MM KARTON AG

Annual Report 1999

Contents

(left to right) The Managing Board: Michael Gröller, Alfred Fogarassy, Wilhelm Hörmanseder

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

Vice-Chairman
Romuald BERTL
Graz

Board Members
Gerhard GLINZERER
Vienna

Clemens GOESS-SAURAU
London

Manfred GRUNDAUER
Frohnleiten
Delegate of the European Staff Council of the Mayr-Melnhof Cartonboard Division

Hubert ESSER
Neuss
Delegate of the European Staff Council of the Mayr-Melnhof Cartonboard Division

Gerhard NOWOTNY
Vienna
Delegate of the Staff Council of the Mayr-Melnhof Packaging Division

Foreword by the Chairman of the Managing Board

Dear Shareholder,

Your Company has experienced a significant increase in its profitability and competitiveness over the years since it went public. Our profit per share has increased more than fourfold, and we have also considerably enhanced our market position as the world's largest producer of recycled cartonboard and Europe's largest manufacturer of folding cartons. This success justifies decisions and measures that were often not easy. For instance, it was necessary to close down unprofitable mills and machines in time, and even to question – and finally to sell off – the entire Recycling Division due to new trends in the industry and unsatisfactory long-term results. On the other hand, we have made a number of ground-breaking acquisitions and investments which have heavily contributed to ensuring the market strength and profitability of the MM Group today. This has required a great deal of know-how, courage and the conviction that together we have chosen the right course. I would therefore like to express my gratitude to my colleagues in management, and to all members of staff. Also, I would like to thank our shareholders for the great amount of trust and support which they have granted our management team over the years.

Mayr-Melnhof Karton AG is positioned upon a firm foundation, and will continue to expand. In respect to the rapid growth of the Packaging Division, which was able to more than triple the tonnage processed in recent years, we are now placing greater priority on acquisition projects involving cartonboard. Our mutual objective is to increase the return on capital employed, and enhance the value of our Company so that we can not only pay an attractive dividend, but also ensure that the value of our shares continues to grow. In light of this, the Group aims to achieve a return on capital employed, ranging from 10 to 20 percent, and a return on equity of between 8 and 13 percent throughout the business cycle. Both of the Group's divisions are pursuing this objective as independent profit centres.

In line with our leadership claim, we at Mayr-Melnhof also intend to differentiate ourselves from our competitors through clear customer orientation, cost leadership, and best practices in all areas of the Company. In our corporate culture we believe in a responsible approach to management and short communication channels. This is the reason why our managers and many members of staff are paid according to performance.

Through the consistent pursuit of this strategy, our Group managed to place the dynamic changes in the market place at its advantage during the last financial year by displaying a high degree of flexibility. Due to the favourable economic climate world-wide, there has been a significant increase in the organic growth of both cartonboard and packaging during the last nine months. At the same time, however, the mechanisms of demand also led to an enduring rise in the prices of our most important raw materials, especially waste paper, pulp and natural gas. Only due to the increased selling prices, were we able to achieve the results we had budgeted for.

Although we carefully considered a number of projects, 1999 was not a year of acquisition, but one of strategic investment in both divisions. This enabled us to substantially improve the productivity and efficiency of our facilities and the quality of our products. Thanks to a good utilisation of capacities, we were also able to further reduce unit costs.

As expected, our future-oriented investment expenditure – which requires time to provide a return – coupled with an increase in capital employed, have led to a reduction in our ROCE, from 18.1% to 15.2%. However, this year the indicator should improve due to the fact that we will already be utilising this new potential.

The Mayr-Melnhof Group managed to remain on course throughout the last financial year, thanks to the joint effort made by every member of our staff. Indeed, with net income totalling EUR 61.4 million, we were even able to exceed our original ambitious early budget result of EUR 58 million. On the strength of this result, the Managing Board will recommend increasing the dividend from EUR 1.45 to EUR 1.55. For a long period of time, however, our share price was in complete contradiction to this successful development, and it is only in the last few months that it has shown a tendency to rise.

Due to the desire expressed by many international investors, effectively beginning from the first half-year of 2000, and retroactively to the financial year 1998, our reporting will be in accordance with US GAAP.

Mayr-Melnhof will continue to play an active role in the international process of concentration within the cartonboard and packaging industries, aiming to increase the growth and profitability of the Group.

Our objective is to make the year 2000 another year of success.

In a number of promising projects carried out during the course of last year, we have established the internal conditions which permit us to predict a further improvement in our efficiency and competitiveness. The main focus of our investment activities will once again concentrate on the enhancement of both productivity and quality, while also treating the introduction of e-business solutions as a high priority. Despite the generally healthy demand, our present perspective views the sharp increase in the prices of the most important raw materials for the production of cartonboard and folding cartons and the implementation of price increases, as the greatest challenges in the coming year. Currently, we do not see an end to these spiralling prices. As in the past, however, a number of long-term supply agreements will ensure dependable supplies of waste paper, our most important raw material. We should be able to utilise further potential for the reduction of costs by optimising our supply chain in close cooperation with our customers and suppliers.

Your Company is well positioned to meet these challenges!

Michael Gröller
CEO and Chairman of the Managing Board

Mayr-Melnhof shares

In April 1999, the Vienna Stock Exchange introduced a Specialist System designed to increase share liquidity and enhance market-making. Under the new scheme, a "Specialist Market-Maker" gives a particular commitment for size and spread. Since then, MM shares have been traded in the ATX Segment. The conversion of the trading platform to Xetra® on November 5, 1999, has significantly facilitated technical access to the Vienna stock market, therefore granting greater access to MM shares.

The weighting of MM shares in the ATX at year-end was 2.48 %. With an average daily turnover of 69,000 shares, equivalent to EUR 3 million, Mayr-Melnhof shares were again one of the most heavily traded securities on the Vienna Stock Exchange.

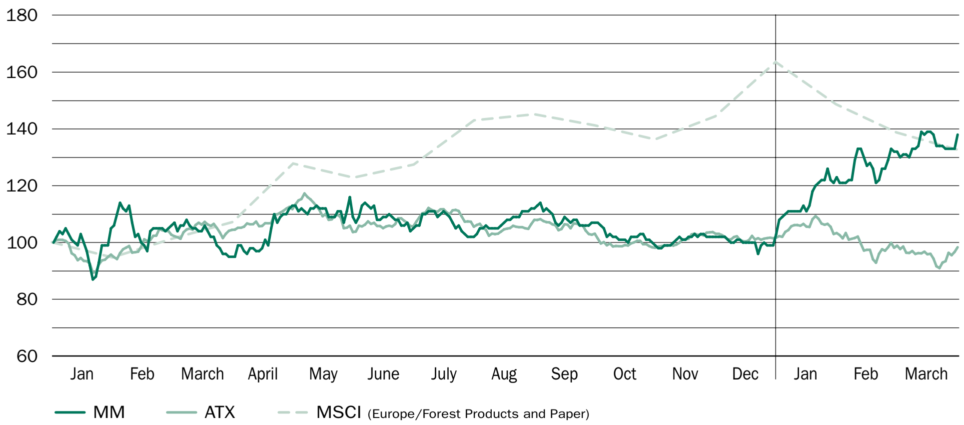
In order to provide foreign investors easier access to Mayr-Melnhof shares, they are also listed on the SEAQ (London Stock Exchange) and in an ADR programme with the Bank of New York (symbol: MNHFY).

Performance

In 1999, MM shares clearly outperformed the ATX due to a sharp rise in December and a total performance for the year of +15.5%. Nevertheless, they were unable to match the dynamic rise of the comparable MSCI industry index, which recorded an increase of over 60% for the year 1999. Following confirmation of the results forecast for 1999 and a promising outlook for the future, the satisfactory development of the share price continued at the beginning of 2000, performing at a level above average for the industry.

The overall performance of the Vienna share market was unable to match that of international capital markets in 1999.

Relative Performance of MM shares 1999/2000



Share Performance Indicators

Stock Price per Share in EUR	1997	1998	1999
High	57.27	70.06	47.79
Low	39.03	34.81	36.00
Year-end	49.42	39.82	46.00
Stock Performance			
– 1 month	– 2.2%	+ 0.2%	+ 11.1%
– 3 months	– 9.1%	+ 3.4%	+ 10.5%
– 9 months	+ 8.1%	– 64.2%	+ 12.2%
Relative Performance (year-end)			
MM shares	+ 26.6%	– 20.0%	+ 15.5%
ATX	+ 13.6%	– 13.5%	+ 6.9%
MSCI (Euro/Forest Products & Paper)	+ 16.1%	– 5.1%	+ 62.4%
Share Performance Indicators in EUR			
Earnings per share	3.90	5.28	5.12
Cash earnings per share	8.75	10.73	10.62
Equity capital per share	29.72	32.43	35.87
Dividend per share	1.24	1.45	1.55[1)]
Dividend in EUR millions	14.83	17.44	18.60[1)]
Dividend yield per average share price	2.6%	2.8%	3.6%[1)]
Trading Volume			
SeaQ (London) in EUR	582,481	1,049,598	1,115,057
Vienna Stock Exchange in EUR	2,873,687	3,858,090	3,007,094
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 EUR millions	593.0	477.9	552.0
ATX weighting	2.88	2.34	2.48

[1)] proposed

At year-end, the ATX closed at a plus of 6.87%. By comparison, the DJI closed +25.22%, the DAX +39.1%, and the FTSE +17.81%.

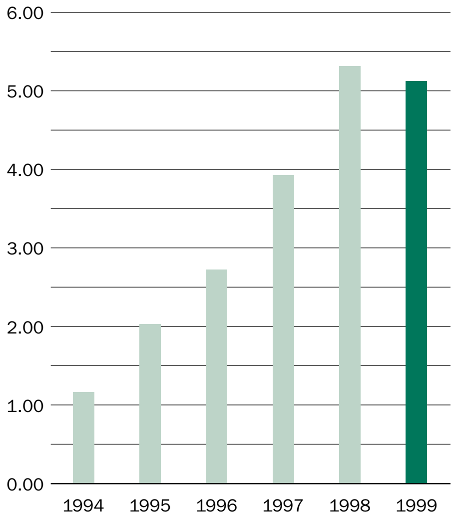
Dividend

Mayr-Melnhof has adopted a dividend policy, providing payment of a dividend equivalent to one-third of consolidated net income for the year over the medium term. Since the objectives for the year were clearly achieved, the Managing Board will propose payment of a dividend in the amount of EUR 1.55 per share, compared to EUR 1.45 in the previous year.

Dow Jones Sustainability Group Indexes

As a result of a systematic world-wide selection procedure carried out for the first time in order to identify specific companies which have been performing economically sustainable, Mayr-Melnhof shares were incorporated into the Dow Jones Sustainability Group Indexes (DJSGI). The purpose of these indexes is to direct investors' attention towards companies whose strategies proactively combine economical, ecological and social objectives. The index group was first published on September 8, 1999, and the companies are re-evaluated each year. Further information can be found at http://www.sustainability-index.com.

Earnings per share in EUR



Shareholder structure

The 5th Annual General Meeting of Mayr-Melnhof Karton AG approved the conversion of the share capital from Austrian schillings to euros, and the transformation of the Company's par value shares into no-par shares. As a result, the Company's share capital of EUR 87,240,000 will be divided into 12,000,000 no-par shares. About 40% of these are free-float shares held principally by institutional investors in the USA, United Kingdom, France and Germany. The remaining 60% of the shares are held in family ownership.

Investor Relations

The underlying principle of the Company's communication policy – personal, open and on-going contact between management and institutional investors, private shareholders, analysts and business journalists – was once again consistently implemented in 1999. As a result, a tenth international investment bank decided to begin coverage of MM shares.

Throughout the financial year, the financial community remained informed personally and directly concerning the results and ongoing developments within the Group. This was achieved by a variety of road shows, investor and press conferences and one-on-one meetings. Mayr-Melnhof Karton AG is proud of the recognition regarding its communication activities, having received several prizes and excellent ratings in a number of rankings.

