SCANCEM

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Interim Report

Six months ended June 30, 1999

August 18, 1999

Earnings continued to increase

* **Earnings after financial items were SEK 670 M (554), an increase of 21%.**
* **Earnings after financial items totaled SEK 1,592 M in the past 12-month period (full year 1998, excluding items affecting comparability: 1,476).**
* **Market situation mainly favorable in 1999; up in Sweden, United States, Poland, Spain, Portugal and African markets, stable in Finland and the United Kingdom, down in Norway and Denmark.**
* **Lohja Rudus and Finnsementti sold to CRH (Ireland) in July. Capital gain: approximately SEK 1.7 billion.**
* **Heidelberger Zement is Scancem's new principal owner.**
* **Heidelberger Zement makes an offer to purchase the remaining shares from Scancem stockholders.**

Consolidated income statement

SEK M	6 mos. 1999	6 mos. 1998	6 mos. 1998 pro forma[1]	Past 12 mos.	Full year 1998
Net sales	**8,569**	**8,268**	**7,768**	**17,861**	**17,560**
Cost of goods sold	-6,559	-6,308	-5,982	-13,413	-13,162
Gross profit	**2,010**	**1,960**	**1,786**	**4,448**	**4,398**
Sales and administrative expenses	-1,328	-1,318	-1,216	-2,846	-2,836
Shares in earnings of associated companies	65	54	54	132	121
Other operating income, net	72	59	59	231	218
Items affecting comparability				600	600
Operating income	**819**	**755**	**683**	**2,565**	**2,501**
Result from financial investments (financial items)	-149	-201	-176	-373	-425
Profit after financial items	**670**	**554**	**507**	**2,192**	**2,076**
Tax	-225	-173	-163	-624	-572
Minority shares in earnings after tax	-11	-29	-15	-48	-66
Net profit for the period	**434**	**352**	**329**	**1,520**	**1,438**

Figures in parentheses refer to the corresponding period of 1998.
This interim report has not been examined by the Company's auditors.

[1] Excluding Gyproc Group. Net financial expense was reduced 4 percent due to the change in net liabilities after the divestment.

Market review

The construction market in *Sweden* developed favorably in the first six months of the year, although the number of new housing starts is still low. Cement, ready-mixed concrete and aggregate shipments increased primarily because of a high level of civil engineering construction and other types of facility building. In *Finland*, mainly housing construction remained strong. Market growth has been slowed by reduced government subsidies for civil engineering and construction projects in the public sector. Deliveries of cement, ready-mix and other products were also negatively impacted by the severe winter.

The market continued to decline in *Norway* in all building sectors. Cement and lightweight aggregate shipments decreased in particular, compared with the first half of 1998, while ready-mix, aggregate and premixed product volumes were maintained on the same level. In *Denmark*, sales of precast concrete assembly units were negatively affected mostly by reduced investments in agriculture and infrastructure.

In the *United Kingdom*, the market declined primarily in the housing and industrial construction sectors. Cement shipments decreased approximately 1 percent, compared with the first half of 1998. In southern Europe, the construction market is strong in Spain and Portugal, where Optiroc's production capacity for premixed products and lightweight aggregates is being fully utilized.

In Eastern Europe, growth in *Poland* was slightly lower than in 1998. New construction project starts were on a very low level in *Estonia*, while building activity remained strong in *Latvia*. Premixed product deliveries to *Russia* were considerably lower than in the first half of 1998.

The construction sector is expanding in Scancem's markets in the United States – *Florida and the U.S. Northeast* – especially in the home building segment in Florida. Cement, ready-mix and aggregate shipments were higher than in 1998. Demand for cement is strong in Scancem's markets in *Africa*, where deliveries increased slightly more than 20 percent, compared with the same period last year.

Strong trend of earnings – income increased slightly more than 20%

The positive trend of earnings in the first quarter continued during the second. *Earnings after financial items* in the first half of 1999 totaled SEK 670 M (554), an increase of SEK 116 M or approximately 21 percent. When comparing income with last year, it should be noted that earnings in 1998 included SEK 73 M in revenues from the Gyproc Group business area. If the interest effect on the change in net liabilities is taken into account, which is a consequence of the divestment, earnings were SEK 163 M, or 32 percent, higher. Increased earnings in the Scancem International and Castle Cement business areas, as well as reduced central net financial expenses, are factors behind the Group's higher earnings. Scancem's other business areas mostly reported earnings that were unchanged or slightly higher. Exchange rate changes had a positive impact on income when translating the profits of foreign companies into Swedish kronor, increasing earnings by about SEK 17 M.

