





*From left to right:  
Michael Gröller, Wilhelm Hörmanseder, Alfred Fogarassy*

# Board Members

## The Managing Board

Chairman

Michael Gröller, Vienna

Vice-Chairman

Alfred Fogarassy, Vienna

Member of the Managing Board

Wilhelm Hörmanseder, Vienna

## The Supervisory Board

Chairman

Carl Anton Goess-Saurau, Frohnleiten

Vice-Chairman

Friedrich Mayr-Melnhof, Grödig

Romuald Bertl, Graz

Board Members

Gerhard Glinzerer, Vienna

Clemens Goess-Saurau, London

Manfred Grundauer, Frohnleiten

Delegate of the European Staff Council of  
Mayr-Melnhof Cartonboard Division

Hubert Esser, Neuss

Delegate of the European Staff Council of  
Mayr-Melnhof Cartonboard Division  
(since March 1999)

Gerhard Nowotny, Vienna

Delegate of the Staff Council of  
Mayr-Melnhof Packaging Division



## Interview with the Chairman of the Managing Board

*What, in your opinion, were the highlights of the 1998 financial year?*

1998 was the best year in the history of our company. There was a significant improvement in all earnings parameters. For me this was certainly the most important aspect of 1998.

Apart from this, we acquired the cartonboard mill in Količevo, Slovenia. This has enabled us to add to our Group a new and very interesting mill with great potential regarding both quality and capacity. In the Packaging Division, our newly erected facilities in Poland and Romania have commenced operation. Finally, we have also sold most of the Recycling Division due to it having lost its strategic importance to us.

*The performance of MM shares has not truly reflected the success of the company recently. What do you think is the reason for this?*

I think one of the main reasons is the fact that internationally, MM shares are considered to be paper securities. However, this is not quite true. We are in cartonboard and packaging, and that is somewhat different. This is why I believe that the value of Mayr-Melnhof shares is certainly mispriced at the moment. Our objective as managers is to increase the value of our company and ensure an appropriate return for our investors. We are therefore particularly happy to be able to propose increasing the dividend for 1998 by 3 schillings, to 20 schillings per share.

*How does MM's strategy differ from that of its competitors in the industry and on capital markets?*

Our strategy is very clear, and states that we will concentrate on our core competence areas – the manufacturing of cartonboard and folding cartons – and on increasing our market leadership in Europe. In order to secure future earnings, it is also our intention to stand out from the competition as cost leaders. Today, we have attained the appropriate size in Europe to sharply differentiate ourselves with regard to cost management, marketing, and research and development.

*You mention Europe. Doesn't your business, like so many others, also have a global dimension?*

We sell cartonboard in more than a hundred different countries, and therefore have an extensive knowledge of the international cartonboard business in all of the world's major economic regions. Apart from Europe's attractive, large single market, we are always interested in Asia as a production location. Three years ago, we took a first step by acquiring a minority interest in India to take further steps when the time became right. Although Asia's major economies have suffered a sharp setback, we shall soon see them recover. We will be there when this happens, through both more exports from Europe, and new acquisitions.



*How is the internationalisation process going in the packaging sector?*

We have achieved the position of the European market leader in the packaging sector, and are now concentrating on large pan-European business. There are virtually no exports from, or imports to Europe in the folding carton market.

*The packaging sector has grown tremendously. Has this resulted in a shift or emphasis within the Group?*

Over the course of five years, this division has increased the tonnage processed from 95,000 to 250,000 tonnes, making it the fastest-growing division in recent years. Today, its sales of approximately five billion schillings account for 40% of the Group. As a result of this, we now have a second profitable line within the Group in addition to cartonboard manufacturing.

*Will you be retaining your profit centre concept for both divisions?*

Yes, definitely. This is the only means we have of ensuring our profit-oriented future development in line with market conditions.

*To what extent is management income linked to the earnings of the Group?*

The key factor to our success is an excellent management team in which we continually invest so as to ensure that key positions are optimally filled. A very high percentage of the income of our senior executives is variable and linked to results in order to ensure that performance and effort are worthwhile. This may be over 50% of an individual's total income. Suitable objectives are redefined each year.

*The MM Group has achieved considerable success since it went public. What are your goals for 1999?*

The dynamic development of the last five years is indeed remarkable. Sales have risen by 50%, cash earnings have doubled, and net income has increased more than fivefold. However, at this moment, the on-going crisis in Russia and weak demand from Asia make it seem likely that 1999 will be a significantly more difficult year than the previous one. Despite the pressure on margins, our goal is nevertheless to achieve 1998's operating results again through further effective cost reduction programmes.

Vienna, April 1999

# Mayr-Melnhof Shares

Mayr-Melnhof Karton AG shares are quoted under "consecutive trading" on the Vienna Stock Exchange. The current weighting of these shares in the Austrian Traded Index (ATX) is 2.34%.

With a market capitalisation of € 478, million Mayr-Melnhof shares are one of the largest industrial securities on the Austrian Stock Exchange.

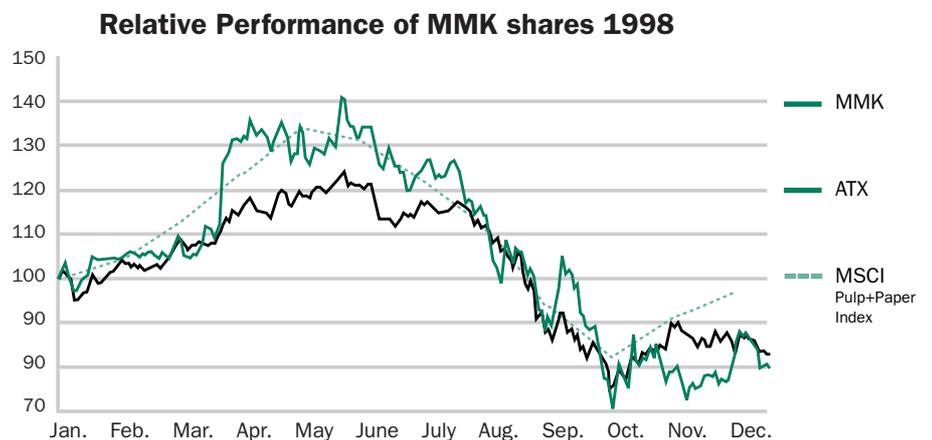
Once again, Mayr-Melnhof shares were one of the most heavily traded shares on the Vienna Stock Exchange. The average daily trading volume in 1998 was approximately 73,000 shares, 20% above the mean volume for the previous year. For international investors, a quotation of the shares are available through the SEAQ, and through a Level 1 ADR programme.

