>				
Liquid assets at beginning of the period	297	406	406	358
Currency translation of liquid assets	1	-22	-25	-2
Net cash flow	305	-26	-84	247
<b>Liquid assets at end of the period</b>	<b>603</b>	<b>358</b>	<b>297</b>	<b>603</b>

*The figures in this report are unaudited.*

*The nine-month interim report will be published on October 26, 2000*