Scancem's pro-forma earnings for the six-month period – excluding Finnsementti and Lohja Rudus (1998 figures are also excluding Gyproc Group) – were estimated to be SEK 607 M (446). The estimate includes 4-percent interest calculated on the change in net liabilities.

Earnings on a rolling 12-month basis (excluding items affecting comparability) showed an upward trend and totaled SEK 1,592 M; excluding Gyproc Group, which was divested at year-end 1998, the upward trend was even steeper.

Second-quarter income totaled SEK 668 M (575).

Group *net sales* increased 4 percent to SEK 8,569 M (8,268). Adjusted for structural changes, sales were 8 percent higher. The increase was due primarily to higher volumes in Sweden, the United States, Africa and growth markets such as Poland, Spain and Portugal. The effect of exchange rate changes was estimated to be about SEK 150 M.

Operating income increased SEK 64 M to SEK 819 M (755). Excluding Gyproc Group, operating income rose SEK 137 M or approximately 20 percent. Operating income includes SEK 678 M (660) in *cost depreciation*. Shares in earnings of associated companies, also included in operating income, increased to SEK 65 M (54), of which the 50-percent earnings share in Parma Betonila (Finland), a total of SEK 37 M (36), was the largest single item.

The *operating margin*, defined as operating income excluding shares in earnings of associated companies, expressed as a percentage of net sales, was 8.8 percent (8.5).

The result from financial investments (net financial items) improved and was a net financial expense of SEK 149 M (net expense of 201). Net financial expense decreased as an effect of lower average net liabilities related to the divestment of Gyproc Group, and lower average interest rates, primarily for loans in GBP.

The Group's estimated *tax expense* was SEK 225 M (expense of 173), corresponding to 34 percent (31) of earnings after financial items.

Key financial ratios

Profit per share after full tax was estimated to be SEK 8.10 (6.60). *Times interest earned* increased slightly and was 4.6 times (3.3*). Return on capital employed* was 13.4 percent in the past 12-month period (full year 1998: 14.1 percent, excluding items affecting comparability). *Return on stockholders' equity after tax* was 13.2% (full year 1998: 12.3 percent, excluding items affecting comparability).

Structural changes

Finnsementti and Lohja Rudus sold to CRH (Ireland)

In May 1999, Scancem reached an agreement with the Irish construction materials company CRH plc to sell both Finnsementti Oy Ab and Lohja Rudus Oy Ab for SEK 3,550 M. The divestment was finalized at the end of July 1999 after the necessary approvals were obtained from the authorities. The units had combined sales of approximately SEK 2.2 billion in 1998 and earnings after financial items were approximately SEK 350 M. Scancem's capital gain on the sale is estimated to be about SEK 1.7 billion.

Skanska's and Aker RGI's sale of Scancem shares

After the EU Commission approved in mid-July Heidelberger Zement's purchase of Skanska's and RGI's shareholdings in Scancem, the acquisition was finalized during the latter part of July. The Heidelberger Group now owns 73.4 percent of the shares and 90.8 percent of the voting rights in Scancem. The purchaser is offering similar terms to other stockholders and holders of convertible debentures. A prospectus is being mailed to all Scancem stockholders and convertible debenture holders during the second half of August.

Acquisition of fuel company in the United Kingdom
SEAR (Scancem Energy and Recovery Ltd), Scancem's fuel company, acquired the company Chemical Manufacture and Refining Ltd (CMR) in Sunderland. CMR specializes in recycling solvents and producing alternative fuels used in cement production. CMR, with approximately 100 employees, has been supplying Castle Cement with the alternative energy source Cemfuel since earlier.

Business areas

Cement Nordic – cement sales up in Sweden and Finland, down in Norway
The business area's earnings after financial items were largely unchanged, compared with the first six months of 1998, totaling SEK 211 M (214). Delivery volumes in domestic markets were 1.85 million metric tons (1.85). Volumes continued to decline in the Norwegian market but were offset by a corresponding increase in Sweden. However, cement and clinker exports from Sweden and Norway decreased to 0.72 million metric tons (0.78).

