

# 1<sup>st</sup> Half-Year Report **2002**



- Very successful development of business
- High capacity utilization in both Divisions
- As expected, half-year net income slightly below the previous year
- Positive outlook for the third quarter
- Swift price increase compensated significant rise in raw material costs
- Dynamics of private consumption to influence further development

# Mayr-Melnhof Group

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## *Dear Shareholders,*

Despite a weak economic environment your Company has been very successful during the first half-year of 2002.

As demand for non-durable consumer goods remained stable, the Packaging Division registered an on-going positive development of business. Consequently, cartonboard demand in Europe and Asia was better than expected, enabling the Cartonboard Division to almost fully utilize capacities during the first six months of 2002.

As expected, the Mayr-Melnhof Group concluded the 2002 first half-year with a net result for the period which was slightly below the previous year's record level. Net income amounted to EUR 43.5 million after EUR 48.5 million in 2001.

Due to the high capacity utilization as well as the previous year's acquisitions, consolidated sales increased 7.4 %, reaching EUR 600 million, despite lower average sales prices (1<sup>st</sup> half of 2001: EUR 558.9 million).

At EUR 67.8 million, operating profit was 4 % below the previous year's level of EUR 70.6 million. Despite sharply rising waste paper prices in the second quarter this difference could be kept to a minimum thanks to high utilization rates.

Net interest increased to EUR -0.5 million (1<sup>st</sup> half of 2001: EUR -1.1 million).

Following non-recurring earnings from the disposal of business, other-net (including equity income) amounted to EUR 5.2 million in the previous year. At EUR 0.8 million for the first half of 2002 it was back on a "normal" level.

Therefore, income before income taxes and minority interests totaled EUR 68.1 million after EUR 74.7 million in the previous year. The effective Group income tax rate was approximately 36 % after 34 % in the first half of 2001.

Taking into account the current share repurchase program, a weighted average of 11,043,958 shares were in circulation during the period under review. This resulted in earnings per share of EUR 3.94 (1<sup>st</sup> half of 2001: EUR 4.06).

Compared to the 2001 year-end, shareholders' equity increased from EUR 523.5 million to EUR 541.3 million. This rise primarily results from the income for the period, put together with the dividend paid by Mayr-Melnhof Karton AG to the Company's shareholders for the 2001 financial year.

On June 30, 2002, total assets of the Mayr-Melnhof Group amounted to EUR 1,108.9 million (12/31/2001: EUR 1,075.9 million). An equity ratio of 48.8 % (12/31/2001: 48.7 %) underlines the Group's continuous solidity in its balance sheet structure. Beyond that, total resources available to the Group, which include liquid resources and marketable securities, surpassed interest-bearing debt by EUR 4.2 million and reached EUR 191.8 million (12/31/2001: EUR 247.0 million) after payments for the acquisition of businesses, dividends and repayment of bank debt.

Investments during the first six months of 2002 totaled EUR 30 million (1<sup>st</sup> half of 2001: EUR 24.9 million). In the Cartonboard Division, investments largely concentrated on modernization activities in connection with the upcoming rebuilding of board machine 2 in Frohnleiten as well as the installation of a cross-cutter at the Neuss mill. The Packaging Division focused its investment on the commissioning of a new printing machine at the Trier cigarette packaging facility and a new micro-flute laminating-machine at the Neupack packaging facility.

# Mayr-Melnhof Group

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## Development in the 2<sup>nd</sup> Quarter

Due to the favorable sales conditions on the European markets, capacity utilization was very healthy in both Divisions throughout the second quarter. This scenario was supported by anticipated purchases as the sharp increase in waste paper prices necessitated a cartonboard price increase of 10 %.

Higher raw material prices only put pressure on the month of June, as the implementation of the cartonboard price increase had already become effective by the beginning of July.

For this reason, and in conjunction with the fact that capacities were fully utilized, the Group's second quarter operating profit at EUR 33.3 million almost matched that of the first quarter (EUR 34.5 million).

The Packaging Division will pass on higher prices to end-users in the course of the third quarter.

## Change in the Management and Supervisory Boards

The new Management Board of Mayr-Melnhof Karton AG is made up as follows:

**Wilhelm HÖRMANSEDER**  
Chairman

(until May 14, 2002 Deputy Chairman)

**Andreas BLASCHKE**  
Member of the Board

**Herbert NOICHL**  
Member of the Board

**Franz RAPPOLD**  
Member of the Board

New positions were commenced on May 14, 2002.