Shareholders' Club

Throughout the course of the year, there was lively interest in membership of the Mayr-Melnhof Shareholders' Club. This free service provided by Mayr-Melnhof Karton AG offers shareholders and potential investors presentations in respect to the Company and information by means of personal mailings.

The highlight of the year 1999 was the shareholder day at the Frohnleiten mill, where over 150 participants were able to learn first-hand, the revolutionary rebuilding of cartonboard machine III.

www.mayr-melnhof.com

Mayr-Melnhof Karton AG's new website went online in March 2000, largely increasing the range of information and services available via the Internet. Amongst other benefits, all reports and press releases are available on the website virtually simultaneously with their publication. An e-mail server delivers the latest press releases directly to the mailboxes of interested investors. The development of business over the last few years is documented in detail by a series of downloadable files. In addition, the parallel websites for the divisions www.mm-karton.com and www.mm-packaging.com give a comprehensive insight into the products and services offered by the individual divisions.

Share repurchase

The 6th Annual General Meeting of Mayr-Melnhof Karton AG on May 24, 2000, will be called upon to approve a resolution authorising the Managing Board to act upon the repurchase of shares in an amount of up to 10% of the share capital within a period of 18 months.

Further information about the Company is available from:

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Website. http://www.mayr-melnhof.com

Reuters:	MMKV.VI
Bloomberg:	MAYR AV
Dow Jones:	MAYR.VI
Telekurs:	MMK,50
Datastream:	O:MAYR

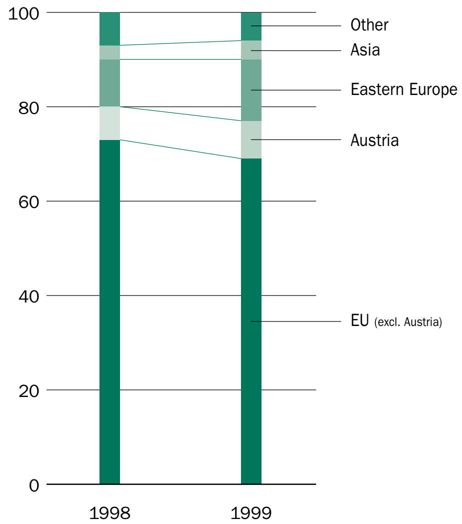
Management report 1999

The management report of Mayr-Melnhof Karton AG and the Group management report have been combined in accordance with § 267 (3) of the Austrian Commercial Code.

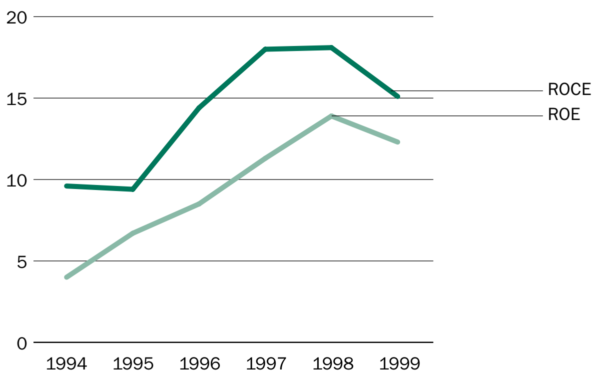
1. General economic situation

Following the downturn at the end of 1998, the international economic situation recovered significantly during the course of 1999. The driving force behind this economic growth was once again the strong demand from the US economy. Western Europe, the Mayr-Melnhof Group's core market, saw a marked improvement of its economy in the second half-year, though regional growth varied widely. In Eastern Europe, a slow

Sales by destination in %



Return on capital employed in %
Return on equity in %



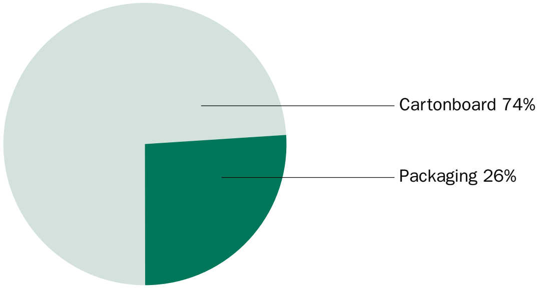
recovery became noticeable only in the second half of the year. The rapid recovery of Asian markets led to a sharp rise in exports from Europe, boosting the overseas business of the Mayr-Melnhof Cartonboard Division.

However, the revival of the economy also led to a significant price increase on international raw materials markets. Triggered by demand from the Asian markets in 1999, there was a massive increase in the price of the most important raw materials used in the production of cartonboard, especially pulp and waste paper.

2. Development of business in 1999
2.1. Mayr-Melnhof Group

In 1999, developments within the cartonboard industry world-wide and the European folding carton sector were once again characterised by the further concentration of resources and strong competition on conditions.

Operating profit by division 1999 in %



Thanks to heavy demand, the Mayr-Melnhof Group reported a high utilisation of capacities throughout the entire financial year and achieved an excellent result, despite a sharp rise in raw materials costs. As a result of these developments, both divisions attained considerable increases in sales and production quantities.

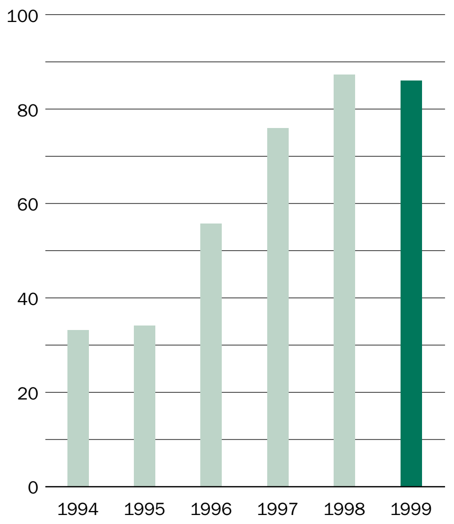
The **Cartonboard Division** benefited from the healthy economic development in Western Europe and the steady recovery of its overseas markets. Supported by the positive market situation, the volume of production grew 8%, reaching 1.21 million tonnes (1998: 1.12 million tonnes). The division was able to compensate for the rapid rise in raw materials costs – particularly waste paper – because of an excellent utilisation of capacities and a rise in cartonboard prices.

The development of the **Packaging Division** was characterised by the continued strong competition in Western Europe and the late onset of a slight improvement in demand in Eastern Europe. However, due to growing business with key international customers, there was a significant increase in the volume processed compared to the previous year. A lower volume of sales in the high-quality sector in Eastern Europe, start-up costs in the United Kingdom, along with rising raw materials costs, primarily contributed to why the division was unable to match the previous year's result, despite a sound utilisation of capacities.

Consolidated results

Despite the expansion of new business in both divisions, consolidated net sales increased only slightly to EUR 911.3 million (1998: EUR 904.9 million). This was due to the disposal of German recycling companies in 1998 and 1999, as well as a higher

Operating profit in EUR millions



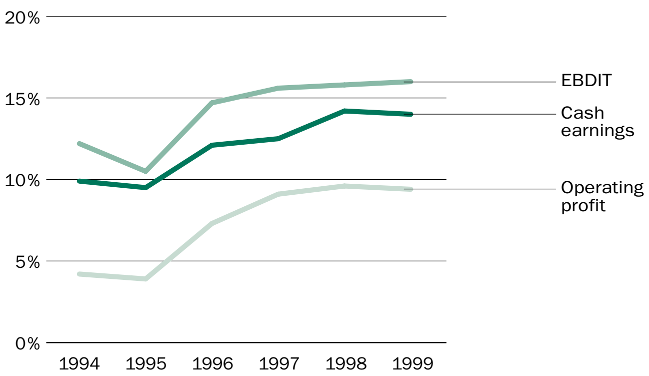
level of intra-Group sales. The Cartonboard Division generated net sales of EUR 589.4 million (1998: EUR 590.7 million) and successfully compensated for the decline due to the sale of recycling companies through the creation of new business. The Packaging Division managed to increase its net sales by 7.1% to EUR 393.7 million, thanks to a higher volume of sales.

Despite a strong increase in raw materials costs, difficult market conditions in Eastern Europe and start-up costs for new machinery, the Mayr-Melnhof Group managed to achieve an operating profit of EUR 86.1 million, due to a full utilisation of capacities and increased productivity. (Operating profit for 1998 amounted to EUR 87.3 million, including exceptional income from the release of provisions.) At EUR 63.4 million, the Cartonboard Division's operating profit was greater than the previous year's level (EUR 61.9 million). The operating profit reported by the Packaging Division declined from EUR 25.4 million, to EUR 22.7 million. Overall, the Group achieved an operating margin of 9.4% (1998: 9.6%).

The financial result amounted to EUR –4.7 million. The difference between this figure and the previous year's financial result of EUR –6.3 million is primarily attributable to a significant drop in interest expenses and higher income from the disposal of financial assets.

Consequently, the result on ordinary activities of EUR 81.4 million was slightly above the previous year's figure of EUR 81.0 million.

Selected margins



Consolidated Cash Flow Statement (condensed version) in EUR millions

	1999	1998
Cash flow from result	118.7	126.1
Cash flow from operations	91.5	100.4
Cash flow from investing activities	–64.4	–122.1
Cash flow from financing activities	–13.8	–40.0
Change in liquid resources	13.3	–61.7
Group's total liquid resources	109.2	95.2
Group's investment securities	72.2	69.6
Total resources available to the Group	**181.4**	**164.8**

Extraordinary expenses resulted mainly from costs and provisions for restructuring, along with a 50 % extraordinary devaluation of the participating interest in Servall, India, due to necessary capital measures effecting every shareholder, calling further involvement of the Mayr-Melnhof Group into question.

In 1999, the Group was once again able to take advantage of losses carried forward from previous years, though to a lesser extent than in 1998. This resulted in increased expenses for taxes, totalling EUR 15.0 million (1998: EUR 8.5 million).

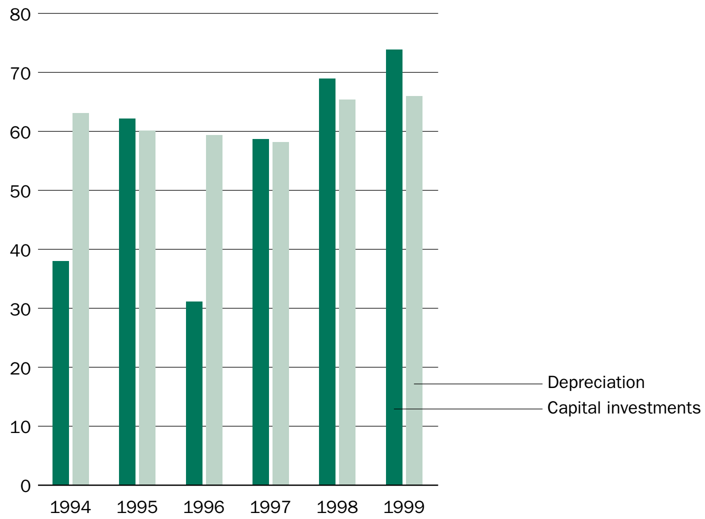
It was nevertheless possible to achieve a consolidated net income for the year, before deduction of minority interests of EUR 61.4 million. This nearly equalled 1998's record result of EUR 63.3 million.

The minority interest share of net income amounted to EUR 0.9 million (1998: EUR 1.2 million).

Capital investment/depreciation

Investment in tangible fixed assets totalled EUR 73.9 million (1998: EUR 68.9 million). The primary focus was the implementation of the latest technology, further enhancing both quality and output, while also improving the efficiency of the machinery and processes. The largest investment projects were the rebuilding of cartonboard machine III at the Frohnleiten mill and the introduction of the latest high-performance technology in the Packaging Division.