Cement shipments in the Swedish market were about 13 percent higher than in 1998, due to a higher level of building and civil engineering construction in the country. However, rising domestic demand for cement limited the scope for exports, which declined 22 percent. The majority of cement exports went to the United States. In Finland, building activity remained strong but is increasing at a slower pace. Cement deliveries were 2 percent higher than in the first half of 1998. The market continued to decline in Norway, where cement shipments were 14 percent lower than in the corresponding period of 1998. Deliveries decreased mainly to the offshore industry, although lower domestic demand provided scope for increasing exports, (+15%).

Scancem International – deliveries increase substantially in U.S. and African markets
Earnings after financial items increased considerably in the first half of 1999, totaling SEK 236 M, which was about 63 percent higher than in the corresponding period of 1998 (144). The sharp improvement in earnings was due to increased volumes and better price levels in the business area's main markets, and to the fact that first-half income in 1998 was charged with nonrecurring costs for losses incurred in coal trading and for disturbances to operations caused by power shortages in some African countries.

Due to the high level of construction activity in Scancem's U.S. markets – Florida and the U.S. Northeast – cement shipments as a whole were approximately 8 percent higher from the Allentown plant in Pennsylvania, and from the important terminals in New York (NorVal) and Florida, compared with the first half of 1998. Ready-mix and aggregate deliveries increased 14 and 16 percent, respectively. Earnings from companies in the U.S. rose slightly more than 60 percent, due mainly to volume increases combined with favorable prices. The stronger U.S. dollar also helped boost income.

Demand for cement was strong in Ghana, Scancem's most important market in Africa, as well as in Benin and Togo. Delivery volumes on the whole for Scancem's companies in these countries were approximately 20 percent higher than in the first half of 1998. In Togo, Scancem, together with a local clinker producer (Wacem), will build a cement grinding facility with an annual capacity for 0.3 million metric tons. The new plant is expected to be in operation during the first half of 2000. Earnings of the associated companies in Angola and Tanzania were negatively affected by the market situation and ongoing reconstruction programs at plants.

Trading volumes totaled 2.6 million metric tons, up slightly more than 20 percent, compared with 1998. Profits increased, due to increased volumes and better margins. However, earnings of

Scancem East's companies were reduced by weak domestic demand in Eastern European countries, primarily in Russia and Estonia. Efforts to develop the market before the establishment of a new cement grinding facility in Bangladesh (annual capacity 0.5 million metric tons and expected start-up in the fall of 2000) have exceeded expectations. The procurement and financing process is now under way.

Castle Cement – earnings recover sharply in second quarter
Castle's weak performance in the beginning of the year, in which a loss of SEK 45 M was recorded in the first quarter, was turned around. Earnings after financial items in the first half of 1998 totaled SEK 66 M (19) and were boosted by income of SEK 111 M in the second quarter. Earnings were higher than in the first half of 1998, primarily because of the effects of implemented price increases and lower manufacturing costs.

Rudus Group – strong growth in Poland
Rudus Group, which posted a loss in the first quarter attributable mainly to the effects of winter disturbances, noted a much stronger second quarter in which earnings totaled SEK 55 M. The business area's earnings after financial items totaled SEK 30 M (33) in the first half of 1999. Ready-mix shipments were slightly lower in Finland and the Baltic states, while aggregate deliveries were on a higher level as a result of implemented company acquisitions. The construction market is expanding in Poland, where ready-mix sales were substantially higher than last year.

Euroc Beton – another strong second quarter
As in 1998, the business area's earnings increased appreciably in the second quarter. After a first-quarter loss of SEK 13 M (loss of 17) after financial items, Euroc Beton recorded income of SEK 92 M (83) in the second quarter, resulting in earnings of SEK 79 M (66) for the six-month period. The higher earnings were attributable mainly to the performance of the ready-mix and aggregate companies in Sweden, where the Stockholm and Gothenburg markets improved, and to the precast concrete assembly unit business in Finland (Lohja Abetoni and the 50-percent-owned company Parma Betonila). Earnings were slightly lower in Norway, due to a decrease in ready-mix shipments. Aggregate deliveries developed favorably, however.

The track contracting company SRS has satisfactory order bookings. Revenues were recognized from a number of large projects which were completed at good profit. However, earnings were reduced by provisions for losses in electrical contracting projects being carried out by the subsidiary SRS Svanbergs.

Earnings of the precast concrete assembly unit companies in Sweden (Prefab Sverige) were higher but are still weak. Operations are being restructured to increase profitability. The Danish precast product business (Prefab Danmark) reported lower earnings, due to a declining domestic market.