Following the 8<sup>th</sup> Annual Shareholders' Meeting, Michael GRÖLLER succeeded Carl Anton GOESS-SAURAU as chairman of the Supervisory Board. Mr. GOESS-SAURAU was elected Honorary-Chairman of the Supervisory Board.

## Important events

The *acquisition of the Graphia Group*, a renowned producer of cigarette packaging and high grade confectionery packaging, in mid-April, constitutes a major step forward for Mayr-Melnhof in strengthening its "Cigarette Packaging" business and expanding into Eastern Europe. Graphia's rotogravure, offset and flexo printing technologies represent an ideal strategic expansion in connection with Mayr-Melnhof's existing cigarette packaging business. In 2001, the three German facilities and the plant in the Ukraine achieved total sales of approximately EUR 150 million and converted roughly 50,000 tons of board and paper. The Graphia Group will be included in Mayr-Melnhof's consolidated accounts beginning in the third quarter of 2002. The integration process will last until the end of 2002 and integration costs are expected to be entirely covered by the companies' earnings.

Mayr-Melnhof bought the *Bulgarian board mill Nikopol*, effective by the end of June. This acquisition aims to develop a solid production capacity in the run-up of Bulgaria's accession to the EU and will primarily serve the Russian, Turkish and Central European Markets. With a 4.4 meter trim, the mill's board machine is among the largest in Europe. At its current stage of development the machine has an annual production capacity of approximately 70,000 tons. Initial investments will concentrate on putting the mill into operation and on the production of European standard quality board. Therefore positive earnings contribution cannot be expected before the year 2003. In the coming years, the mill's capacity shall be increased in line with market demand.

## Mayr-Melnhof Cartonboard Division

Due to better than expected demand from Western Europe and increased sales to overseas markets the Cartonboard Division's capacities could be utilized by approximately 98 % during the first half-year of 2002 (1<sup>st</sup> half of 2001: 90 %). Partly influenced by the announcement of a price increase, the average order backlog was at 100,000 tons, twice the level during the identical period of the previous year (50,000 tons).

Cartonboard sales of approximately 758,000 tons were 20.9 % higher than in the 2001 first half-year (627,000 tons). About 79 % of this volume was delivered to Europe and 21 % to overseas markets (1<sup>st</sup> half of 2001: 82%; 18%). Production rose by 19.9 % to reach approximately 742,000 tons. This increase in production and sales mainly results from the high capacity utilization and the acquisition of the Gernsbach mill in the previous year.

Primarily resulting from a temporary peak in Asian demand, waste paper prices rose sharply since the beginning of April 2002, therefore necessitating an

increase in European cartonboard prices of about 10 %. On the non-European markets, cartonboard prices have clearly increased, leading to continuously better pricing throughout the first half-year.

Although European pricing was kept stable, and except for some alterations in the product mix, the Cartonboard Division's average sales price declined in comparison with the previous year due to the increased share of overseas business with structurally lower prices. Through the strong rise in sales volume, however, sales climbed by 10.5 % to EUR 396.7 million. As expected, operating profit amounting to EUR 50.1 million fell below last year's level of EUR 54.6 million despite high utilization of capacities. This change particularly resulted from strongly increased waste paper prices in June as well as the previous year's non-recurring operating income. The operating margin was at 12.6 % after 15.2 % in the first half of 2001.

### Performance Indicators Cartonboard

(US GAAP, unaudited)

(in EUR millions)	1-6/2002	1-6/2001	+/-
Sales <sup>1)</sup>	396.7	359.0	+10.5%
Operating profit	50.1	54.6	-8.2%
Operating margin	12.6%	15.2%	
Tonnage produced (in thousands of tons)	742	619	+19.9%
Employees	2,458	2,453 <sup>2)</sup>	

<sup>1)</sup> incl. interdivisional sales

<sup>2)</sup> as of December 31, 2001

## Mayr-Melnhof Packaging Division

Due to a generally stable European demand for folding cartons the Packaging Division registered a sustained positive development of business throughout the first half-year of 2002.

Primarily resulting from acquisitions, the tonnage processed during the first six months reached 177,000 tons, an increase of 7.3 % over the previous year's level (1<sup>st</sup> half of 2001: 165,000 tons). For this reason, the decline in volume due to divestitures in 2001 could be more than compensated for.