Capital investments and depreciation
in EUR millions



Consolidated Profit and Loss Statement (condensed version) in EUR millions

	1999	1998	+/–
Net sales	911.3	904.9	+0.7%
Operating profit	86.1	87.3	–1.4%
Financial result	–4.7	–6.3	
Result on ordinary activities	81.4	81.0	+0.5%
Result on extraordinary activities	–5.0	–9.2	
Taxes on income	–15.0	–8.5	
Net income (excl. minority interests)	**61.4**	**63.3**	**–3.0%**

Scheduled depreciation and amortisation in respect to fixed tangible and intangible assets accounted for EUR 66.0 million (1998: EUR 65.4 million).

Cash flow statement

The cash flow from the result totalled EUR 118.7 million (1998: EUR 126.1 million). This meant that the Company's self-financing strength, expressed as the percentage of net sales accounted for by cash flow, continued to remain at a high level of 13.0 The cash flow from operations was EUR 91.5 million (1998: EUR 100.4 million), the increase in working capital being largely attributable to the growth in the volume of business and higher prices. The cash flow from investing activities, totalling EUR –64.4 million (1998: EUR –122.1 million), resulted mainly from payments made for investments in tangible and intangible assets, amounting to approximately EUR 75.3 million, as well as earnings from the sale of tangible assets totalling EUR 15.2 million. An amount of EUR 17.9 million was paid to shareholders and minority interests for the financial year 1998.

Asset and capital structure

The total assets of the Mayr-Melnhof Group increased to approximately EUR 959.8 million during 1999 (1998: EUR 915,4 million). Whereas fixed assets rose only slightly, from EUR 541.9 million to EUR 544.7 million, current operating assets increased significantly, from EUR 373.5 million to EUR 415,1 million,

Consolidated Balance Sheet (condensed version) in EUR millions

	Dec. 31, 1999	Dec. 31, 1998	+/–
Fixed assets	544.7	541.9	+0.5%
Current assets (incl. prepaid expenses)	415.1	373.5	+11.1%
Total Assets	**959.8**	**915.4**	**+4.9%**
Equity capital	430.4	389.1	+10.6%
Provisions	154.0	151.1	+1.9%
Liabilities (incl. deferred income)	375.4	375.2	+0.1%
Total Equity Capital and Liabilities	**959.8**	**915.4**	**+4.9%**

primarily due to the greater volume of business.

The liquidity of the Group (including securities) improved from EUR 164.8 million to EUR 181.4 million.

Due to the year's result, the Group's equity capital increased, reaching EUR 430.4 million (1998: EUR 389.1 million). With an equity ratio of 44.8% (1998: 42.5%), the financing of the Mayr-Melnhof Group remains to be on solid ground. The Group's provisions for pensions and severance payments amounted to EUR 48.4 million (1998: EUR 52.0 million). Long-term interest-bearing liabilities including revolving foreign trade financing loans totalled EUR 204.1 million (1998: EUR 198.9 million). Short-term liabilities such as trade liabilities and provisions amounted to EUR 274.0 million (1998: EUR 271.6 million).

2.2. Mayr-Melnhof Karton AG

Mayr-Melnhof Karton Aktiengesellschaft is the managing holding company of the Mayr-Melnhof Group. Its management and control functions include strategy, investment, accounting, controlling, taxes, treasury, investor relations and quality control.

Due to the fact that the investment income totalled EUR 22.1 million (1998: EUR 14.1 million) and interest income EUR 3.7 million (1998: EUR 5.6 million), income from exercising this holding function was in line with expectations. An EUR 18.7 million (1998: EUR 17.5 million) net income for the year was reported in the individual financial statements of the Group holding company. The Annual General Meeting will be recommended to approve payment of a dividend in the amount of EUR 1.55 per share for the 1999 financial year (1998: EUR 1.45). This will be equivalent to a total payment of EUR 18.6 million (1998: EUR 17.4 million).

3. Staff

The Mayr-Melnhof Group employed an average of 5,030 people during 1999 (1998: 5,024). 2,432 of these were employed in the Cartonboard Division, and 2,598 in the Packaging Division.

4. Research and development

The Cartonboard Division was successfully able to improve its machine technology and product quality for the future. The primary focus was optimising the smoothness, printability and gloss of the cartonboard without increasing production costs.

The R&D achievements of the Packaging Division ranged from the conception and the production of packaging, to the development and construction of packaging machines and machine-aided packaging.

5. Millennium change

The turn of the millennium did not cause any problems within the Mayr-Melnhof Group. The Group's production facilities and all associated systems made a smooth transition into the year 2000.

6. Supplementary report

At the beginning of February 2000, a decision was made to concentrate folding carton production in Vienna at the logistically optimal Strebersdorf site, which will therefore be developed into a modern high-performance plant. A social plan is being drawn up for approximately 70 employees.

7. Outlook

On the strength of the current economic forecasts, we can assume that the global economy will continue its positive development. Western Europe achieved economic growth of nearly 3% in 1999, and is expected to see similarly healthy growth in the year 2000. It is anticipated that the rapid upswing in Southeast Asia will continue, particularly in Japan and Korea. Although the economies of Eastern Europe appear to have bottomed out, only slow growth is forecasted for this region.

Due to the positive general economic situation, both the Cartonboard Division and the Packaging Division anticipate a healthy development of demand and good utilisation of their machines in the year 2000. Due to heavy demand for pulp and waste paper, along with further price increases for oil, natural gas and petroleum derivatives, prices for the most important raw materials used in the manufacture of cartonboard rose rapidly at the beginning of 2000. An end to this upward spiral is not yet in sight. From a current perspective, it should be possible to compensate for the sharp rise in raw materials costs through higher prices for cartonboard and folding cartons, increased efficiency and productivity, as well as the consistent implementation of cost reduction programmes. Long-term supply contracts help to ensure a portion of the supply of waste paper for the cartonboard mills.

Projected investments are focused upon optimising processes and products, and also the implementation of the latest technologies and systems.

The objective for the year 2000 is to achieve a further increase in the Group's profitability, while continuing its course of growth.

Vienna, March 31, 2000

Managing Board

Michael Gröller
Alfred Fogarassy
Wilhelm Hörmanseder

Further information
Value-added

Due to the fact that the Mayr-Melnhof Group was able to compensate for the decrease in sales resulting from the disposal of the German recycling companies by creating new business, 1999 operating revenue, totalling EUR 942.8 million, nearly reached the previous year's level. This involved inputs such as raw materials and services, approximately totalling EUR 567.0 million.

The net value-added of the Mayr-Melnhof Group amounted to EUR 304.7 million, a slight increase compared to EUR 299.2 million in 1998.

EUR 129.8 million was paid to employees; equivalent to 42.6% of net value-added.

The second largest percentage involved employer and employee contributions to social insurance, which accounted for EUR 55.7 million, or 18.3% of distributable value-added.

Government sources received EUR 53.1 million, or 17.4% of net value-added, in the form of revenues from taxes and other deductions.

EUR 4.7 million was paid to lenders in the form of bank interest and other financing expenses.

Minority interest participation amounted to EUR 0.9 million.

Our shareholders will be paid EUR 18.6 million, or 6.1% of net value-added, as dividends for 1999.

The Company retained profits totalling EUR 41.9 million (13.8%).

Value-added in EUR millions

ORIGIN	**1999**	**1998**
Sales	911.3	904.9
Other operating income	27.5	34.5
Increase in finished goods	3.7	4.7
Own work capitalised	0.3	0.3
Total operating revenue	942.8	944.4
– Acquired input from suppliers	–567.0	–570.7
– Depreciation and amortisation	–66.0	–65.4
– Result on extraordinary activities	–5.1	–9.1
Net value-added	**304.7**	**299.2**
DISTRIBUTION		
Employees	–129.8	–131.2
Social benefit costs	–55.7	–57.0
Public authorities	–53.1	–41.5
Interest and other financial expenses	–4.7	–6.3
Minority interests	–0.9	–1.2
Shareholders (proposed)	–18.6	–17.4
Company	41.9	44.6

Research and development

Competitive products, the optimisation of processes and the development of solutions to customers' specifications are decisive factors in maintaining the Company's leading position in the cartonboard and folding carton markets in the long-term. The concerted effort of Mayr-Melnhof employees from the areas of sales, marketing / product management, customer service, production, and research and innovation provides the basis on which Mayr-Melnhof is able to recognise market trends at an early stage, and also to introduce customer oriented innovations to the market quickly and effectively.
In 1999, expenditures on research and development totalled approximately 1% of Group sales, with a total of 53 employees permanently employed in this field.

In addition to the Company's own research activities, close cooperation with international research institutions and universities provides valuable input and information concerning the development of cartonboard and folding cartons. Mayr-Melnhof plays an active role in the committees of European legislation in order to promote cartonboard as a packaging material in laws and regulations.

The **Cartonboard Division** is able to elaborate upon specialised solutions by focusing its expertise upon clearly defined product groups. For example, in 1999, a new GC2 cartonboard quality was developed. This new type of cartonboard is particularly suitable for the packaging of sensitive products such as confectionery and tea, due to its reliable aroma and grease sealing properties.

As a result of on-going research into the basic chemical and physical properties of cartonboard, coupled with market research, the Company was once again able to enhance its machine technology and product quality in 1999. This effort was primarily focused upon improving the smoothness, printability and gloss of the cartonboard, without affecting production costs.

In March 1999, the Frohnleiten mill was awarded the Neptune Innovation Prize for outstanding achievements in the field of water technology. The prize was given for its fluidised bed drier project – a revolutionary drying process which conserves raw materials, reduces waste and minimises emissions.

Mayr-Melnhof Packaging is meeting the growing pressure for innovation by creating an innovation portfolio which meets the demand for a comprehensive uniform spectrum of products and services. The range of services extends from the conception and production of packaging, to the development and construction of packaging machines, as well as contract packaging as an additional service.

"Best Carton of the Year 1999"

Apart from the research and development centre in Kaiserslautern, all MMP organisational units in England, France, Germany and Austria have their own packaging development departments. The latter are in close contact with the customers through the sales organisations, and are capable of drawing on the entire know-how of the Group through the innovation pool in Kaiserslautern.

A primary focus of the development work in 1999 was based upon shaped packaging and so-called "System Solutions". New geometrical folding carton concepts were delivered in conjunction with packaging technology.

In the wake of the previous year's successes, a special animal feed packaging solution developed by MMP for Nestlé Italy, was awarded the ECMA prize "Best Carton of the Year 1999".

As part of the innovation offensive for the year 2000, MMP will increasingly focus its attention on the implementation of complete packaging solutions and increasing its budget for research projects with key customers. Emphasis will also be placed upon the convenience area (multi-pack, easy opening and resealing), product oriented packaging shapes, reusability and transparency of the products.

The future R&D activities of the Cartonboard Division will focus upon enhancing the physical and chemical running characteristics of cartonboard, as well as improved productivity.

Environment

The responsible pursuit of economic objectives with due consideration for ecological and social factors has always been an integral part of Mayr-Melnhof's corporate culture.

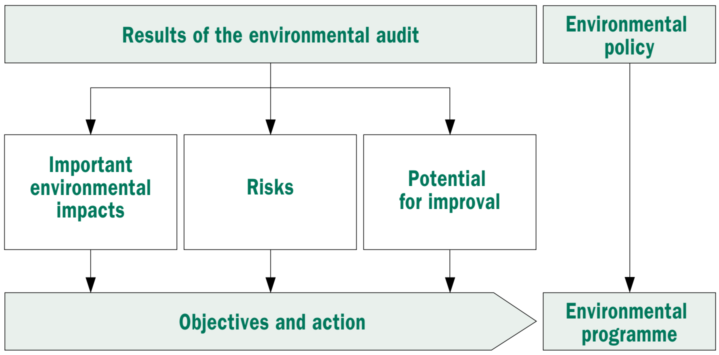
Apart from being economically attractive, the production of cartonboard and folding cartons is an ecologically interesting field, due to a high percentage of recyclable raw materials and environmentally friendly processes which can be employed.

Through the involvement of environmental engineers and legally stipulated agents, Mayr-Melnhof is able to ensure that the relevant environmental legislation is observed in the decisions taken by the Company, while also obtaining a position to monitor environmental impact. Potential effects of new products and processes on the environment are assessed beforehand so that we can provide our customers with ecologically friendly products, meeting the most exacting demands.