Options in MMK shares have been traded on the Options Exchange of the Vienna Stock Exchange (ÖTOB) since September 21, 1998.

## Performance

Mayr-Melnhof shares reached a record high closing price of ATS 964 or € 70.06 on May 25, 1998.

The Vienna Stock Exchange came under significant pressure due to the financial crisis in Russia, which resulted in the stock exchange index (ATX) falling by more than 24% in the second half of 1998. Despite the company's relatively small involvement in the Russian market, Mayr-Melnhof shares followed this trend, falling below the comparable MSCI (Euro/Forest Products & Paper Index).



## Share Performance Indicators

Stock Price per Share in €	1996	1997	1998
High	42.15	57.27	70.06
Low	30.60	39.03	34.81
Year-end	38.52	49.42	39.82

### Stock Performance

-1 month	+ 1.9%	- 2.2%	+ 0.2%
-3 months	- 0.9%	- 9.1%	+ 3.4%
-9 months	+ 14.3%	+ 8.1%	- 64.2%

### Relative Performance (year-end) in %

MMK shares	+ 5.0%	+ 26.6%	- 20.0%
ATX	+ 18.8%	+ 13.6%	- 13.5%
Stock exchange index (WBI)	+ 10.8%	+ 13.5%	- 4.6%
MSCI (Euro/Forest Products & Paper)	+ 13.3%	+ 16.1%	- 5.1%

### Share Performance Indicators in € (ATS)

Earnings per share	2.69 (37)	3.92 (54)	5.31 (73)
Cash earnings per share	7.70 (106)	8.72 (120)	10.76 (148)
Equity capital per share	29.07 (400)	29.72 (409)	32.41 (446)
Dividend per share	1.24 (17)	1.24 (17)	1.45* (20)*
Dividend in millions	14.83 (204)	14.83 (204)	17.44* (240)*
Dividend yield per average share price	3.4%	2.6%	2.8%

### Trading Volume

SEAQ (London) in €	799,129	582,481	1,049,598
Vienna Stock Exchange in €	2,253,501	2,873,687	3,858,090
Number of shares outstanding	12,000,000	12,000,000	12,000,000
Free Float	4,800,000	4,800,000	4,800,000
Market capitalisation in € millions	462	593	478
ATX weighting	2.91	2.88	2.34

\* proposed

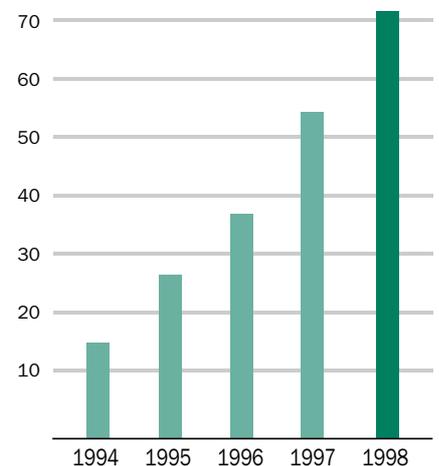
## Dividend

Earnings per share have risen steadily over the last five years, reaching ATS 73 in 1998 (1997: ATS 54). Due to this dynamic development of earnings, the Managing Board will propose increasing the dividend by ATS 3 to ATS 20 per share.

## Shareholder structure

The share capital of Mayr-Melnhof Karton AG amounts to ATS 1.2 billion, broken down into 12 million bearer shares with a nominal value of ATS 100 each. Approximately 60% of the company's shares are held in family ownership. The majority of the free-float shares are held primarily by investors in the USA and the United Kingdom. A growing number of Austrian investors also became shareholders in the company during 1998.

### Earnings per share (in ATS)



#### **More informational activities**

#### **Investor relations**

The investor relations programme of Mayr-Melnhof Karton AG focuses on continuous open communication with institutional investors, private shareholders, analysts, and business journalists. In order to cope with the increasing demand for information in 1998, the management stepped up the number of activities designed to keep national and international investors, analysts, and the general public up to date with the development of the Company. An active interest was shown during four road shows, several investor conferences, and a large number of one-on-one discussions with the Group's top management.

#### **Number of members increased**

#### **Shareholders' Club**

The number of members in the Mayr-Melnhof Shareholders' Club continued to rise in 1998. Membership is free of charge, and offers shareholder presentations on the Company and direct mailings of information.

Further information about the Company may be obtained from:

Tel. +43-1-50 136-1180

Fax +43-1-50 136-1195

E-mail: [investor.relations@mm-karton.com](mailto:investor.relations@mm-karton.com)

Web site: <http://www.mayr-melnhof.co.at>

#### **Conversion to Euro**

A motion to be submitted to the fifth Annual General Meeting of Mayr-Melnhof Karton AG on May 19, 1999 will propose a conversion of the existing nominal-value shares to no-par value shares. The effective certificates will remain in ATS and will be automatically converted.

# Important Events



*Količevo Karton*

## **Collaboration with Reno de Medici**

In December 1997, a syndication agreement was signed between San Nicola, majority shareholder of Reno de Medici, and Mayr-Melnhof with the objective of implementing "joint control". The anti-trust authorities gave its approval in February 1998. Even in the first year of this venture, Mayr-Melnhof has managed to successfully tap the potential for synergies between both groups.

