SCANCEM

Interim Report

Nine months ended September 30, 1999

* **Earnings after financial items totaled SEK 3,095 M (1,178). Excluding items affecting comparability, earnings amounted to SEK 1,318 M (1,178), an increase of 12%. Adjusted for structural effects, the increase in earnings was estimated to be slightly more than 30 percent.**
* **Earnings after financial items during the past 12-month period totaled SEK 1,616 M, excluding items affecting comparability, (1, 476 for the full year 1998, excluding items affecting comparability).**
* **Most markets were favorable; business increased in Sweden, the United States, Poland, Spain, Portugal and the African markets; was stable in Finland and the United Kingdom; but decreased in Norway, Denmark and Russia.**
* **The divestment of Finnsementti and Lohja Rudus resulted in a capital gain of SEK 1,777 M.**
* **Scancem International (Africa/Asia) and Optiroc (Iberian peninsula) continued to expand. Scancem Energy and Recovery (SEAR) – the Group's fuels producer – acquired a second company in the U.K.**
* **Heidelberger Zement now owns 99.8% of the capital and voting rights in Scancem.**

Consolidated income statement

SEK M	9 mos. 1999	9 mos. 1998	Past 12 mos.	Full year 1998
Net sales	**12,803**	**13,099**	**17,264**	**17,560**
Cost of goods sold	-9,591	-9,761	-12,992	-13,162
Gross profit	**3,212**	**3,338**	**4,272**	**4,398**
Sales and administrative expenses	-1,907	-1,981	-2,762	-2,836
Shares in earnings of associated companies	109	88	142	121
Other operating income, net	122	60	280	218
Items affecting comparability	1,777		2,377	600
Operating income	**3,313**	**1,505**	**4,309**	**2,501**
Result from financial investments (financial items)	-218	-327	-316	-425
Profit after financial items	**3,095**	**1,178**	**3,993**	**2,076**
Tax	-1,054	-358	-1,268	-572
Minority share in earnings after tax	-12	-46	-32	-66
Net profit for the period	**2,029**	**774**	**2,693**	**1,438**

Figures in parentheses refer to the corresponding period of 1998.

Market overview

The construction market in *Sweden* developed favorably within all building sectors during the first nine months of 1999 and shipments of cement, ready-mixed concrete, aggregates and other building materials increased as a result. New housing starts rose; in the first six months of the year, they increased slightly more than 30 percent, compared with the same period of 1998. The industrial and civil engineering markets continued to decline in *Norway*, particularly in the offshore sector. Cement and ready-mix deliveries decreased, while lightweight aggregate sales have started to increase.

Housing construction remained on a high level in *Finland*. For the Group's remaining companies in Finland, shipments of premixed products, lightweight aggregates and brick were largely unchanged, relative to 1998, while deliveries of precast concrete assembly units were higher. Reduced investments in mainly agriculture and infrastructure negatively impacted sales of precast concrete assembly units in *Denmark*. Premixed product shipments also decreased in the Danish market. In the *United Kingdom*, the market was mainly stagnant in the home building sector, while investments in other construction segments increased slightly. Cement shipments were largely unchanged, compared with 1998.

Scancem's markets in southern Europe, primarily *Spain* and *Portugal*, showed steady growth and deliveries of premixed products, lightweight aggregates and concrete products were higher as a consequence. Premixed product volumes also increased in *France*. In building markets in eastern Europe, growth continued in *Poland*, where deliveries of premixed products increased. However, the construction market has been declining in *Estonia* during the year and cement shipments were consequently lower than in the corresponding period of 1998. The sharp drop in premixed product sales in *Russia* during the second half of 1998 has been recovered in part, although shipments have so far been lower than in the same period of 1998.

Construction activity was strong in Scancem's markets in the *United States* – Florida and the U.S. Northeast – and cement, ready-mix and aggregate deliveries were higher than in 1998. Demand for cement was strong in *Africa* and cement sales on the whole were about 25 percent higher than last year.

Structural changes

Finnsementti and Lohja Rudus divested

At the end of July, the sale of *Finnsementti* and *Lohja Rudus* to the Irish building materials group CRH plc was finalized. The two units had combined sales of approximately SEK 2.2 billion in 1998 and earnings of about SEK 350 M. The companies' results were included in Group sales up to June 30, 1999 in the amounts of SEK 1,017 M and SEK 123 M, respectively. Scancem recorded a consolidated capital gain of SEK 1,777 M on the divestments which is reported as an item affecting comparability under operating income.

Strategic growth through acquisitions and joint ventures

Scancem's fuels company, *SEAR* (Scancem Energy and Recovery), which purchased Chemical Manufacture and Refining (CMR) in the U.K. in the second quarter, acquired another British fuels company, Solrec Ltd in Heysham, Lancashire, in the third quarter. The latter company specializes in recovering solvents for the production of alternative fuel that is used for energy in the manufacture of cement and lightweight aggregates. The intention is to merge CMR's and Solrec's operations, after which they will become one of the leading companies in the U.K. in the solvent recovery field.