Mayr-Melnhof has already attained a high environmental standard at every mill due to the continuous implementation of far-reaching measures. In 1999, the Company was able to achieve further improvements in a number of projects including, energy and water consumption, waste, effluent and noise abatement.

The introduction and continuation of environmental management systems in compliance with ISO 14001, combined with exhaustive internal and external audits of areas already certified in accordance with ISO 9001 or ISO 9002, serves to ensure that optimisation remains an on-going process.

Environmental programmes ensure on-going optimisation



In 1999, the Hirschwang cartonboard mill was initially certified in accordance with EMAS and ISO 14001. In addition, Karton Deisswill AG also received the ISO 14001 certification (EMAS is applicable only in EU countries). The recertification of the Frohnleiten mill in accordance with ISO 14001 and EMAS attested to a standard far higher than the average in areas concerning environmental protection.

Suppliers are also required to undergo ecological evaluations. A significant example in 1999 was the agreement concluded with Österreichische Elektrizitätswirtschafts AG (Verbundgesellschaft) regarding the supply of hydroelectric power to the Company's cartonboard mills in Austria, Germany and Holland.

Detailed information concerning environmental protection can be found in the new environmental statements for the Frohnleiten and Hirschwang mills. These can be requested at the following number: (+43) 1 50 136-1180

Human Resources

The qualifications, flexibility and dedication of the Company's employees is rapidly growing in importance as a decisive competitive factor. Thus, there is also growing competition to secure the services of motivated employees.

Customer requirements, coupled with a rapidly changing market place, provide the necessity to shift from a function-oriented way of thinking to a more process-oriented approach. The tasks of each individual have increased significantly, demanding more capabilities and additional qualifications.

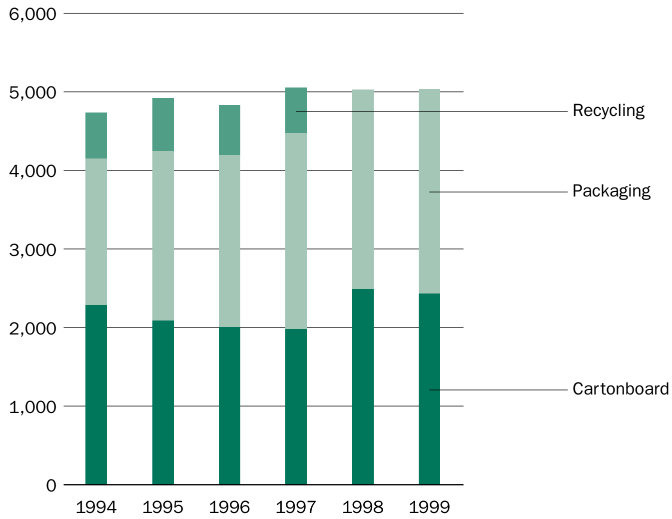
Therefore, Mayr-Melnhof has consistently invested in process-oriented education and training, aiming to enhance the employees' problem-solving capabilities. Emphasis has also been placed upon personal development, promoting an increased sense of responsibility and an enterprising attitude.

One particular point of emphasis regarding the current training programmes centres upon new systems and information technology. This has involved further optimisation of the internal communication processes within the Mayr-Melnhof Group, as well as shortened information and process channels in order to improve contact with the customer.

Individual trainee programmes within the Group, as well as regular exchanges with leading paper and cartonboard technical colleges and universities, are vital elements in securing the services of a new generation of qualified blue and white-collar workers. Greater importance has also been placed upon apprentice training as a means of ensuring new intake. In 1999, an average of 96 apprentices were undergoing training.

Employee surveys and a forthright internal dialogue allow the Company the opportunity to act upon various scopes of improvement, while also helping to ensure that employment within the Mayr-Melnhof Group remains an attractive proposition.

Employees by Division



In addition to result-oriented bonus systems for management executives, individual companies also have agreements which regulate premiums for all of their employees.

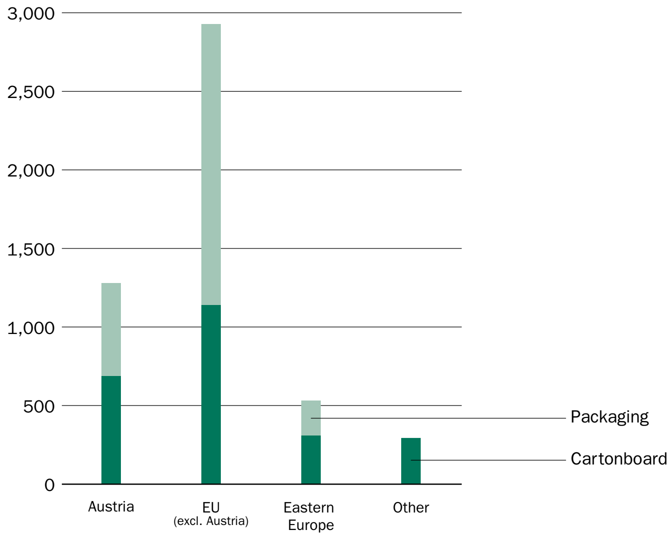
Employment

The average workforce employed by the Mayr-Melnhof Group in 1999 totalled 5,030 people (1998: 5,024). Thus, the number of employees was virtually unchanged compared to the previous year. About one-quarter were employed in Austria.

43% of Value-added for employees

In 1999, 42.6% (EUR 129.8 million) of the net value-added generated by the Mayr-Melnhof Group, totalling EUR 304.7 million, was paid out to employees in the form of net wages and salaries. A total of EUR 31.9 million in income tax was paid by employees. A further 18.3% of the value-added (EUR 55.7 million) was expended on social security contributions.

Employees by region 1999



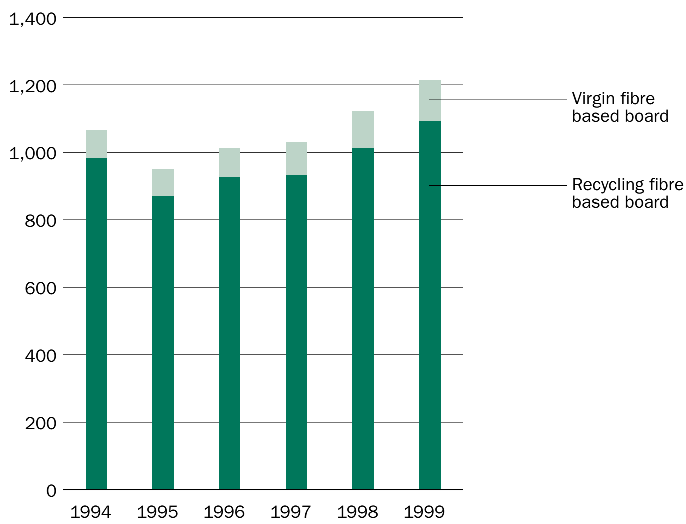
A word of thanks to all employees

The Managing Board wishes to thank all of the employees for their hard work and great dedication, as a result of which it was possible to clearly exceed our ambitious goals for the year 1999. The board would also like to express gratitude and appreciation to both local and European employee representatives for their constructive and unwavering support.

Report on the Divisions
Mayr-Melnhof Cartonboard Division

The Cartonboard Division is the Mayr-Melnhof Group's largest business division in terms of sales and results. In the financial year 1999, the division achieved 57% of consolidated net sales and 74% of the Group's operating profit. ROCE figured at 18.6%. Mayr-Melnhof is the world's largest producer of recycled cartonboard, with a European market share of approximately 30%. The division's goal is to expand this market position through growth and acquisition, and to ensure its competitiveness by consistently striving for the lowest costs.

Tonnage produced in 000's of tonnes



Market

Due to the exceptional development of demand during the second half of the year, the cartonboard market in Western Europe grew by 3% in 1999. Recycled carton-board increased by approximately 4.5% over the same period. Particularly satisfactory sales were obtained in Germany and France. After several years of stagnation and decline in Eastern Europe, and especially in the former Soviet republics, there was a slight increase in sales in the second half-year. The volume of sales exceeded our expectations in key markets of the Middle East and the recovering countries in Asia.

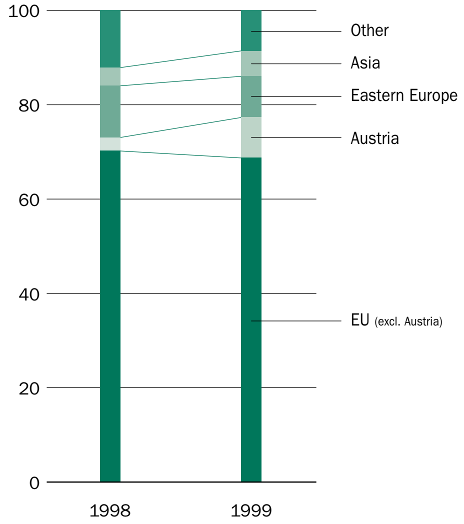
Under these circumstances, the Cartonboard Division was able to achieve growth higher than the market average. The volume of sales increased by approximately 100,000 tonnes, totalling 1.2 million tonnes, 83% of which was destined for Europe (1998: 87%). Sales in overseas markets expanded to 17% (1998: 13%). 55 % of sales remains accounted for by food packaging, while 45 % by non-food packaging, with the first on the rise.

Production and capacity

Due to the on-going optimisation and modernisation of the division's machinery – particularly regarding its board machine III at the Frohnleiten mill and board machine V at the Neuss mill – the tonnage of cartonboard produced has risen 8% compared to the previous year, reaching 1.21 million tonnes. Following the downtime at the Frohnleiten board mill at the beginning of the year due to rebuilding work, all machines were fully utilised until year-end. The Cartonboard Division was able to report a steady increase in its order backlog, from approximately 50,000 tonnes at the beginning of the year, to approximately 100,000 tonnes in the fourth quarter.

Investment totalling EUR 48.9 million (1998: EUR 42.8 million) was focused primarily upon improving the output of the machines and the further optimisation of cartonboard quality. For instance, due to the rebuilding of the Frohnleiten board machine III there was a marked improvement in the cartonboard quality with respect to consistency, printability and die-cutting. At the same time, the output of the machine could be increased by approximately 30%.

Sales by destination in %



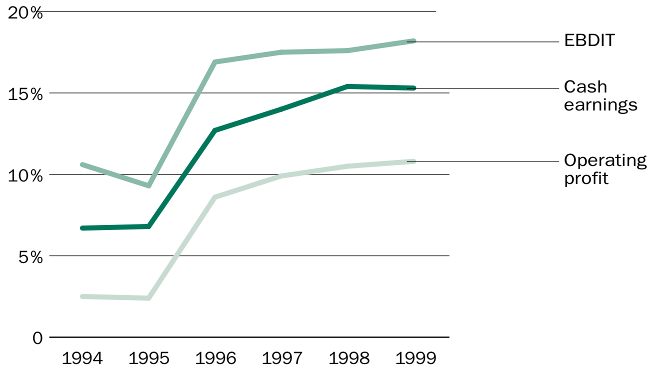
Development of business in 1999

Beginning in the second quarter of 1999, prices for the most important raw materials used in the production of cartonboard – particularly pulp and waste paper – rose rapidly due to heavy demand world-wide. As a result of increased costs, Mayr-Melnhof Karton raised its prices for recycled cartonboard at the beginning of September 1999. This was followed by a price increase for its virgin fibre-based cartonboard grades at the end of the year. Despite the difficult situation on supply markets and downtime at the beginning of the year due to rebuilding work, the Cartonboard Division was able to achieve a high operating result, thanks to its outstanding utilisation of capacities and a significant improvement in prices.

With an operating profit of EUR 63.4 million, the division surpassed the previous year's excellent figure of EUR 61.9 million, which was inflated due to the writing-back of provisions. This represents an operating margin of 10.8% (1998: 10.5%). Cash earnings totalled EUR 90.1 million (1998: EUR 91.1 million), equivalent to 15.3% of sales (1998: 15.4%).