## **Agreement with Kellogg's Europe**

A long-term supply agreement with Kellogg Europe aims to ensure the supply of Kellogg's European production facilities with cartonboard and folding cartons. A total of 60,000 tonnes of each will be supplied each year.

## **Slovenian mill Količevo Karton acquired**

In June, Mayr-Melnhof took over the Količevo cartonboard mill from the Reno de Medici Group and integrated it into the Cartonboard Division as its eighth facility. The mill currently has an annual output capacity of approximately 120,000 tonnes. The goal is to bring the quality and output of the mill up to the standards of the other Mayr-Melnhof cartonboard mills.

## **100% stake in Behrens Print & Pack**

Following the purchase of a 49 % stake from the previous shareholders, MMP is now the sole owner of the German folding carton facilities in Alfeld and Berlin. This represents an important step towards focusing the operations of the MMP group in Germany.

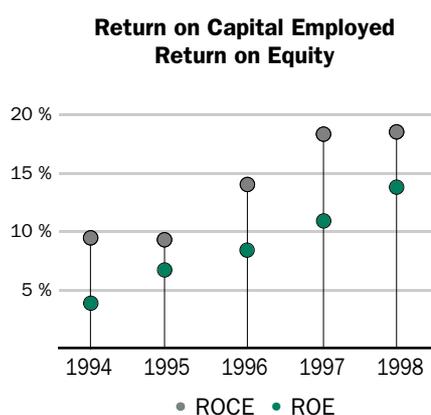
## **Sale of German recycling operations**

The market demand for the combined disposal of all waste materials, including waste paper, resulted in the focus of this business increasingly shifting away from Mayr-Melnhof's core business. This led to the sale of nine German recycling companies instead of pursuing the strategic alternative, which would have been to focus on the recycling market with considerable investments and acquisitions.

## **Modernisation of cartonboard machine III at Frohnleiten plant**

Cartonboard machine III at the Frohnleiten mill has been brought into line with the latest technological standards after being rebuilt in record time. This has further improved the mill's cartonboard quality and competitiveness. The total investment was approximately ATS 250 million. The machine was put into operation at the end of January 1999 and is running on schedule.

# Report on the Situation of the Group



## Dear Shareholder,

1998 was the most profitable year in the history of your company to date. As a result of the concentration on core business areas and company specific strengths, we were able to gain a larger market share as well as increase efficiency, despite intense competition and the continuing consolidation of the industry.

## Development of business in 1998

The 1998 financial year was characterised by excellent use of production capacities, although the volume of production had to be adjusted temporarily to accommodate fluctuations in demand. As a result of acquisitions and new business, we were able to increase the volume of both production and sales.

Following an excellent first half-year, demand for cartonboard and folding cartons declined during the second half as a result of the crisis in Russia. Due to the ongoing economic recession in South-East Asia, the cartonboard business outside Europe was subject to unrelenting pressure from Asian competitors.

The Cartonboard Division, however, continued to grow in 1998, benefiting particularly from stable prices in Western Europe, and the low level of waste paper prices, as well as from cost savings, and good utilisation of capacities during the first six months of the year.

The successful implementation of its marketing strategy enabled the Packaging Division to once again achieve a significant increase in volume in 1998. Despite higher cartonboard prices and the effects of the crisis in Russia, the division's earnings were maintained at the previous year's level due to on-going cost-reduction measures.

With a growing demand of the market towards the combined disposal of all waste materials, including waste paper, the focus of business in the recycling sector gradually shifted away from the core business areas of the Mayr-Melnhof Group. Therefore, nine German recycling companies were sold. Due to their essential disposal and supply function for the Mayr-Melnhof cartonboard mills, the remaining waste paper operations will be accounted for within the Cartonboard Division.

Consolidated sales increased 8.0% to ATS 12,451 million. This was primarily attributable to acquisitions, but also due to a greater volume of sales in Europe. The Cartonboard Division reported sales of ATS 8,128 million, compared to ATS 6,763 million the previous year. This 20.2% growth was due to the purchase of the

## Breakdown of Sales by Destination:

	1998	1997
EU (excl. Austria)	73%	75%
Austria	7%	8%
Eastern Europe	10%	6%
Asia	3%	3%
Other	7%	8%

Količevo cartonboard mill, and partly to the inclusion of the waste paper companies. The sales of the Packaging Division increased 11.9% to ATS 5,057 million. This increase was due equally in part to the inclusion for the first time of the previous year's acquisitions for an entire year, and to new business.

### Consolidated results

The Group's operating profit totalled ATS 1,201 million, an increase of 14.8% over the ATS 1,046 million in the previous year. This increase was attributable to the Cartonboard Division, which increased its operating profit by ATS 184 million to ATS 852 million. The Packaging Division's operating profit of ATS 349 million was slightly below the previous year (ATS 376 million).

Overall, the Group achieved an operating margin of 9.6% (1997: 9.1%), and a return on capital employed of 18.1%.

The financial result of –ATS 86 million was slightly better than that of the previous year despite expenditures for new acquisitions.

The result on ordinary activities for 1998 increased 16.9% to ATS 1,115 million.

The result on extraordinary activities totalled –ATS 126 million, resulting from extraordinary expenses, primarily restructuring costs, and an extraordinary devaluation of 50% of the investment in Servall, India, as well as extraordinary income from the sale of the recycling companies.

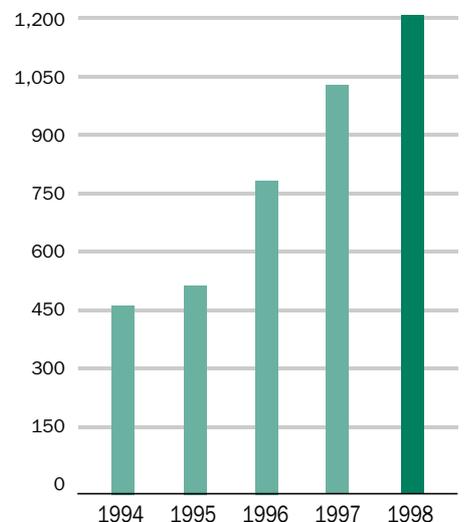
Income taxes declined to ATS 118 million due to the offsetting of losses carried forward from previous years.