The increase in sales from EUR 249.3 million to EUR 256.8 million is mainly attributable to the rise in volume. Due to on-going optimization measures, both the general packaging area as well as the cigarette packaging area achieved solid earnings development. The improvement in operating profit by 10.6 % to EUR 17.7 million (1<sup>st</sup> half of 2001: EUR 16 million) led to an operating margin of 6.9 % (1<sup>st</sup> half of 2001: 6.4 %).

### Site optimization continued

Production in the French packaging facility Copacarton was ceased by mid-year 2002 as the company could not reach a profitable size. The plant had a converting capacity of about 4,000 tons per annum and employed approximately 50 people. The company's order volume will be transferred to more efficient MMP facilities.

## Performance Indicators Packaging

(US GAAP, unaudited)

(in EUR millions)	1-6/2002	1-6/2001	+/-
Sales <sup>1)</sup>	256.8	249.3	+3.0%
Operating profit	17.7	16.0	+10.6%
Operating margin	6.9%	6.4%	
Tonnage processed (in thousands of tons)	177	165	+73%
Employees	2,949	2,966 <sup>2)</sup>	

<sup>1)</sup> incl. interdivisional sales

<sup>2)</sup> as of December 31, 2001

## Outlook

Recent economic forecasts finally deflated all optimistic expectations for an economic upturn in the third and fourth quarter. The economic recovery in the US as well as in Western Europe will be further postponed, thus leading to zero growth expectations for the 2<sup>nd</sup> half-year of 2002.

The price increases which were announced in the middle of the second quarter have become effective for both the Cartonboard and the Packaging Division. Therefore, a far reaching compensation of the strong rise in raw material costs can already be expected for the third quarter especially in the Cartonboard Division.

In view of the uncertainty regarding the economic development, customers in Europe and overseas tend to plan on a more cautious and short-term basis. The Cartonboard Division's order backlog which leveled out at approximately

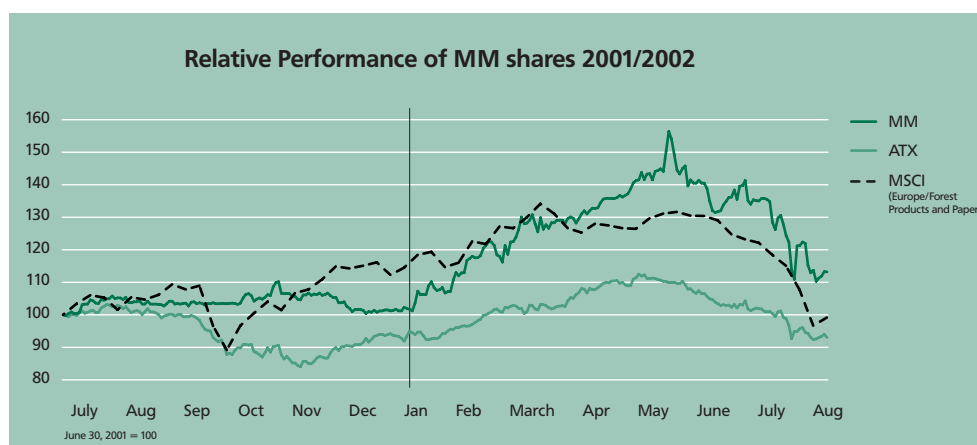
60,000 tons in mid-August (60,000 tons in the previous year) points to a continued satisfactory utilization at least also in the month of August.

On the international waste paper markets a high level of price stability followed the price explosion which occurred between April and July. Mayr-Melnhof will therefore aim to keep European prices stable following the implementation of the price increase.

The further development of business will be highly dependent on the dynamics of private consumption. As in the past, Mayr-Melnhof will adjust production to demand, if necessary. Current limitations to visibility allow us to expect a continuation of the positive business trend first of all for the third quarter of 2002.

**The Management Board of  
Mayr-Melnhof Karton AG**

## Mayr-Melnhof Shares



Share price (closing price)	as of August 16, 2002	EUR 60.25	Number of shares outstanding	12,000,000
	High 2002	EUR 81.78	Market capitalization	
	Low 2002	EUR 52.90	as of August 16, 2002	EUR 723 million

### Share Repurchase Program

Since March 19, 2001, the Mayr-Melnhof Group has been repurchasing own shares. The maximum repurchase volume is limited to 1.2 million shares or 10 % of the Company's capital stock. Until June 30, 2002, 976,388 shares, equivalent to 8.14 % of the capital stock have been repurchased for the amount of EUR 53.14 million, including fees. The eighth ordinary Shareholders' Meeting authorized the Management Board to repurchase own shares until November 14, 2003.