Scancem International increased its ownership in the Ghacem cement company (Ghana) from 59.5 percent to 94.5 percent. The shares were sold by Ghana's authorities as part of the ongoing privatization of the country's industries. Ghacem owns two grinding plants with a combined capacity for 2.4 million metric tons of cement.

In Malaysia, Scancem International signed a letter of intent to acquire 49 percent of the shares in a joint venture company that operates two cement grinding facilities, and a clinker plant with a capacity for 650,000 metric tons, in the state of Sarawak on Borneo. Scancem International also entered into an agreement with the government in Congo (Brazzaville) to import cement to the country through a newly formed company, Cimcongo SA, in which Scancem International has a 70-percent stake.

During 1999 Scancem International has built up a substantial market position in Bangladesh, where Scancem currently supplies the market with cement imported via a floating terminal. An agreement was finalized with a Korean contracting company covering the turnkey construction of a cement grinding facility in Dhaka, the capital. The new plant will have a capacity for 750,000 metric tons per year and is expected to be placed in operation in 2001.

During the year *Optiroc Group* expanded its market positions on the Iberian peninsula by acquiring one premixed products plant in Spain and one in Portugal.

Earnings continued to increase

The positive trend of earnings in the first half of the year continued in the third quarter. *Earnings after financial items* totaled SEK 3, 095 M (1,178) in the first nine months of 1999. Excluding items affecting comparability, earnings were SEK 1,318 M (1,178), an increase of 12%. However, when comparing earnings, it should be kept in mind that earnings in 1998 included the Gyproc Group business area, which was divested at year-end, and that Finnsementti and Lohja Rudus were included in Group results only for six months in 1999. Excluding revenues from these three units for the respective years, but including the interest effect (4%) on the change in net liabilities since the beginning of 1999, earnings increased in excess of 30 percent, based on a comparable structure. The higher earnings were due mainly to increased income in Scancem International, Optiroc and Castle Cement, as well as to reduced central financial expense.

Earnings for the rolling 12-month period (excluding items affecting comparability) were slightly higher and totaled SEK 1,616 M (1,493).

Earnings in the third quarter (excluding items affecting comparability) were somewhat higher and totaled SEK 648 M (624). Third-quarter income almost reached the same earnings level as in the preceding quarter, which was SEK 668 M.

Scancem's *net sales* decreased 2 percent to SEK 12,803 M (13,099). Adjusted for structural changes, sales were 8 percent higher, due primarily to increased volumes in Sweden, the United States and Africa, and in growth markets such as Poland, Spain and Portugal.

Operating income was SEK 3,313M (1,505). Operating income included *cost depreciation* totaling SEK 964 M (997). *Shares in earnings of associated companies*, also included in operating income, rose to SEK 109 M (88). The largest single item was the share in earnings (50%) of the Finnish company Parma Betonila totaling SEK 57 M (55).

The operating margin, defined as operating income excluding shares in earnings and items affecting comparability as a percentage of net sales, was 11.1 percent (10.8).

The result from financial investments (net financial items) improved and was a net expense of SEK 218 M (net expense of 327). The improvement was due primarily to a reduction in average net liabilities related to company divestments, and to lower average interest rates.

The Group's *tax expense* was estimated to be SEK 1,054 M (358), of which SEK 633 M (0) was related to items affecting comparability. The tax expense, excluding the portion attributable to items affecting comparability, corresponded to approximately 32 percent (30) of earnings.

Key ratios

		9 mos. 1999	**9 mos. 1998**	**Past 12 mos.**	**Full year 1998**
Profit per share [1)]	SEK	16.50	14.50	20.60	18.55
Times interest earned [1)]	times	6.3	4.2	5.0	3.8
Return on capital employed [1)]	%	-	-	13.8	14.1
Return on stockholders' equity (after tax) [1)]	%	-	-	11.9	12.3
Equity ratio	%	50	42	-	48
Net interest-bearing liabilities	SEK B	0.9	5.8	-	4.4

1) Excluding items affecting comparability

Business areas

Cement Nordic – cement shipments increased in Sweden, decreased in Norway
The business area's earnings after financial items, excluding the capital gain on the divestment of Finnsementti, totaled SEK 358 M (414). The lower earnings were attributable mainly to the fact that Finnsementti's earnings were included only for the first six months of 1999. Based on a comparable structure, earnings were slightly higher.