Consolidated net income for the year, before deduction of minority interests, amounted to ATS 871 million, representing an increase of 35.2% compared to the previous year (1997: ATS 644 million).

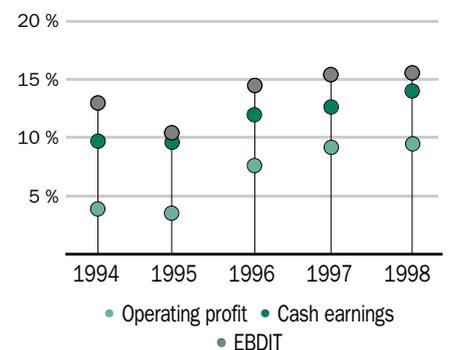
The cash earnings of the Mayr-Melnhof Group increased 22.6% to ATS 1,771 million in 1998.

The minority interest share of net income for the year amounted to ATS 17 million.

Operating profit (in ATS millions)



Selected Margins

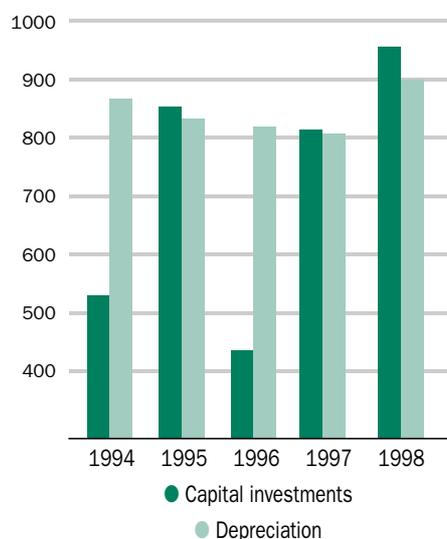


## Report on the Situation of the Group

### Consolidated Profit and Loss Statement (condensed version)

	1998 in € millions	1998 in ATS millions	1997 in ATS millions	+/- %
Net sales	905	12,451	11,525	+8.0%
Operating profit	87	1,201	1,046	+14.8%
Financial result	-6	-86	-92	
Result on ordinary activities	81	1,115	954	+16.9%
Result on extraordinary activities	-9	-126	-61	
Taxes on income	-9	-118	-249	
Net income (excl. minority interests)	63	871	644	+35.2%

### Capital Investments and Depreciation (in ATS millions)



### Consolidated balance sheet

The Group's total assets as of the balance sheet date totalled ATS 12,596 million, similar to the amount of the previous year. The net book value of tangible fixed assets increased to ATS 5,814 million, primarily as a result of acquisitions. Tangible fixed assets continued to be financed almost entirely from equity capital.

Operational current assets increased from ATS 3,478 million to ATS 3,785 million, primarily attributable to growth in sales.

Liquid assets including securities fell from ATS 3,108 million to ATS 2,268 million, primarily as a result of acquisitions.

The financing of the Group continues to be on a sound equity capital base of ATS 5,353 million. This represents an equity ratio of 42.5%. Return on equity after taxes was 13.9% in 1998 (1997: 11.3%). Provisions for pensions and severance payments totalled ATS 716 million, while long-term interest-bearing liabilities amounted to ATS 2,736 million (1997: ATS 3,147 million). The change compared to the previous year resulted from on-going repayments, as well as an increase due to the change in the number of companies consolidated. Short-term liabilities such as trade liabilities and provisions totalled ATS 3,660 million.

### Consolidated Balance Sheet (condensed version)

	Dec. 31, 1998 in € millions	<b>Dec. 31, 1998</b> in <b>ATS</b> millions	Dec. 31, 1997 in ATS millions	+/- %
Fixed assets	542	7,456	6,840	+9.0%
Current assets (incl. prepaid expenses)	374	5,140	5,663	-9.2%
<b>Total Assets</b>	<b>915</b>	<b>12,596</b>	<b>12,503</b>	<b>+0.7%</b>
Equity capital	389	5,353	4,907	+9.1%
Provisions	151	2,080	2,428	-14.3%
Liabilities (incl. deferred income)	375	5,163	5,186	-0.1%
<b>Total Equity Capital and Liabilities</b>	<b>915</b>	<b>12,596</b>	<b>12,503</b>	<b>+0.7%</b>

### Consolidated Cash Flow Statement

The cash flow from the result increased by ATS 293 million compared to the previous year. The cash flow from operations totalled ATS 1,382 million. The decline compared to 1997 was primarily due to the appropriate use of provisions. The change in working capital is largely the result of the disposal of the German recycling division and the acquisition of the new cartonboard mill. A cash flow from investing activities of –ATS 1,680 million can be attributed to payments for investments in tangible assets in the amount of ATS 869 million, and a decrease in liquidity due to the acquisition of new investments. An amount of ATS 232 million was paid to shareholders and minority interests in 1998 for the 1997 financial year. The overall volume of bank loans was reduced.

### Consolidated Cash Flow Statement (condensed version)

	1998 in € millions	<b>1998</b> in <b>ATS</b> millions	1997 in ATS millions
Cash flow from result	126	1,735	1,442
Cash flow from operations	100	1,382	1,782
Cash flow from investing activities	-122	-1,680	-1,748
Cash flow from financing activities	-40	-551	-509
Increase in liquid resources	-62	-849	-475
Group's total liquid resources	95	1,310	2,159
+ Group's investment securities	70	958	949
<b>Total resources available to the group</b>	<b>165</b>	<b>2,268</b>	<b>3,107</b>

### Value-added

The Mayr-Melnhof Group increased its operating revenue by 9.2% compared to the previous year, from ATS 11,901 million to ATS 12,996 million. This involved inputs such as raw materials and services in the amount of ATS 7,853 million. The net value-added of the Mayr-Melnhof Group amounted to ATS 4,117 million, a 6.1% increase from 1997.