New business compensated for the decline in net sales resulting from the sale of German recycling companies in 1998 and 1999. (The remaining waste paper companies were incorporated into the Cartonboard Division

Selected margins



Performance Indicators[1] Cartonboard

	1997	1998	1999
Employees	1,977	2,486	2,432
Percentage change	–1.4%	+25.7%	–2.2%
Tonnage produced in 000's	1,031	1,124	1,214
Percentage change	+1.9%	+9.0%	+8.0%
Capacity utilisation	95%	97%	98%
Total assets in EUR millions	588.3	660.5	753.2
Percentage change	+10.7%	+12.3%	+14.0%
Capital investments in EUR millions	24.4	42.8	48.9
Depreciation[2] in EUR millions	37.6	42.2	44.0
Development of Sales in EUR millions			
Sales[3]	491.5	590.7	589.4
Percentage change	+2.7%	+20.2%	–0.2%
Earnings Data in EUR millions			
EBDIT	86.1	104.1	107.4
Percentage change	+6.4%	+20.9%	+3.2%
Percentage of total Group	65.9%	72.6%	73.5%
Operating profit	48.5	61.9	63.4
Percentage change	+17.7%	+27.6%	+2.4%
Percentage of total Group	63.8%	70.9%	73.6%
Cash earnings	68.6	91.1	90.1
Percentage change	+12.6%	+32.8%	–1.1%
Percentage of total Group	65.3%	70.8%	70.7%
Profitability Indicators in %			
Operating margin	9.9	10.5	10.8
Return on capital employed	20.9	23.8	18.6
Return on investment	12.8	16.7	13.7

[1] A definition of the above indicators can be found in the glossary on page 57 and 58.
[2] On fixed assets.
[3] Includes sales with other divisions.

in 1998.) The net sales of the Cartonboard Division therefore remained nearly unchanged at EUR 589.4 million (1998: EUR 590.7 million).

3C project (Customers-Communication-Cartonboard) creates basis for possible e-commerce solutions

A division-wide project harmonised and integrated in a modular information system, the entire process organisation of the Cartonboard Division. Standardised processes permit individual customer requirements and are tailored to the characteristics of each individual mill. As a result, the Mayr-Melnhof Cartonboard Division has created an internal operational basis for potential e-commerce solutions.

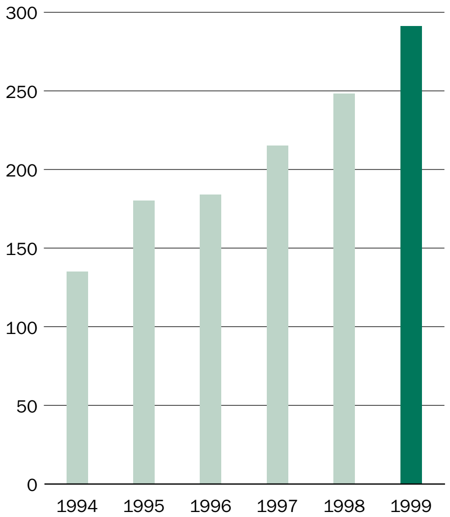
Outlook

Due to the good economic forecasts, the cartonboard market in Western Europe is expected to experience volume growth of at least 2%, while Eastern Europe should grow by 1–2%, and overseas markets by approximately 5%. Viewed with caution, these growth rates should be applicable to both recycled and virgin fibre-based cartonboard, while ensuring good utilisation of our machines. Due to the heavy demand for pulp and waste paper, along with more price increases for oil, natural gas and petroleum derivatives, there was a further rise in raw materials prices at the beginning of 2000. From a present perspective, this upward trend will continue indefinitely. Long-term supply contracts should particularly ensure the supply of low waste paper qualities for our cartonboard mills. At the end of March 2000, Mayr-Melnhof increased its cartonboard prices again. The division aims to compensate for this rise in raw materials costs by improving productivity and efficiency, as well as by higher cartonboard prices. Investment during the year 2000 will focus on the increased output of the machines and further enhancing the quality of cartonboard. Overall, the Cartonboard Division should be able to maintain its profitability at least at its present level.

Report on the Divisions
Mayr-Melnhof Packaging Division

The Packaging Division is Europe's largest producer of folding cartons, processing approximately 300,000 tonnes of cartonboard per year. In the European cigarette packaging segment, MMP is one of the top three producers. In 1999, the division accounted for 43% of the Group's sales and 26% of its operating profit. It had an ROCE of 11.9%. The division's objective is to increase its market lead in the European folding carton industry. Supply chain management programmes and an increased focus on innovation will strengthen customer relations and further enhance the profitability of MMP. The current cost reduction programmes centre upon increasing productivity, site optimisation and standardising processes, as well as information technology.

Tonnage processed in 000's of tonnes



Market

In 1999, the heavily fragmented European folding carton market was characterised by an accelerated trend towards consolidation. Under pressure from retail trade, the tendency to concentrate purchasing was continued by multinational branded article producers. Together with supply chain management programmes, innovations in shape and design are therefore gaining importance as decisive competitive factors. The trend towards smaller packs and multi-packs continues due to the demographic shift in consumer structures. Growing demand for packaging arising from e-commerce increasingly offers new marketing opportunities.

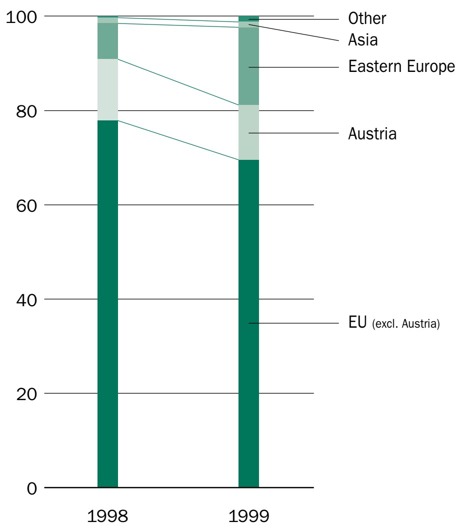
In contrast to the general development of the market place, Mayr-Melnhof Packaging continued along its course of growth in 1999. Due to the expansion of business with key multinational customers – in particular, the implementation of the Kellogg's agreement in the United Kingdom – the volume of cartonboard processed increased 17.3%, reaching 291,000 tonnes. Thanks to the increasingly optimistic economic climate in Eastern Europe, there was an improvement in cigarette and confectionery packaging beginning in the third quarter.

Development of business in 1999

Resulting from the positive development of its tonnage processed, the Packaging Division achieved a satisfactory utilisation of its machines. In terms of volume, the decline in sales of cigarette and confectionery packaging in Eastern Europe in the first half of 1999 was more than compensated for by new business, especially in the food sector. Thus, overall sales by the Packaging Division increased 7.1% to EUR 393.7 million (1998: EUR 367.5 million). Margins were pressured due to lower sales in the high-quality segment, start-up costs for MMP's new production facilities in the United Kingdom, as well as a strong rise in raw materials prices which commenced in the third quarter. The division's operating profit totalled EUR 22.7 million, compared to EUR 25.4 million the previous year, reducing its operating margin from 6.9% to 5.8%. Cash earnings amounted to EUR 33.6 million (1998: EUR 32.8 million), equivalent to 8.5% of sales (1998: 8.9%).

Investments amounting to approximately EUR 25.0 million (1998: EUR 23.5 million) were primarily focused upon the technological enhancement of the division's machinery. Some of the highlights included the introduction of large-format printing machines (format 7) in the general packaging sectors in Germany and the United Kingdom, as well as the expansion of digital preprint facilities (computer-to-plate).

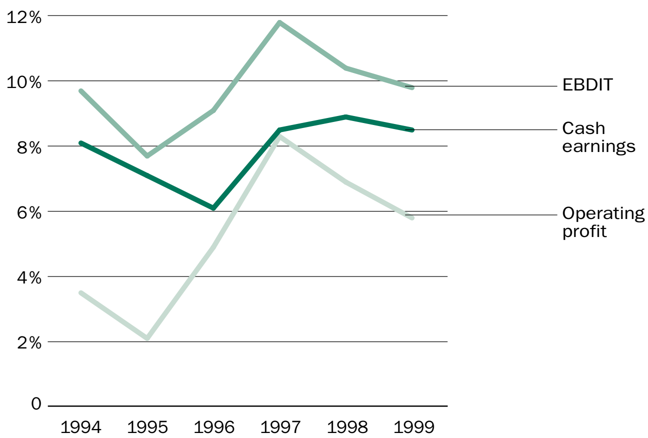
Sales by destination in %



Supply chain management and innovation

Due to the growing competition concerning conditions for major customers, Mayr-Melnhof Packaging emphasises the implementation of supply chain management (SCM) programmes and innovation. The objective of

Selected margins



Performance Indicators[1] Packaging

	1997	1998	1999
Employees	2,494	2,538	2,598
Percentage change	+14.2%	+1.8%	+2.4%
Tonnage processed in 000's	215	248	291
Percentage change	+16.8%	+15.3%	+17.3%
Total assets in EUR millions	253.9	277.9	298.7
Percentage change	+51.7%	+9.5%	+7.5%
Capital investments in EUR millions	28.7	23.5	25.0
Depreciation[2] in EUR millions	11.4	12.9	16.0
Development of Sales in EUR millions			
Total sales	342.6	384.0	411.2
Percentage change	+26.5%	+12.1%	+7.1%
less pro rated sales by proportionally consolidated companies	14.2	16.5	17.5
Sales[3]	328.4	367.5	393.7
Percentage change	+25.2%	+11.9%	+7.1%
Earnings Data in EUR millions			
EBDIT	38.7	38.3	38.7
Percentage change	+63.3%	–1.0%	+1.0%
Percentage of total Group	29.6%	26.7%	26.5%
Operating profit	27.3	25.4	22.7
Percentage change	+115.0%	–7.0%	–10.6%
Percentage of total Group	35.9%	29.1%	26.4%
Cash earnings	27.8	32.8	33.6%
Percentage change	+73.8%	18.0%	+2.4%
Percentage of total Group	26.5%	25.5%	26.4%
Profitability Indicators in %			
Operating margin	8.3	6.9	5.8
Return on capital employed	21.3	14.5	11.9
Return on investment	16.8	15.0	13.5

1) A definition of the above indicators can be found in the glossary on page 57 and 58.
2) On fixed assets.
3) Includes sales with other divisions.

this strategy is to ensure the competitiveness of MMP in the long-term and to improve margins at the same time.

The primary focus of SCM programmes concerns the following areas: reduction of throughput times and inventories, optimisation of demand forecasts, technical optimisation, standardisation of processes and electronic data interchange (EDI) with major customers. At the same time, this also creates the conditions for the development of e-commerce solutions.

The division's R&D centre once again reported some significant achievements in 1999. One particular achievement in the shaped packaging sector was selected for the "World Star 1999" award. In addition, an innovative "Packaging System Solution" won the ECMA prize for "Best Carton of the Year 1999".

Optimisation of folding carton production in Vienna

The division's folding carton facilities in Vienna – previously located at two separate plants – are to be consolidated into a single location, significantly enhancing the European competitiveness of the folding carton production in Vienna. Due to an investment programme totalling approximately EUR 4 million, the plant will be upgraded into a modern high-performance facility. The primary focus will be the installation of a technologically advanced large-format printing machine, replacing three older machines.

Outlook

Due to the positive economic situation in Western Europe and the successive revival of Eastern European markets, Mayr-Melnhof Packaging again anticipates good demand in the year 2000, as well as a satisfying utilisation of capacities. The greatest challenge of the coming months will be the passing on of several cartonboard price increases to the customers.

The productivity of the division's plants will be increased and production costs reduced by introducing the latest technology and converting further facilities to a three or four shift system. With the expansion of innovation and supply chain management as an integral element of strategic partnerships, customers are now offered an attractive means of creating a competitive advantage over their rivals and minimising the impact of price increases. This will enable MMP to further consolidate its market leadership.