### Mayr-Melnhof wins retail investor prize 2002

Presented by WirtschaftsBlatt, an Austrian business newspaper, Mayr-Melnhof was awarded the retail investor prize by Austrian private investors who elected Mayr-Melnhof as the most investor-friendly share. Companies were rated on the criteria of "information policy", "compliance with company targets" and "share price potential".

*Results for the first three quarters of 2002 will be released November 19, 2002.*

# Group Key Indicators

(US GAAP, unaudited)

(consolidated in EUR millions)	1-6/2002	1-6/2001	+/-
<b>Statement of Income</b>			
Sales	600.0	558.9	+7.4%
EBITDA	109.0	111.7	-2.4%
(in % of sales)	18.2%	20.0%	
Operating profit	67.8	70.6	-4.0%
Operating margin	11.3%	12.6%	
Net interest expense	(0.5)	(1.1)	
Other (including equity income) – net	0.8	5.2	
Income before income taxes and minority interests	68.1	74.7	-8.8%
Income taxes	(24.4)	(25.6)	
Net income	43.5	48.5	-10.3%
(in % of sales)	7.3%	8.7%	
Basic and diluted earnings per share (in EUR)	3.94	4.06	
Cash earnings	85.8	86.5	-0.8%
(in % of sales)	14.3%	15.5%	
Capital expenditures	30.0	24.9	
Depreciation and amortization	40.4	35.9	
	<b>June 30, 2002</b>	Dec 31, 2001	
Employees	5,407	5,419	
<b>Balance Sheet</b>			
Current assets	487.0	498.6	
Total assets	1,108.9	1,075.9	
Capital stock	87.2	87.2	
Stockholders' equity	541.3	523.5	
Total liabilities	567.6	552.4	
<b>Balance Sheet Indicators</b>			
Enterprise value	805.6	607.7	
Equity to total assets	48.8%	48.7%	
Net debt	-4.2	-33.9	
<b>Profitability Indicators</b>			
Return on equity <sup>1)</sup>	15.0% <sup>1)</sup>	14.9%	
Return on capital employed <sup>1)</sup>	24.3% <sup>1)</sup>	24.8%	

<sup>1)</sup> annualized

Quarterly Overview  
**Mayr-Melnhof Group** (US GAAP, unaudited)

(consolidated in EUR millions)	I/2001	II/2001	III/2001	IV/2001	I/2002	II/2002
Sales	277.8	281.1	287.6	276.4	294.4	305.6
Operating profit	36.9	33.7	28.4	21.2	34.5	33.3
Operating margin	13.3%	12.0%	9.9%	7.7%	11.7%	10.9%
Net interest expense	(0.6)	(0.5)	(0.5)	0.1	(0.3)	(0.2)
Income before income taxes and minority interests	37.0	37.7	27.5	21.1	34.2	33.9
Income taxes	(13.0)	(12.6)	(9.3)	(9.3)	(12.2)	(12.2)
Net income	23.6	24.9	18.0	11.4	21.9	21.6
(in % of sales)	8.5%	8.9%	6.3%	4.1%	7.4%	7.1%
Basic and diluted earnings per share (in EUR)	1.97	2.09	1.55	1.05	1.98	1.96

Quarterly Overview  
**Divisions** (US GAAP, unaudited)

(in EUR millions)	I/2001	II/2001	III/2001	IV/2001	I/2002	II/2002
<b>Cartonboard</b>						
Sales <sup>1)</sup>	177.5	181.5	185.5	179.6	189.5	207.2
Operating profit	29.3	25.3	19.4	16.4	25.4	24.7
Operating margin	16.5%	13.9%	10.5%	9.1%	13.4%	11.9%
Tonnage produced (in thousands of tons)	311	308	335	321	362	380
<b>Packaging</b>						
Sales <sup>1)</sup>	127.0	122.3	126.2	119.2	130.9	125.9
Operating profit	7.6	8.4	9.0	4.8	9.1	8.6
Operating margin	6.0%	6.9%	7.1%	4.0%	7.0%	6.8%
Tonnage processed (in thousands of tons)	87	78	80	75	88	89

<sup>1)</sup> incl. interdivisional sales

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