ATS 1,805 million was paid to employees; equivalent to 43.8% of net value-added. The second largest percentage was social insurance (employer and employee contributions together), which accounted for ATS 784 million, or 19.0% of distributable value-added.

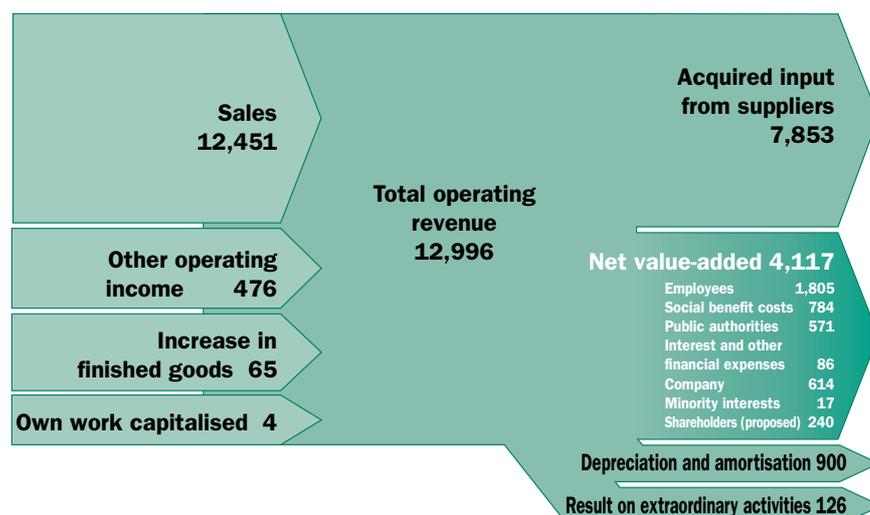
Government sources received ATS 571 million, or 13.9% of net value-added, in the form of revenues from taxes, income taxes, and other deductions. A total of ATS 1,355 million was paid in taxes and contributions, equivalent to 32.9% of net value-added.

ATS 86 million was paid to lenders in the form of bank interest and other financing costs. Minority interest participation amounted to ATS 17 million.

Shareholders will be paid ATS 240 million, or 5.8% of value-added, in the form of dividends for 1998.

The company retained profits totaling ATS 614 million.

### Value-added 1998 in ATS millions



## **Year 2000**

A Y2K project has been running in the Mayr-Melnhof Group since the beginning of 1998 to identify, analyse, adapt, and test problem areas regarding the change to the new millennium. These activities are being given top priority and should be complete by the autumn of 1999. The project is being coordinated throughout the Group, and focuses on critical areas. By the end of 1998, more than 50% of the identified systems had been adapted and tested. Suppliers and utilities have also been involved in the project and the preventive measures in order to ensure that the Mayr-Melnhof Group's production and supply capabilities remain intact over the turn of the millennium.

## **Financial statements of Mayr-Melnhof Karton AG**

The individual financial statements of the Group holding company showed a net income for the year of ATS 241 million. Interest income totalled ATS 76 million, and income from participating interests was ATS 194 million. A motion to be put to the Annual General Meeting for 1998 will propose payment of a dividend of ATS 20 per share, equivalent to a total payment of ATS 240 million.

## **Outlook for the 1999 financial year**

Economic forecasts available to date predict that Western Europe will experience only slight economic growth in 1999. It is anticipated that demand from Eastern Europe will stabilise in the second half-year, at the earliest. There are also indications that the price of waste paper will slightly increase. However, from today's perspective, the Group's operating profit should be approximately at the level of the previous year due to the Group's strong market presence, strategic customer relations, and an ongoing cost-reduction programme, coupled with a continual investment in quality improvement.



*"Best Carton of the Year" 1998*

## Research and development

**Approximately 1% of Group sales spent on Research & Development**

Research and development form the basis of Mayr-Melnhof's innovative achievement and the steady improvement of its products and processes. Innovative products and services in cartonboard and folding cartons are designed to give the Group a competitive edge. Close cooperation between research and development, marketing, and the customer ensures the practical orientation of all new development projects.

The annual expenditure on research and development over the course of the last two years has amounted to approximately 1% of group sales.

### **Cartonboard Division**

The R&D activities of the Cartonboard Division are coordinated from the central office at the Frohnleiten mill. The primary focus of the research work is on improving the properties of the recycled fibre, developing new formulations, and optimising production technology. Among other things, in 1998 the gloss, smoothness, and runability of the cartonboard was successfully enhanced without increasing production costs.

The objective of Mayr-Melnhof's intensive involvement in the committees working on European legislation is to promote cartonboard as a packaging material within the scope of laws and regulations. The Group's close collaboration with international research facilities produces a steady flow of advances that help to optimise the cartonboard varieties and the cartonboard – printing – packaging combination. Following the development of a cartonboard for fatty products, an aroma-sealing variety is currently being working on.

### **Mayr-Melnhof Packaging**

The R&D department in Kaiserslautern is the centre for the innovative achievements of MM Packaging. The developments in the packaging division are based on a consistent approach that ranges from cartonboard processing to system solutions for packaging.

**Packaging prize  
"Best Carton of the Year"**

MMP received the ECMA packaging prize for the "Best Carton of the Year" for its "Megabon" folding carton. The innovation involves both the conception and design of the folding carton as well as the construction of the packing machines. The emphasis of future research by the Packaging Division will be on primary packaging, new types of packaging solutions, and the integration of sales and transport packaging.