Consolidated financial statements

as of December 31, 1999, Mayr-Melnhof Karton Aktiengesellschaft, Vienna

Consolidated balance sheet

as of December 31, 1999

ASSETS

	Notes	As of Dec. 31, 1999 in TEUR	As of Dec. 31, 1998 in TEUR
A. FIXED ASSETS	(5)		
I. Intangible assets		20,877.1	25,311.8
II. Tangible assets		424,464.0	422,545.7
III. Financial assets	(6)	99,358.3	94,039.3
		544,699.4	**541,896.8**
B. CURRENT ASSETS			
I. Inventories		121,583.5	109,203.5
II. Accounts receivable and other assets	(7)		
1. Trade debtors		131,026.0	116,585.3
2. Receivables from companies in which the Group has participating interests		2,654.6	3,285.2
3. Other receivables and assets		47,734.4	46,000.7
		181,415.0	165,871.2
III. Short-term investments		337.8	5,314.1
IV. Cash on hand, cheques and deposits with banks		108,904.7	89,898.2
		412,241.0	**370,287.0**
C. PREPAID EXPENSES		**2,898.5**	**3,218.2**
		959,838.9	**915,402.0**
Contingent claims	(11)	239.1	1,366.1

EQUITY CAPITAL AND LIABILITIES

	Notes	As of Dec. 31, 1999 in TEUR	As of Dec. 31, 1998 in TEUR
A. EQUITY CAPITAL	(8)		
I. Nominal capital		87,240.0	87,207.4
II. Capital reserves		177,772.4	177,772.4
III. Revenue reserves		138,894.2	100,359.4
IV. Balance sheet profit		22,517.5	21,231.3
V. Minority interests in equity		3,980.5	2,479.0
		430,404.6	**389,049.5**
B. PROVISIONS			
1. Severance pay		18,495.5	17,926.1
2. Pensions		29,944.9	34,115.8
3. Other	(9)	105,594.6	99,093.3
		154,035.0	**151,135.2**
C. LIABILITIES	(10)		
1. Liabilities towards banks		243,355.0	240,565.8
2. Trade creditors and advances from customers		89,786.1	73,755.6
3. Other		41,677.8	60,062.6
		374,818.9	**374,384.0**
D. DEFERRED INCOME		**580.4**	**833.3**
		959,838.9	**915,402.0**
Contingent liabilities	(11)	4,374.0	7,052.0

Consolidated profit and loss statement

for the financial year January 1 to December 31, 1999

	Notes	1999 in TEUR	1998 in TEUR
1. Sales	(12)	911,323.9	904,862.5
2. Increase in finished goods inventories and work in progress		3,709.1	4,690.7
3. Own work capitalised		261.2	327.4
4. Other operating income	(13)	27,509.3	34,559.5
5. Subtotal of items 1 to 4		**942,803.5**	**944,440.1**
6. Cost of materials and production services purchased	(14)	385,804.9	375,989.0
7. Personnel expenses	(15)	217,484.9	217,760.4
8. Depreciation and amortisation in respect of fixed tangible and intangible assets	(16)	66,023.9	65,431.9
9. Other operating expenses	(17)	187,340.1	197,987.7
10. Operating profit Subtotal of items 5 to 9		**86,149.7**	**87,271.1**
11. Financial result	(18)	**–4,676.0**	**–6,266.5**
12. Result on ordinary activities		**81,473.7**	**81,004.6**
13. Result on extraordinary activities	(19)	**–5,049.1**	**–9,124.4**
14. Taxes on income		14,990.4	8,589.7
15. Net income for the year (including minority interests)		**61,434.2**	**63,290.5**
16. Minority interests		899.2	1,235.5
17. Net income for the year (excluding minority interests)		**60,535.0**	**62,055.0**
18. Changes in reserves and profit carried forward		–38,017.5	–40,823.7
19. Balance sheet profit		**22,517.5**	**21,231.3**

Notes to the 1999 consolidated financial statements of Mayr-Melnhof Karton Aktiengesellschaft

(1) Consolidated cash flow statement (in accordance with SFAS No.95)

			1999 in EUR millions	1998 in EUR millions
1.		Net income for the year (including minority interests)	61.4	63.3
2.	+	Depreciation of fixed assets	68.1	68.7
3.	–	Writing up of fixed assets	0.0	–0.8
4.	–	Decrease in long-term provisions	–3.5	2.2
5.	–	Net profit from sale of fixed assets and participating interests	–7.3	–7.3
6.	=	Cash flow from result	118.7	126.1
7.	–	Increase in inventories, including advance payments, and prepaid expenses	–12.2	–2.7
8.	–	Decrease in advances from customers, and deferred income	–0.1	0.6
9.	–	Increase in receivables	–17.2	–9.5
10.	–	Decrease in liabilities (excluding loans)	–3.8	10.4
11.	+	Increase in short-term provisions	6.5	–24.6
12.	–	Consolidation corrections	–0.4	0.1
13.	**=**	**Cash flow from operations**	**91.5**	**100.4**
14.	–	Investment in tangible fixed assets and intangible assets	–75.3	–69.8
15.	+	Receipts from the disposal of tangible fixed assets	15.2	6.7
16.	=	Cash flow from tangible and intangible fixed assets	–60.1	–63.1
17.	+/–	Net change in financial assets	–4.6	0.7
18.	–	Cash flow from changes in the consolidated Group	0.3	–59.7
19.	**=**	**Cash flow from investing activities**	**–64.4**	**–122.1**
20.	–	Payments to minority interests	–0.5	–2.0
21.	–	Payments to shareholders	–17.4	–14.8
22.	+	Net change in short-term loans	4.4	22.6
23.	–	Net repayments on long-term loans	–0.3	–45.8
24.	**=**	**Cash flow from financing activities**	**–13.8**	**–40.0**
25.		Increase in liquid resources (total of lines 13, 19 and 24)	**13.3**	**–61.7**
26.	+/–	Currency translation difference on liquid resources	0.7	0.0
27.	+	Group's initial liquid resources	95.2	156.9
28.	**=**	**Group's total liquid resources**	**109.2**	**95.2**
29.		Group's total liquid resources	109.2	95.2
	+	Group's investment securities	72.2	69.6
		Total resources available to the Group	181.4	164.8

Liquid resources: cash on hand, cheques and deposits with banks, plus short-term investments

(2) General

The consolidated financial statements were prepared in accordance with generally accepted accounting principles and the general requirement to present a true and fair view of the Group's assets, liabilities, financial position and profit in accordance in with the provisions of §§244 et seq. of the Austrian Commercial Code.

The annual financial statements of the consolidated companies were prepared in accordance with uniform Group guidelines for accounting and valuation. The consolidated balance sheet date is December 31, 1999. Without exception, the financial statements of all consolidated companies were prepared with a financial year ending December 31, 1999. For the first time the figures for the Mayr-Melnhof Group are shown in thousands of euros (TEUR).

The profit and loss statement was prepared in accordance with the total cost method.

(3) Principles of consolidation, reporting and valuation

1. Principles of consolidation

1.1 Companies included in the consolidated Group

The consolidated financial statements are comprised of all affiliated companies in which Mayr-Melnhof Karton Aktiengesellschaft and/or its subsidiaries hold at least half the voting rights and which are material for the purpose of giving a true and fair view of the assets, liabilities, financial position and profit.

The consolidated affiliated companies and associated companies are shown in the table of participating interests.

1.1.1 Additions to the consolidated Group

No acquisitions were made during the financial year. The company mentioned below was already in the process of being founded as of December 31, 1998. This process was concluded in January of the year under review and the affiliated company was included in consolidated financial statements for the first time.

– MM Kolicevo Holding d.o.o., Domzale

The remaining changes to the consolidated Group are due to corporate restructuring and from the acquisition of further shares in existing participating interests that were already fully consolidated the previous year.

1.1.2 Disposals from the consolidated Group

The following participating interests were disposed of during the financial year and were therefore eliminated from the consolidated Group:

– Altpa Altpapierhandel Gesellschaft mit beschränkter Haftung & Co. Kommanditgesellschaft, Rohstoffe für die Papierindustrie, Frankfurt am Main
– Altpa Altpapierhandel Gesellschaft mit beschränkter Haftung, Frankfurt am Main
– Straub + Flach GmbH, Munich
- Solnické papirny s.r.o., Solnice

These companies were eliminated from the consolidated Group effective from the date of disposal or liquidation. The effects of their elimination are shown under ”result on extraordinary activities”.

The companies eliminated from the consolidated Group were shown in the consolidated financial statements for the previous year with the following figures (in TEUR):

December 31, 1998:

Fixed assets	8,079
Current assets	3,897
Total assets	**11,976**

Equity capital	4,202
Provisions	427
Liabilities	7,347
Total equity capital and liabilities	**11,976**

January 1 to December 31, 1998:

Sales	7,822.0
Operating profit	–265.0
Result on ordinary activities	–653.0
Net loss for the year	–1,894.0
Employees as of December 31, 1998	117

Companies eliminated from the consolidated Group are included in the consolidated financial statements for 1999 through the date of disposal with the following amounts:

Sales	3,824.5
Operating profit	521.5
Result on ordinary activities	349.2
Net income for the year	349.2

The following company was liquidated in the financial year 1999:

– Mayr-Melnhof Packaging Plc., London

The liquidation of this company does not have any effect on the consolidated financial statements.

1.2 Capital consolidation

Capital consolidation is done using the book-value method. Under this method, the book value of the shares in a consolidated subsidiary are offset against the value of the prorated equity capital of the subsidiary at the time of acquisition, or at the time of initial consolidation (for acquisitions generally as of January 1, for incorporations the date of incorporation, where later). Consolidation differences that occur are first allocated to the assets, as far as identifiable. Any remaining positive consolidation differences are interpreted as goodwill and offset against the revenue reserves. Negative consolidation differences resulting from retained earnings are allocated to revenue reserves, with any others allocated to provisions for future losses by the company involved.

1.3 Consolidation of liabilities

Consolidation of liabilities is done by offsetting intercompany lendings, receivables from trade, other receivables and prepaid expenses against the corresponding liabilities and provisions.

1.4 Consolidation of income and expenditure

All intercompany income and expenditures are eliminated.

1.5 Consolidation of intercompany profits

Results from intercompany sales of fixed assets are eliminated. Intercompany profits relating to trade arising from inventory valuation are eliminated, taking into consideration the principle of materiality.

1.6 Deferred taxes

Any deferred taxes resulting from consolidation are shown in accordance with § 258 of the Austrian Commercial Code.

1.7 Proportional consolidation

The 50.0 % interests in
- Wall MM Gravure Krakow Sp.z o.o., Krakau
- Premium Packaging Tiefdruck Produktions-GmbH, Graz
- C. P. Schmidt Verpackungs-Werk GmbH. & Co. KG, Kaiserslautern
- C. P. Schmidt Verpackungs-Werk Beteiligungsgesellschaft mbH, Kaiserslautern
- VTV Verpackungstechnische Verfahren GmbH, Kaiserslautern

and its 49.4% interest in
- Copacarton S.A., St. Avold

were consolidated on a proportional basis in the consolidated financial statements. The principles of consolidation for fully-consolidated companies apply analogously.

1.8 Currency translation

With the introduction of the euro, it is no longer necessary to translate the foreign currencies in the financial statements of consolidated companies with registered offices in EMU member states.

With one exception, all the items in the balance sheet and profit and loss statements of all other financial statements are translated using period-end rates of exchange as of the balance sheet date. The financial statements of Mayr-Melnhof Packaging Romania S.A., Ploesti, are remeasured into euro on the basis of period-end rates for monetary assets and liabilities and at historical rates for non-monetary items, with resulting translation gains and losses being recognised in income.

Differences from the currency translation of non-monetary items are offset against the revenue reserves.

(4) Principles of reporting and valuation

1. Fixed assets

1.1 Intangible and tangible assets

Additions are shown at either purchase cost plus incidental costs, or in the case of manufactured assets at the manufacturing cost (cost of purchased services plus own services). Self-produced intangible assets are not capitalised.