Cement deliveries in the Swedish market totaled 1.07 million metric tons, an increase of approximately 10 percent, compared with 1998. Rising domestic demand for cement limited the scope for exports, which declined 18 percent till 0.6 million metric tons. In Norway, cement shipments amounted to 0.85 million metric tons, which was about 15 percent lower than in 1998. Deliveries declined mainly in the offshore sector. Due to declining domestic demand, exports increased 32 percent to 0.54 million metric tons.

Scancem International – deliveries increased considerably in the U.S. and Africa
Earnings after financial items increased sharply and totaled SEK 379 M (243). The improvement was due to larger volumes and better price levels in the business area's main markets, and to the fact that nine-months earnings in 1998 were charged with nonrecurring costs for losses in coal trading operations and with one-time costs caused by power shortages in some African markets.

In the United States, where earnings were up 45 percent, combined cement shipments from the Allentown plant (Pennsylvania) and the cement terminals in New York (Norval) and Florida were approximately 30 percent higher than in 1998. Ready-mix and aggregate deliveries increased as well. The higher earnings of the African companies were also due to larger volumes. Revenues from trading increased as a result of higher volumes, up 25 percent, and better margins. Weak domestic demand in eastern European countries reduced the earnings of Scancem East companies.

Castle Cement – earnings up sharply despite unchanged volume
As in the second quarter, earnings were strong in the third quarter. Earnings after financial items totaled SEK 190 M (112) for the nine-month period. The improvement, relative to 1998, was due mainly to the effects of implemented price increases and lower production costs. Cement shipments remained unchanged at 2.4 million metric tons.

Euroc Beton – earnings continued to be strong in the third quarter
Earnings after financial items were 14 percent higher and totaled SEK 174 M (152) for the nine-month period. The ready-mix concrete and aggregate companies in Sweden, and the precast concrete assembly unit operations within Lohja Abetoni and Parma Betonila in Finland, accounted primarily for the increase. Income of the ready-mix and aggregate companies in Norway remained good. Precast concrete unit companies in Sweden and Denmark increased earnings as a result of larger shipments and the effects of implemented structural measures.

Optiroc Group – strong earnings in third quarter
Earnings after financial items totaled SEK 264 M (195) for the nine-month period, an increase of approximately 35 percent. Earnings of the premixed product companies were positively affected by a one-time capital gain on the sale of Dalaspack (Sweden) and the favorable market in Poland, Spain and Portugal. Shipments to Russia decreased, however. Sales were also lower in Denmark. The markets and trend of earnings for the business area's lightweight aggregate companies were favorable as a whole, notably in Spain and Portugal, where capacity is being fully utilized. The market downturn for lightweight aggregates in Norway has leveled off. Earnings of brick companies improved, primarily in Sweden, as a result of implemented structural measures.

Net sales and earnings per business area

SEK M	Net sales				Operating income				Earnings after financial items			
	9 mos. 1999	9 mos. 1998	Past 12 mos.	Full yr. 1998	9 mos. 1999	9 mos. 1998	Past 12 mos.	Full yr. 1998	9 mos. 1999	9 mos. 1998	Past 12 mos.	Full yr. 1998
Cement Nordic [1]	**1,988**	**2,168**	**2,716**	**2,896**	**396**	**469**	**582**	**655**	**358**	**414**	**525**	**581**
Scancem International	**3,683**	**2,841**	**4,845**	**4,003**	**462**	**282**	**550**	**370**	**379**	**243**	**463**	**327**
Castle Cement	**1,733**	**1,629**	**2,255**	**2,151**	**244**	**194**	**319**	**269**	**190**	**112**	**240**	**162**
Rudus Group [1]	**755**	**1,222**	**1,169**	**1,636**	**38**	**123**	**63**	**148**	**30**	**104**	**47**	**121**
Euroc Beton	**2,159**	**2,038**	**2,942**	**2,821**	**200**	**180**	**229**	**209**	**174**	**152**	**193**	**171**
Optiroc Group	**2,714**	**2,741**	**3,500**	**3,527**	**327**	**277**	**380**	**330**	**264**	**195**	**301**	**232**
Gyproc Group [2]		730	144	874		96	26	122		96	28	124
Other operations/central amortization of goodwill	-229	-270	-307	-348	-131	-116	-217	-202	-77	-138	-181	-242
Items affecting comparability					1,777		2,377	600	1,777		2,377	600
Scancem Group	**12,803**	**13,099**	**17,264**	**17,560**	**3,313**	**1,505**	**4,309**	**2,501**	**3,095**	**1,178**	**3,993**	**2.076**

[1] For 1999 Finnsementti and Lohja Rudus are included for 6 months (January-June). In the past 12-month period, these units are included for 9 months.
[2] For 1998 Gyproc Group is included for 11 months. In the past 12-month period, Gyproc Group is included for 2 months.