# Environment



*Fluidized bed drier for sludge,  
Frohnleiten*

The careful and efficient use of natural resources and active environmental protection have always been an integral element of the Mayr-Melnhof Group. Due to the use of waste paper, a renewable and recyclable resource, as our main source of raw material, environmental aspects are taken into consideration right from the purchasing stage. Other elements of Mayr-Melnhof's integrative environmental concept include processing with the lowest possible consumption of water and energy, low emissions, and minimal waste.

The main mill in Frohnleiten has been certified in accordance with EMAS and ISO 14.001 for some time now, and has achieved a high level of environmental protection. The objective is to continually increase this already high standard and transfer it to other mills through internal benchmarking.

Thanks to a new process, the Frohnleiten mill is able to turn residual fibre and residues from the water purification plant into a homogeneous product used in the building materials industry.

Finally, the cost of waste disposal at both the cartonboard mill and the folding carton facilities has been further reduced by consistently improving the opportunities for avoiding and recycling waste.

## **Audit of environmental activities**

Hirschwang is the second cartonboard mill to have completed its first internal environment audit, and is expected to achieve certification soon. Deisswil will be the next cartonboard mill to follow it.

## **Incorporation of customers and suppliers**

Mayr-Melnhof works closely with printers, producers of consumer products, and disposal companies to develop an environmentally friendly system embracing everything from production to recycling. This includes optimising packaging, using various combinations of materials, and indicating possible alternative methods of disposal.

The continual implementation of optimisation measures will help to ensure that Mayr-Melnhof is always at the cutting edge of technology, including matters relating to environmental protection.

**Use of a renewable and  
recyclable resource**

**New process turns residual fibre  
into product used in the building  
materials industry**



*Committed Employees and Staff representatives are the reason for our success*

# Staff Report

The enduring success of the Mayr-Melnhof Group is based on the qualification, motivation, and sense of responsibility of employees at all levels. The ongoing process of internationalisation and a decentralised management structure make high demands on personnel planning. For this reason, Mayr-Melnhof invests in specific development and training programmes. These programmes allow the Group to optimise the potential of each individual, and if possible, fill key positions in the Group from within.

Employee surveys and the measures derived from them are designed to make working for the Mayr-Melnhof Group an attractive proposition for the long-term.

The objective is to develop the ability of employees to operate in a business-like manner, and to create suitable organisational structures for this purpose. The trend towards result-oriented remuneration systems continues throughout the Group, ensuring that individual achievement is worthwhile and helps to achieve the Group's objectives. There were an average of 118 apprentices undergoing training in the Group in 1998. Close contact with cartonboard technical colleges and universities is another pillar of personnel development within the Group.

Internal communication processes within the Mayr-Melnhof Group are being optimised at regular intervals in order to shorten decision-making paths and to speed up the flow of information.

## Employment

The Mayr-Melnhof Group employed an average of 5,024 during 1998 (1997: 5,046). This change resulted from the sale of the Recycling Division (-374) and an increase of 336 employees as a result of acquisitions.

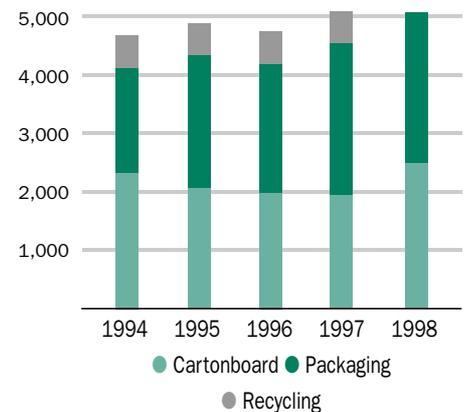
## 44% of value-added for employees

The net value-added of the Group amounted to ATS 4,117 million in 1998. ATS 1,805 million (44%) was paid to employees in the form of wages and salaries. A further 29% of value-added (ATS 1,192 million) was paid for social security contributions and income taxes.

## A word of thanks to our employees

The Managing Board would like to thank all employees for their high degree of personal commitment, which has made it possible to achieve another record year for the Group. This gratitude is also extended to European and local employee representatives for their dedication and constructive cooperation.

Employees by Division





*The newest technology for better cartonboard quality and competitiveness –  
Machine supervisor of the rebuilt cartonboard machine III in Frohnleiten*

# Mayr-Melnhof Cartonboard Division

**Mayr-Melnhof is Europe's largest manufacturer of recycled cartonboard. In 1998, the division's eight European mills produced a total of 1.12 million tonnes of cartonboard. The products of each mill are destined for specific markets.**

## Sales and demand

In Western Europe, the division's main market, consumption of cartonboard rose slightly by approximately 1% in 1998. However, in Eastern Europe, demand fell by approximately 5% due to the Russian crisis. Notwithstanding this, the Cartonboard Division managed to increase its sales above market growth. In Western Europe, the volume of sales rose by 3%; in Eastern Europe by 6%. However, demand developed very irregularly throughout 1998, and was significantly weaker in the second half of the year compared to the first half. There was a sharp drop in sales to markets outside of Europe due to strong pressure from Asian competitors, particularly in the Far East. The order backlog dropped from almost 80,000 tonnes at the beginning of the year to a satisfactory level of approximately 40,000 tonnes by the end of the year. The total volume sold in 1998 was approximately 1.11 million tonnes (1997: 1.02 million tonnes).

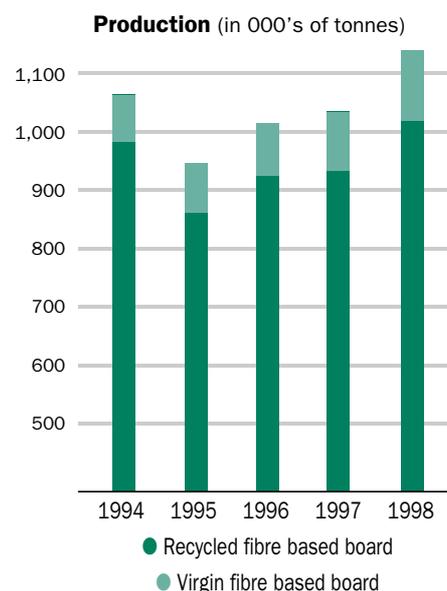
## Production and capacity

The division's mills manufactured 1.12 million tonnes of cartonboard in 1998, an increase totalling 93,000 tonnes, or 9%, compared to the previous year (1.03 million tonnes). This growth was entirely due to the acquisition of the cartonboard mill in Količevo. Although production was at full capacity during the first half of the year, utilisation declined to 95% in the second half due to the volume of production being adjusted to fluctuations in demand.