Optiroc Group – higher earnings achieved by lightweight aggregate and brick companies
Earnings after financial items totaled SEK 112 M (101) in the first half of the year.

Earnings of premixed product companies declined on the whole, due mainly to lower sales in the Russian market. Income was also negatively impacted by a market downturn in Denmark and the Baltic states. Production capacity for premixed products is being expanded in Spain and Portugal to meet growing demand. Earnings increased for companies in these countries, as well as for units in Sweden, Norway, Poland and France.

Earnings of lightweight aggregate companies increased, mainly because of improved developments in most markets. The trend of the Spanish and Portuguese markets was particularly favorable, where capacity is being fully utilized. A small amount of products were also imported to these countries. Earnings of the Norwegian company decreased as a result of declining block sales.

Brick companies achieved higher earnings than last year, which was primarily an effect of synergistic benefits in Sweden that were realized after implementing structural measures. Earnings were slightly lower in other markets. The tile business was divested, resulting in a capital gain of SEK 10 M.

Strong financial position and improved cash flow

The Group's *total assets* amounted to SEK 20.3 billion at mid-year, an increase of SEK 1.2 billion since January 1. The increase was attributable to a larger number of trade account receivables (0.8 billion) associated with the increase in second-quarter sales, and to a net increase of SEK 0.3 billion in tangible assets related to acquisitions of companies.

Net working capital was SEK 2.2 billion (1.6 at January 1, 1999). The increase in working capital was due mainly to a higher amount of current receivables which was partly offset by an increase in current noninterest-bearing liabilities.

Net interest-bearing liabilities rose SEK 1.1 billion to SEK 5.5 billion (4.4 at January 1, 1999). The change is explained in the following table:

	SEK B
Net interest-bearing liabilities at January 1	**-4.4**
Cash flow from operations	0.5
Cash flow from investing activities	-0.9
Dividend to stockholders	-0.6
Net interest-bearing liabilities in acquired companies	-0.2
Exchange rate effects, etc.	0.1
Net interest-bearing liabilities at June 30	**-5.5**

Cash flow from operations was SEK 468 M (43). Cash flow was favorably affected by the higher level of earnings but was reduced by the increase in working capital, which was 635 M (934). Working capital normally decreases towards the end of the year.

Investments in tangible assets totaled SEK 773 M (583) in the first half. Investments in shares and company acquisitions were SEK 176 M. Notable acquisitions included the Kunda cement company in Estonia, and the CMR fuel company in the U.K., which have both been consolidated as subsidiaries. *Cash flow after investing activities was* SEK -412 M (-664).

Scancem's *equity ratio* declined to 44 percent (48 at January 1, 1999), due to the increase in total assets. The *debt-equity ratio* – defined as net interest-bearing liabilities divided by stockholders' equity – was 0.61 times (0.48 at January 1,1999).

Scancem share

The market price (paid price) for the Scancem share at June 30 was SEK 384 for the Class A share and SEK 364 for Class B, as against SEK 290 and SEK 250, respectively, at January 1, an increase of 32 percent and 46 percent, respectively.

The general index of the Stockholm Stock Exchange rose 17 percent during the same period. The price for the Scancem share was SEK 317 for Class A shares, and SEK 321 for Class B shares, on the day before Skanska and Aker RGI announced their agreement with Heidelberger Zement (April 30, 1999).

Outlook for 1999

The market forecast given in the first-quarter report for 1999 remains basically valid. The Swedish market is expected to improve, while the high growth rate up to now in Finland and Poland is softening. Construction is anticipated to decline in Norway, Denmark and the Baltic states. The building market is stagnating in the United Kingdom. Demand is likely to remain high in Scancem's markets in Africa and the United States.

Group earnings in 1999, excluding the capital gain on the divestment of Finnsementti and Rudus Group, are forecast to be in the range of SEK 1.5 billion. In addition, there will be the estimated capital gain of SEK 1.7 billion.