Financial position

The Group's *total assets* amounted to SEK 20.7 billion at September 30, 1999, an increase of SEK 1.6 billion since January 1. Short-term financial investments increased in the third quarter as a result of companies that were divested, but are expected to decline in the final months of the year.

Consolidated balance sheet

SEK B	Sept. 30, 1999	Sept. 30, 1998	Dec. 31, 1998
Assets			
Intangible assets	2.0	2.5	2.4
Tangible assets	9.0	10.6	10.3
Financial assets *	1.2	1.1	1.2
Current assets			
Inventories	1.7	2.0	2.0
Current liabilities *	3.1	3.5	2.6
Short-term investments, liquid funds *	3.7	0.7	0.6
Total assets	**20.7**	**20.4**	**19.1**
Equity and liabilities			
Equity	10.3	8.2	8.9
Minority share of equity	0.2	0.3	0.3
Provisions (excluding pension provisions)	1.4	1.5	1.6
Long-term liabilities *	4.8	6.7	5.1
Current liabilities *	4.0	3.7	3.2
Total equity and liabilities	**20.7**	**20.4**	**19.1**
* of which, interest-bearing (net)	0.9	5.8	4.4
Number of shares at the close of the period, 000s	53,583	53,506	53,507
Stockholders' equity per share, SEK	192	154	167

Cash flow improved sharply

Cash flow from operations totaled SEK 1,735 M (1,329). The increase was due mainly to the higher earnings after financial items and the improvement in working capital, compared with the corresponding period of 1998.

Investments in tangible fixed assets totaled SEK 770 M (790) for the nine-month period. Investments in shares and company acquisitions amounted to SEK 496 M (262). *Cash flow from investing activities* was positive, totaling SEK 2,360 M (-935), due to the contribution of SEK 3,553 M in cash (15) from company divestments. *Cash flow after investing activities w*as SEK 4,094 M (395).

Consolidated statement of changes in financial position

SEK B	9 mos. 1999	9 mos. 1998	Full year 1998
Operations	2.5	2.5	2.5
Operating income			
Reversed depreciation and write-downs, capital gains, shares in earnings, etc.	-0.1	-0.1	0.2
Financial items	-0.2	-0.3	-0.4
Taxes	-1.0	-0.4	-0.5
Change in working capital	0.5	-0.4	-0.1
Cash flow from operations	1.7	1.3	1.7
Investing activities			
Acquisitions of shares and tangible assets	-1.3	-1.0	-1.5
Divestments of companies and tangible assets	3.7	0.1	1.6
Cash flow from investing activities	2.4	-0.9	0.1
Cash flow after investing activities	4.1	0.4	1.8
Financing activities			
Increase in financial liabilities/assets	-3.5	0.6	-0.9
Dividend to stockholders	-0.6	-0.4	-0.4
Translation differences, etc.	0.2	-0.2	-0.2
Cash flow from financing activities	3.9	0	-1.5
Increase in liquid funds	0.2	0.4	0.3
Liquid funds at the close of the period	0.8	0.7	0.6

Due to the positive cash flow after investing activities, *net interest-bearing liabilities* were reduced sharply during the period and amounted to SEK 0.9 billion at September 30, 1999. The change for the nine-month period was as follows:

	SEK B
Net interest-bearing liabilities at January 1	**-4.4**
Cash flow from operations	1.7
Cash flow from investing activities	2.4
Dividend to stockholders	-0.6
Net interest-bearing liabilities in acquired/divested companies	-0.1
Exchange rate effects, etc.	0.1
Net interest-bearing liabilities at September 30	**-0.9**

Heidelberger Zement's offer to Scancem stockholders

Since Heidelberger Zement acquired Skanska's and Aker RGI's shareholdings in Scancem in the latter part of July, a public offering was also made to Scancem's other stockholders and holders of convertible debentures in Scancem. The prospectus for the offering was distributed in August and the acceptance period was from August 24 to September 13, 1999. Stockholders were offered SEK 397.30 for each Scancem Class A-share held and SEK 378.15 for each Scancem Class B share held. At the end of the period, Heidelberger Zement controlled 99.3 percent of all shares carrying 99.3 percent of the voting rights. Heidelberger Zement also reported that the acceptance period for the offering was extended to October 8 and would request the compulsory purchase of the remaining shares thereafter. At the close of the extended period, Heidelberger Zement controlled 99.8 percent of all Scancem shares and votes.

Forecast for 1999

The market and earnings forecast made in the six-months report still remains valid. Earnings of the Scancem Group, after financial items and excluding the capital gain on the sale of Finnsementti and Lohja Rudus, are expected to be in the order of SEK 1.5 billion. In addition, there will be the capital gain of SEK 1.78 billion.

Malmö, October 1999
Scancem AB (publ)

Bo Jacobsson
President and CEO

This interim report has not been examined by the Company's auditors.