The primary focus of investments, totaling ATS 589 million, was on improving the characteristics of cartonboard, such as smoothness and printability, by implementing the latest technologies, and on a further reduction of costs.

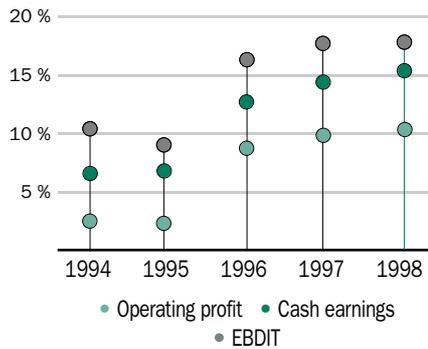
## Raw materials and waste paper

Throughout 1998, the price of mixed waste paper, the main raw material for cartonboard, remained at a low level, due to adequate supply. The prices of pulp and coating chemicals showed a tendency to rise. However, these increases were offset by the development of new formulations.





**Selected Margins**



**Breakdown of Sales by Destination:**

	1998	1997
Austria	2.8%	8.1%
EU (excl. Austria)	70.2%	69.2%
Eastern Europe	11.0%	4.6%
Asia	3.8%	6.4%
Other	12.2%	11.7%

Following the sale of the majority of the German recycling companies, the total volume of waste paper collected by the division in 1998 was 511,000 tonnes, approximately 41% of which (208,000 tonnes) was supplied to MM's cartonboard mills. Due to their procurement and supply function, the remaining waste paper companies will be accounted for within the Cartonboard Division. This will have minimal effect on the consolidated results of the Cartonboard Division.

### Development of the division

Healthy demand during the first half of the year made it possible to hold the price level of cartonboard in western Europe steady following a slight price increase at the end of 1997. This, combined with a reduction of production costs and an increased market share, allowed the division to achieve a very satisfactory result for 1998. The operating profit rose 27.5%, compared to the previous year, to ATS 852 million (1997: ATS 668 million). This corresponds to an operating margin of 10.5% (1997: 9.9%). Cash earnings rose 32.7% to ATS 1,253 million (1997: ATS 944 million). At ATS 8,128 million, sales were 20.2% above the level of the previous year (1997: ATS 6,763 million).

### Indian joint venture

Production by Servall was shut down as a result of the currency-induced rise in capital costs and the generally weak condition of the Indian economy. Although the mill is technically fully functional, it is not possible to predict when production will be resumed. A devaluation has been made to half of the 25% holding, which does not allow the division to exercise significant influence.

### Reduction of EU fine

The EU anti-trust proceedings, on-going since 1991, ended with a judgement which reduced the fine for Mayr-Melnhof by approximately ATS 55 million.

### Cooperation with Reno de Medici

The cooperation with the Italian partner got off to a good start in 1998. By taking advantage of synergies, Mayr-Melnhof was able to achieve significant cost reductions in the areas of marketing, purchasing, and production.

## Performance Indicators\*

Cartonboard	1996	1997	1998
Employees	2,005	1,977	2,486
Percentage change		-1.4%	+25.7%
Tonnage produced (in 000's)	1,012	1,031	1,124
Percentage change		+1.9%	+9.0%
Capacity utilisation	91%	95%	97%
Total assets in ATS (€) millions	7,315 (532)	8,095 (588)	9,088 (660)
Percentage change		+10.7%	+12.3%
Capital Investments in ATS (€) millions	227 (16)	336 (24)	589 (43)
Depreciation in ATS (€) millions	546 (40)	518 (38)	580 (42)

## Development of Sales in ATS (€) millions

Sales**	6,584 (478)	6,763 (491)	8,128 (591)
Percentage change		+2.7%	+20.2%

## Earnings Data in ATS (€) millions

EBDIT	1,113 (81)	1,186 (86)	1,432 (104)
Percentage change		+6.6%	+20.7%
Percentage of total Group	72.0%	66.0%	72.6%
Operating profit	567 (41)	668 (49)	852 (62)
Percentage change		+17.8%	+27.5%
Percentage of total Group	73.9%	63.9%	70.9%
Cash earnings	838 (61)	944 (69)	1,253 (91)
Percentage change		+12.6%	+32.7%
Percentage of total Group	66.2%	65.3%	70.8%

## Profitability Indicators

Return on capital employed	16.1%	20.9%	23.8%
Return on investment	10.0%	12.8%	17.5%

\* A definition of the above indicators can be found in the glossary on page 60.

\*\* Includes sales with other divisions.

1€ = 13.7603 ATS

## Outlook

The economic forecasts available to date indicate that there will be no significant economic growth for Western Europe in 1999. Demand from Eastern Europe is expected to stabilise by the second half of the year. Mayr-Melnhof should nevertheless be able to achieve sales and operating results on par to those for the 1998 financial year, thanks to its strong market presence, its strategic customer relationships, and the enhanced quality resulting from the rebuilding of cartonboard machine III in Frohnleiten.