Malmö, August 18, 1999
Scancem AB (publ)

Bo Jacobsson
President and CEO

Net sales and earnings per business area

SEK M	Net sales				Operating income				Earnings after financial items			
	6 mos. 1999	6 mos. 1998	Past 12 mos.	Full yr. 1998	6 mos. 1999	6 mos. 1998	Past 12 mos.	Full yr. 1998	6 mos. 1999	6 mos. 1998	Past 12 mos.	Full yr. 1998
Cement Nordic	**1,409**	**1,382**	**2,923**	**2,896**	**244**	**251**	**648**	**655**	**211**	**214**	**578**	**581**
Scancem International	**2,367**	**1,779**	**4,591**	**4,003**	**281**	**162**	**489**	**370**	**236**	**144**	**419**	**327**
Castle Cement	**1,120**	**1,064**	**2,207**	**2,151**	**103**	**73**	**299**	**269**	**66**	**19**	**209**	**162**
Rudus Group	**756**	**704**	**1,688**	**1,636**	**39**	**39**	**148**	**148**	**30**	**33**	**118**	**121**
Euroc Beton	**1,410**	**1,279**	**2,952**	**2,821**	**97**	**84**	**222**	**209**	**79**	**66**	**184**	**171**
Optiroc Group	**1,704**	**1,739**	**3,492**	**3,527**	**157**	**155**	**332**	**330**	**112**	**101**	**243**	**232**
Gyproc Group		500	374	874		72	50	122		73	51	124
Other operations/central amortization of goodwill	-197	-179	-366	-348	-102	-81	-223	-202	-64	-96	-210	-242
Items affecting comparability							600	600			600	600
Scancem Group	**8,569**	**8,268**	**17,861**	**17,560**	**819**	**755**	**2,565**	**2,501**	**670**	**554**	**2,192**	**2,076**

Consolidated balance sheet

SEK B	June 30, 1999	June 30, 1998	Dec. 31, 1998
Assets			
Intangible assets	2.3	2.5	2.4
Tangible assets	10.6	10.5	10.3
Financial assets *	1.2	0.9	1.2
Current assets			
Inventories	2.0	2.2	2.0
Current receivables *	3.5	3.6	2.6
Short-term investments, liquid funds *	0.7	0.5	0.6
Total assets	**20.3**	**20.2**	**19.1**
Equity and liabilities			
Equity	8.6	7.6	8.9
Minority share of equity	0.3	0.3	0.3
Provisions (excluding pension provision)	1.6	1.6	1.6
Long-term liabilities *	6.4	7.3	5.1
Current liabilities *	3.4	3.4	3.2
Total equity and liabilities	**20.3**	**20.2**	**19.1**
* of which, interest-bearing (net)	5.5	6.7	4.4
Number of shares at the close of the period, 000s	53,556	53,379	53,507
Stockholders' equity per share, SEK	161	143	167

Consolidated statement of changes in financial position

SEK B	6 mos. 1999	6 mos. 1998
Operations		
Operating income	0.8	0.8
Reversed depreciation and write-downs, capital gains, shares in earnings, etc.	0.6	0.5
Financial items	-0.1	-0.2
Taxes	-0.2	-0.2
Change in working capital	-0.6	-0.9
Cash flow from operations	0.5	0
Investing activities		
Acquisition of shares and tangible assets	-1.0	-0.8
Divestments of companies and tangible assets	0.1	0.1
Cash flow from investing activities	-0.9	-0.7
Cash flow after investing activities	-0.4	-0.7
Financing activities		
Increase in financial liabilities/assets	1.4	1.2
Dividend to stockholders	-0.6	-0.4
Translation differences, etc.	0.2	0.2
Cash flow from financing activities	1.0	1.0
Increase in liquid funds	0.1	0.2
Liquid funds at December 31	0.7	0.5

Key ratios

		6 mos. 1999	6 mos. 1998	Past 12 mos.	Full year 1998
Profit per share 1)	SEK	8.10	6.60	20.05	18.55
Times interest earned 1)	times	4.6	3.3	4.4	3.8
Return on capital employed 1)	%	-	-	13.4	14.1
Return on stockholders' equity (after tax) 1)	%	-	-	13.2	12.3
Equity ratio	%	44	39	-	48
Net interest-bearing liabilities	SEK B	5.5	6.7	-	4.4

1) Excluding items affecting comparability

Number of employees per business area

	June 30, 1999	June 30, 1998	Dec. 31, 1998
Cement Nordic	1,256	1,412	1,273
Scancem International	2,422	1,983	2,058
Castle Cement	1,244	1,271	1,263
Rudus Group	1,536	1,568	1,494
Euroc Beton	2,265	2,233	2,159
Optiroc Group	2,450	2,507	2,401
Gyproc Group	-	510	-
Other operations	366	154	317
Total	**11,539**	**11,638**	**10,965**