Scheduled depreciation is primarily based on the following useful lives:

	useful life			
Licenses, industrial property rights and similar rights, and benefits and licenses derived therefrom	5	–	10	years
Goodwill	5	–	15	years
Land, land rights and buildings, including buildings on third-party land	10	–	50	years
Technical machinery and equipment	8	–	15	years
Other equipment, fixtures and fittings	4	–	10	years

1.2 Financial assets
Shares in affiliated and associated companies, participating interests, lendings and securities are valued at cost. Unscheduled depreciation is taken for material reductions in value which are likely to be lasting.

2. Current assets
2.1 Inventories
Raw materials and manufacturing and operating supplies are valued at cost using an average price method. Work in progress and finished goods and inventories are valued at purchase or manufacturing cost. The strict principle of valuation at the lower of cost or market was applied.

Use was made of the option under § 251 (2) Austrian Commercial Code of summarising inventories in a single line item.

2.2 Receivables and other assets
Valuation is at nominal value. Value adjustments were made for all identifiable risks. The strict principle of valuation at the lower of cost or market applied.

3. Untaxed reserves
Untaxed reserves from the individual financial statements of the consolidated companies are shown under revenue reserves net of deferred taxes.

4. Provisions
Provisions are formed in the amount of the likely expense in accordance with the principle of prudence.

Provisions for severance payments are predominantly calculated using discounted cash value methods. In instances where the resulting value for Austrian subsidiaries is lower than the value given by applying § 14 of the 1988 Income Tax Act (50% or 60% of the potential claims), the latter value is taken. The discount rate predominantly applied is 3.5%.

Provisions for pensions are predominantly calculated using actuarial principles, with a discount rate between 3.5% and 6%.

Provisions for long service bonuses are predominantly calculated using discounted cash value methods with a discount rate of 3.5%.

The *provision for deferred taxes* is calculated on the basis of prevailing national taxation rates. In accordance with § 198 of the Austrian Commercial Code, deferred taxes were not capitalised.

5. Liabilities
Liabilities are shown at the higher of repayment value or maximum potential value.

Notes to the Group balance sheet

(5) Table of the Group's fixed assets

	PURCHASE AND/OR			
	As of Jan. 1, 1999 in TEUR	Currency translation differences 1999 in TEUR	Change in the consolidated Group in 1999 in TEUR	Additions in 1999 in TEUR
I. Intangible assets				
1. Licenses, industrial property rights and similar rights, and benefits and licenses derived therefrom	37,411.5	81.3	–47.4	1,407.5
2. Goodwill	6,421.1	0.2	–3,939.5	0.0
Subtotal I	**43,832.6**	**81.5**	**–3,986.9**	**1,407.5**
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land				
Value of land	66,800.3	1,603.2	–4,873.9	126.5
Value of buildings	241,561.5	134.7	–3,198.8	1,737.8
	308,361.8	1,737.9	–8,072.7	1,864.3
2. Technical machinery and equipment	874,795.0	6,602.0	–3,360.1	44,016.6
3. Other equipment, fixtures, and fittings	79,960.9	621.3	–1,482.1	6,021.1
4. Payments on account and plant under construction	23,579.4	–19.4	–3.6	22,037.5
Subtotal II	**1,286,697.1**	**8,941.8**	**–12,918.5**	**73,939.5**
Subtotal I und II	**1,330,529.7**	**9,023.3**	**–16,905.4**	**75,347.0**
III. Financial assets				
1. Participating interests in affiliated companies	198.5	0.0	–0.3	0.0
2. Participating interests in associated companies	8,072.9	0.0	–4.9	0.0
3. Other participating interests	17,481.3	–68.9	–0.2	4,800.9
4. Investment securities	70,731.6	0.1	0.1	11,020.2
5. Other lendings	2,292.2	–1.7	–6.8	128.4
Subtotal III	**98,776.5**	**–70.5**	**–12.1**	**15,949.5**
TOTAL	**1,429,306.2**	**8,952.8**	**–16,917.5**	**91,296.5**

MANUFACTURING COSTS

	Disposals in 1999 in TEUR	Reclassifications in 1999 in TEUR	As of Dec. 31, 1999 in TEUR	Accumulated depreciation and amortisation of assets as of Dec. 31, 1999 in TEUR	Net book value As of Dec. 31, 1999 in TEUR	Net book value As of Dec. 31, 1998 in TEUR	Depreciation and amortisation in financial year 1999 in TEUR
	–507.3	105.2	38,450.8	17,662.9	20,787.9	25,217.0	5,974.9
	–283.1	86.0	2,284.7	2,195.5	89.2	94.8	47.4
	–790.4	**191.2**	**40,735.5**	**19,858.4**	**20,877.1**	**25,311.8**	**6,022.3**
	–2,048.7	1,174.6	62,782.0	160.3	62,621.7	66,337.9	60.3
	–8,604.5	543.7	232,174.4	140,527.7	91,646.7	101,639.9	7,187.9
	–10,653.2	1,718.3	294,956.4	140,688.0	154,268.4	167,977.8	7,248.2
	–30,870.4	10,479.1	901,662.2	680,451.6	221,210.6	213,491.2	45,580.1
	–4,964.8	65.9	80,222.3	63,522.5	16,699.8	17,504.2	7,173.3
	–1,048.7	–12,259.8	32,285.4	0.2	32,285.2	23,572.5	0.0
	–47,537.1	**3.5**	**1,309,126.3**	**884,662.3**	**424,464.0**	**422,545.7**	**60,001.6**
	–48,327.5	**194.7**	**1,349,861.8**	**904,520.7**	**445,341.1**	**447,857.5**	**66,023.9**
	0.0	–2.0	196.2	0.0	196.2	196.2	0.0
	0.0	–52.0	8,016.0	4,915.6	3,100.4	4,778.9	1,622.1
	–94.2	0.0	22,118.9	259.1	21,859.8	17,175.8	4.6
	–9,253.2	386.8	72,885.6	727.0	72,158.6	69,601.2	403.2
	–1,943.5	1,579.5	2,048.1	4.8	2,043.3	2,287.2	0.0
	–11,290.9	**1,912.3**	**105,264.8**	**5,906.5**	**99,358.3**	**94,039.3**	**2,029.9**
	–59,618.4	**2,107.0**	**1,455,126.6**	**910,427.2**	**544,699.4**	**541,896.8**	**68,053.8**

(6) Financial assets

This item can be broken down as follows (in TEUR):

Participating interests in affiliated companies	196.2
Participating interests in associated companies	3,100.4
Other participating interests	21,859.8
Investment securities	72,158.6
Other lendings	2,043.3
	99,358.3

An extraordinary devaluation in the amount of TEUR 1,622.1 was made on the Group's interest in Servall Engineering Industries Limited, Coimbatore, during the financial year (1998: TEUR 3,292.1).

Other lendings include those items with a residual term of less than one year totalled TEUR 9.4 (1998: TEUR 14.5).

(7) Table of receivables

	Total amounts in TEUR	Of which residual > 1 year in TEUR	Of which secured by promissory notes in TEUR	Less general valuation allowance in TEUR
1. Trade debtors	**131,026.0**	175.9	0.0	2,094.5
2. Receivables from companies in which the Group has participating interests				
a) Trade debtors	1,479.8	0.0	0.0	0.0
b) Other receivables	1,174.8	0.0	0.0	0.0
	2,654.6	0.0	0.0	0.0
3. Other receivables and assets	**47,734.4**	219.7	0.0	78.3
Total receivables	**181,415.0**	395.6	0.0	2,172.8

(8) Equity capital

The nominal capital represents the capital stock of Mayr-Melnhof Karton AG, Vienna. Capital reserves also correspond to the individual financial statements of the parent company. The consolidated balance sheet profit corresponds to the balance sheet profit of Mayr-Melnhof Karton AG, Vienna.

In accordance with the resolution of the Annual General Meeting on May 19, 1999, the capital stock of Mayr-Melnhof Karton AG was translated into an integral amount in euro equal to TEUR 87,240.0. In accordance with § 8 para. 1 of the euro-related Amendment to Financial and Fiscal Law, the difference resulting from the previous calculation of the capital stock in schillings is allocated from the item "other earnings reserves". At the same time, the capital stock, which until the time of its conversion consisted of 12,000,000 shares with a nominal value of ATS 100 each, were converted into 12,000,000 no par shares, each representing an equal share in the capital stock.

The annual net income of the fully and proportionally consolidated companies is shown in revenue reserves, after allowing for consolidation effects. The change in the number of consolidated companies in the financial year resulted in the offsetting of goodwill against revenue reserves totalling TEUR 5,161.0 (1998: TEUR 11,060.8) and an allocation of negative goodwill to revenue reserves in the amount of TEUR 256.4 (1998: TEUR 319.8). At the balance sheet date, goodwill totalling TEUR 92,019.6 (1998: TEUR 88,079.5) had been offset against the revenue reserves, and negative goodwill totalling TEUR 29,627.0 (1998: TEUR 30,588.0) had been allocated to the revenue reserves.

The *revenue reserves* changed as follows during the 1999 financial year (in TEUR)

As of Januray 1, 1999	**100,359.4**
Disposal from the consolidated Group	818.0
Changes in Group's portion of equity in subsidiaries	–5,722.6
Currency translation differences having no impact on result	1,669.3
Allocation from net profit (after deduction of minority interests)	41,807.3
Charges on the 1999 revenue reserves resulting from the translation of the parent company's capital stock into euro	–32.6
Other changes	–4.6
As of December 31, 1999	**138,894.2**

(9) Other provisions

Other provisions include provisions for taxes, deferred taxes and other provisions.

Provisions for taxes amounted to approximately TEUR 22,440.1 (1998: TEUR 21,073.5); provisions for deferred taxes totalled approximately TEUR 4,613.3 (1998: TEUR 4,882.2)

Other provisions include personnel liabilities (accrued vacation, long service bonuses, other bonuses, etc.), additional costs, potential losses from risks and pending transactions, and restructuring costs.

The allocation to the provision for losses resulting from the assignment of negative goodwill from the capital consolidation totalling TEUR 1,865.0 was used up.

(10) Table of liabilities

	Total amounts in TEUR	Of which residual term < 1 year in TEUR	Of which residual term 1 to 5 years in TEUR	Of which residual term > 5 years in TEUR	Thereof secured in TEUR
1. Liabilities towards banks [1]	**243,355.0**	78,282.4	105,739.9	59,332.7	62,200.5
2. Advances from customers	**375.8**	375.8	0.0	0.0	0.0
3. Trade creditors	**89,410.3**	89,410.3	0.0	0.0	0.0
4. Notes payable including promissory notes	2,099.4	2,099.4	0.0	0.0	0.0
5. Liabilities towards companies in which the Group has participating interests					
a) trade creditors	448.8	448.8	0.0	0.0	0.0
b) other liabilities	265.8	265.8	0.0	0.0	0.0
	714.6	714.6	0.0	0.0	0.0
6. Other liabilities					
a) Taxes	5,636.4	5,636.4	0.0	0.0	0.0
b) Social security	5,564.8	5,564.8	0.0	0.0	0.0
c) Other	27,662.6	27,203.2	223.4	236.0	0.0
	38,863.8	38,404.4	223.4	236.0	0.0
Total liabilities	**374,818.9**	209,286.9	105,963.3	59,568.7	62,200.5

[1] Short-term liabilities towards banks with a residual term of less than one year include revolving foreign trade financing loans totalling EUR 39.0 million, which are considered long-term from an economic point of view.

(11) Contingent liabilities

The item contingent liabilities can be broken down as follows:

	1999 in TEUR	**1998 in TEUR**
Issuance and transfer of promissory notes	239.1	1,312.0
Guarantees to third-parties	4,134.9	5,740.0
Total	**4,374.0**	**7,052.0**

There are contingent claims in the amount of TEUR 239.1 (1998: TEUR 1,366.1).