*The best training ensures quality*

# Mayr-Melnhof Packaging Division

**The Mayr-Melnhof Group is Europe's leading manufacturer of folding cartons. In 1998, a total of 248,000 tonnes of cartonboard were processed at 20 European facilities to make folding cartons, giving the Group a market share of approximately 9%.**

## Sales and demand

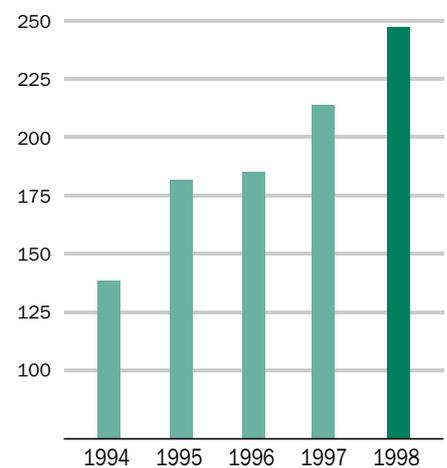
The development of the market during the first half-year was characterised by healthy demand in both Western and Eastern Europe. However, with the onset of the financial crisis in the second half of the year, the flow of consumer goods from Western Europe to Russia was interrupted. This also affected indirect exports of folding cartons; the cigarette packaging sector being particularly hit hard. For the same reason, there was also a marked decline in the economic output of the Eastern European countries.

In 1998, business was once again subject to intense price competition, as well as further concentrations on the supply side. Under difficult market conditions, the division was able to increase the volume of production by 15% to 248,000 tonnes. Apart from competitive production costs, the decisive factor in the success of the division was a further expansion of pan-European sales to key multinational customers, who account for approximately 60% of sales.

## Agreement with Kellogg

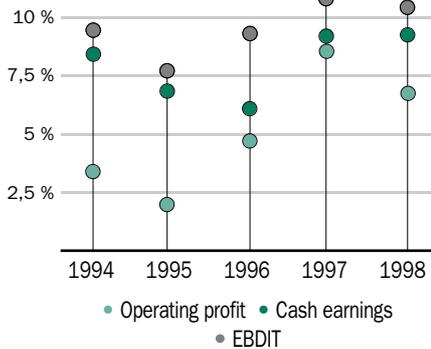
In March 1998, this approach bore fruit in the form of a long-term agreement to supply folding cartons to Kellogg, the world's largest producer of breakfast foods. Under this agreement, MMP will be the sole European supplier of folding cartons to the Kellogg factories in the UK, Germany and Spain. After an initial start-up phase, from the year 2000 onward, an annual volume of 60,000 tonnes will be supplied.

**Tonnage Processed** (in 000's of tonnes)





**Selected Margins**



**Breakdown of Sales by Destination:**

	1998	1997
Austria	13.0%	15.9%
EU (excl. Austria)	77.9%	77.2%
Eastern Europe	7.6%	6.8%
Asia	1.2%	0.0%
Other	0.3%	0.1%

**Supply chain management**

The division's marketing strategy was expanded in 1998 to embrace the concept of supply chain management. This involves utilising the maximum potential in the value-added chain, together with the customer, to reduce overall packaging costs.

**Development of the division**

Good utilisation of production facilities, coupled with further cost reduction measures and the implementation of the marketing strategy, enabled the division to keep earnings at a high level despite the noticeable effects of the crisis in Russia and increased cartonboard prices.

Net sales increased 11.9%, compared to the previous year to ATS 5,057 million. Sales achieved in the cigarette packaging sector totalled ATS 1.2 billion in 1998, compared to ATS 750 million for the three quarters of the previous year ended.

The operating profit fell 7.2% from ATS 376 million to ATS 349 million. This represents an operating margin of 6.9%, compared to 8.3% in the previous year. Cash earnings totalled ATS 452 million, or 8.9% of sales (1997: ATS 382 million or 8.5%). A total of ATS 324 million was spent on investment. The main emphasis was on the introduction of new technologies at the pre-press stage, and in the printing sector.

**Full acquisition of Behrens Pack & Print**

The acquisition of the remaining shares in the German packaging company of Behrens Pack & Print in Alfeld and Berlin represented an important step towards concentrating the operations of the MMP's German group, which has seven production facilities.

**Outlook**

The folding carton market in Western Europe will continue to be characterised by strong competition. Due to the weak economic situation, it will only be possible to achieve growth by increasing market share, or through acquisition. It should be possible to maintain margins thanks to on-going rationalisation. The companies in Romania and Hungary are expected to develop satisfactorily as soon as demand in Eastern Europe recovers. The division will once again pursue a policy of entering into strategic partnerships, based on sufficient capacities and availability, throughout Europe.

## Performance Indicators\*

Packaging	1996	1997	1998
Employees	2,183	2,494	2,538
Percentage change		+14.2%	+1.8%
Tonnage processed (in 000's)	184	215	248
Percentage change		+16.8%	+15.3%
Total assets in ATS (€) millions	2,304 (167)	3,494 (254)	3,824 (278)
Percentage change		+51.6%	+9.4%
Capital Investments in ATS (€) millions	141 (10)	395 (29)	324 (24)
Depreciation in ATS (€) millions	152 (11)	157 (11)	177 (13)

## Development of Sales in ATS (€) millions

Total sales	3,728 (271)	4,715 (343)	5,284 (384)
Percentage change		+26.5%	+12.1%
less pro rated sales by proportionally consolidated companies	120 (9)	196 (14)	227 (16)
Sales**	3,608 (262)	4,519 (328)	5,057 (368)
Percentage change		+25.2%	+11.9%

## Earnings Data in ATS (€) millions

EBDIT	327 (24)	533 (39)	526 (38)
Percentage change		+63.0%	-1.3%
Percentage of total Group	21.2%	29.6%	26.7%
Operating profit	175 (13)	376 (27)	349 (25)
Percentage change		+114.9%	-7.2%
Percentage of total Group	22.8%	35.9%	29.1%
Cash Earnings	220 (16)	382 (28)	452 (33)
Percentage change		+73.6%	+18.5%
Percentage of total Group	17.4%	26.4%	25.5%

## Profitability Indicators

Return on capital employed	14.4%	21.3%	14.5%
Return on investment	10.9%	16.8%	15.0%

\* A definition of the above indicators can be found in the glossary on page 60.

\*\* Includes sales with other divisions

1€ = 13.7603 ATS