Notes to the Group profit and loss statement

(12) Sales

	1999 in EUR millions	1998 in EUR millions
Austria	74.1	62.5
EU countries (excluding Austria)	631.1	663.6
Eastern Europe (including Russia)	114.4	87.0
Asia	36.3	25.0
Other	55.4	66.8
Total	**911.3**	**904.9**

(13) Other operating income

	1999 in TEUR	1998 in TEUR
Income from disposal and writing up of fixed assets excluding financial assets	7,920.9	4,349.3
Income from written-back provisions	4,538.9	10,831.6
Other operating income	15,049.5	19,378.6
Total	**27,509.3**	**34,559.5**

(14) Cost of materials and production services purchased

The cost of materials accounted for EUR 354.8 million (1998: EUR 334.3 million), while expenses for purchased services amounted to EUR 31.0 million (1998: EUR 41.7 million).

(15) Personnel expenses

	1999 in TEUR	1998 in TEUR
Wages	114,830.1	110,464.5
Salaries	60,292.2	60,795.5
Severance pay	5,383.0	2,157.8
Pensions	1,823.6	7,577.7
Compulsory social security contributions, and payroll-related taxes and social security costs	30,356.8	32,695.0
Other welfare expenditures	4,799.2	4,069.9
Total	**217,484.9**	**217,760.4**

Break down of expenses for severance payments and pensions

	1999 in TEUR	1998 in TEUR
Managing Board and executives	2,696.1	1,329.9
Other employees	4,510.5	8,401.0
Total	7,206.6	9,730.9
less: Income from adjustment to repurchase value of reinsurance contracts	–802.6	–428.8
Total	**6,404.0**	**9,302.1**

The reinsurance contracts were concluded exclusively for members of the Managing Board and senior executives in accordance with § 80 of the Austrian Companies Act.

Average number of employees

	1999	1998
Employees in fully consolidated companies:		
Factory workers	3,622	3,575
Office staff	1,234	1,286
Employees in proportionally consolidated companies:		
Factory workers	261	240
Office staff	87	85
Total	**5,204**	**5,186**

The emoluments of members of the Managing Board in the 1999 financial year amounted to TEUR 2,919.4 (1998: TEUR 2,343.0). The emoluments of members of the Supervisory Board for the 1999 financial year totalled TEUR 53.2 (1998: TEUR 53.2).

(16) Depreciation and amortisation of fixed tangible and intangible assets

Scheduled depreciation amounted to TEUR 64,636.1 (1998: TEUR 62,735.7) and extraordinary depreciation was TEUR 1,387.8 (1998: TEUR 2,696.2).

(17) Other operating expenses

The item other operating expenses includes ”taxes not shown under item 14” in the amount of TEUR 6,113.9 (1998: TEUR 2,854.0).

(18) Financial result

	1999 in TEUR	**1998 in TEUR**
Income from participating interests	630.7	600.9
Income from securities and other lendings	3,367.6	3,947.2
Other interest and similar income	2,391.2	4,436.4
Income from the disposal of financial assets	923.2	217.7
Expenses from financial assets	–1,144.1	–150.2
Interest and similar expenses	–10,844.6	–15,318.5
Total	**–4,676.0**	**–6,266.5**

(19) Result on extraordinary activities

Extraordinary expenses relate to the extraordinary devaluation of the participating interest in Servall Engineering Industries Limited, Coimbatore, in the amount of TEUR 1,622.1 (1998: TEUR 3,292.1). It also includes losses from the disposal of waste paper companies and folding carton companies in the amount of TEUR 1,247.0 and provisions for restructuring totalling TEUR 2,180.0 (1998: TEUR 8,909.7).

(20) Other financial obligations

	1999 in TEUR	1998 in TEUR
Liabilities from use of the tangible fixed assets not shown in the balance sheet: for the next five financial years	11,159.1	11,220.1
thereof for the following financial year	2,811.4	3,626.4
Purchase commitments for tangible assets for the following financial year	1,304.0	7,856.0

Vienna, March 31, 2000

Managing Board

Michael GRÖLLER

Alfred FOGARASSY

Wilhelm HÖRMANSEDER

Auditors' report

on the consolidated financial statements for 1999 of Mayr-Melnhof Karton Aktiengesellschaft, Vienna

"After due examination of the books and records, the consolidated financial statements comply with the provisions laid down by law. In our opinion, the consolidated financial statements, which have been prepared in accordance with generally accepted Austrian accounting principles, give a true and fair view of the assets, liabilities, financial position and profit of the Group. The report of the Managing Board is in conformity with the Group's consolidated financial statements."

Vienna, April 3, 2000

U N I T R E U
Wirtschaftstreuhandgesellschaft m.b.H.
Wirtschaftsprüfungs- und
Steuerberatungsgesellschaft

Werner LEITER　　Christian PAJER
Chartered Accountants

Table of affiliated and associated companies

Company name	Registerd office Country	Primary activities		Nominal capital in 000's currency units	Shareholding in %	Type of consolidation	Status non-consolidated
Mayr-Melnhof Karton Aktiengesellschaft	Vienna/Austria	Holding company	EUR	87,240	–	FC	
CARTONBOARD DIVISION							
Baiersbronn Frischfaser Karton GmbH & Co. KG	Baiersbronn/Germany	Cartonboard production	DEM	4,000	100.00	FC	
Baiersbronn Frischfaser Karton Verwaltungs GmbH	Baiersbronn/Germany	General partner	DEM	50	100.00	FC	
Colthrop Board Mill Limited	Thatcham/England	Cartonboard production	GBP	7,000	100.00	FC	
FS-Karton GmbH	Baiersbronn/Germany	Cartonboard production	DEM	101,000	100.00	FC	
Karton Deisswil AG	Stettlen/Switzerland	Cartonboard production	CHF	6,000	100.00	FC	
Kolicevo Karton Proizvodnja kartona, d.o.o.	Domzale/Slovenia	Cartonboard production	SIT	3,074,067	100.00	FC	
Mayr-Melnhof Eerbeek B. V.	Eerbeek/Netherlands	Cartonboard production	NLG	16,035	100.00	FC	
Mayr-Melnhof Holdings N. V.	Amsterdam/Netherlands	Holding company	NLG	148,209	100.00	FC	
Mayr-Melnhof Karton Gesellschaft m.b.H.	Frohnleiten/Austria	Owning company	ATS	100,000	100.00	FC	
Mayr-Melnhof Karton GmbH & Co KG	Frohnleiten/Austria	Cartonboard production	ATS	1,000	100.00	FC	
MM Kolicevo Holding d.o.o.	Domzale/Slovenia	Holding company	SIT	2,100	100.00	FC	
M M Holding UK Limited	London/England	Holding company	GBP	5,170	100.00	FC	
Ronu Verwaltungsgesellschaft mbH	Ebersbach/Germany	Corporate shell	DEM	50	100.00	FC	
CDEM Holland B. V.	'S-Hertogenbosch/Netherlands	R & D (waste dump)	NLG	400	33.33	NC	2
Flevohout B. V.	Eerbeek/Netherlands	Purchasing of poplar wood	NLG	282	50.00	NC	1
Industriewater Eerbeek B. V.	Eerbeek/Netherlands	Corporate shell	NLG	315	37.50	NC	2
Lokalbahn Payerbach-Hirschwang Gesellschaft m.b.H.	Hirschwang, Reichenau an der Rax/ Austria	Railway transport	ATS	2,500	100.00	NC	1
Servall Engineering Industries Limited	Coimbatore/India	Cartonboard production	IRU	116,400	25.01	NC	2
Stort Doonweg B.V.	Eerbeek/Netherlands	Waste dumping, waste water purification	NLG	40	50.00	NC	1
Verenigde Papierfabrieken Eerbeek B. V.	Eerbeek/Netherlands	Corporate shell	NLG	2,450	100.00	NC	1
WASTE PAPER COMPANIES (PURCHASING) OF THE CARTONBOARD DIVISON							
Günter Preiß, Gesellschaft mit beschränkter Haftung Rohstoffe für die Papierindustrie Import-Export	Hannover/Germany	Waste paper trading	DEM	1,000	100.00	FC	
Holz Entsorgung GmbH	Salzgitter/Germany	Waste paper trading	DEM	2,000	100.00	FC	

Company name	Registerd office Country	Primary activities		Nominal capital in 000's currency units	Shareholding in %	Type of consolidation	Status non-consolidated
MELTRA Gesellschaft für Rohstoff- und Entsorgungswirtschaft mbH	Baiersbronn/Germany	Holding company	DEM	8,100	100.00	FC	
MM Recycling Holding UK Limited	London/England	Holding company	GBP	2,214	100.00	FC	
MM Recycling UK Limited	London/England	Waste paper trading	GBP	2,667	100.00	FC	
MM Trading & Logistics Rohstoffhandel GmbH	Frankfurt a.M./Germany	Raw materials trading	DEM	1,200	100.00	FC	
WÜRO Papierverwertung GmbH & Co KG.	Würzburg/Germany	Waste paper trading	DEM	420	66.67	FC	
W Ü R O Verwaltungsgesellschaft mit beschränkter Haftung	Würzburg/Germany	General partner	DEM	51	66.67	FC	
A. Spiehs Beteiligungsgesellschaft m.b.H.	Vienna/Austria	Holding company	ATS	500	40.00	NC	2
Johann Spiehs & Co	Vienna/Austria	Waste paper trading	ATS	20,000	40.00	NC	2
„Papyrus" Altpapierservice Handelsgesellschaft m.b.H.	St. Magdalen Villach/Austria	Waste paper trading	ATS	1,500	46.67	NC	2
„Papyrus" Altpapierservice Handelsgesellschaft m.b.H.	Vienna/Austria	Waste paper trading	ATS	3,000	46.67	NC	2
Papyrus Wertstoff Service GmbH	Bad Reichenhall/Germany	Waste paper trading	DEM	50	46.67	NC	2

TRADING COMPANIES (SELLING) OF THE CARTONBOARD DIVISION

Company name	Registerd office Country	Primary activities		Nominal capital in 000's currency units	Shareholding in %	Type of consolidation	Status non-consolidated
Alfred Remmers GmbH	Sinsheim/Germany	Cartonboard trading	DEM	1,500	75.00	FC	
Keminer & Söhne GmbH	Willich/Germany	Cartonboard trading	DEM	1,000	75.00	FC	
Mayr-Melnhof Belgium N. V.	Zaventem/Belgium	Cartonboard trading	BEF	1,250	75.00	FC	
Mayr-Melnhof France S.A.R.L.	Paris/France	Cartonboard trading	FRF	50	100.00	FC	
Mayr-Melnhof Handels S.A.	Lausanne/Switzerland	Cartonboard trading	CHF	100	100.00	FC	
Mayr-Melnhof Italia S.R.L.	Milano/Italy	Cartonboard trading	ITL	50,000	75.00	FC	
Mayr-Melnhof Nederland B. V.	Amstelveen/Netherlands	Cartonboard trading	NLG	200	75.00	FC	
Mayr-Melnhof Trading Handels GmbH	Vienna/Austria	Holding company	ATS	6,000	100.00	FC	
Mayr-Melnhof UK Limited	London/England	Cartonboard trading	GBP	100	100.00	FC	
MM Kartonvertrieb GmbH	Neuss/Germany	Cartonboard trading	DEM	50	100.00	FC	
Varsity Packaging Limited	London/England	Cartonboard trading	GBP	300	100.00	FC	
Raccolta Molnar & Greiner Gesellschaft m.b.H.	Vienna/Austria	Cartonboard trading	ATS	10,000	25.10	NC	2

Company name	Registerd office Country	Primary activities	Nominal capital in 000's currency units		Shareholding in %	Type of consolidation	Status non-consolidated
PACKAGING DIVISION							
BEHRENS GmbH & Co. KG	Alfeld (Leine)/Germany	Production of packaging	DEM	3,500	100.00	FC	
Behrens GmbH & Co. KG Berlin	Berlin/Germany	Production of packaging	DEM	500	100.00	FC	
BEHRENS Verwaltungsgesellschaft mit beschränkter Haftung	Alfeld (Leine)/Germany	General partner	DEM	50	100.00	FC	
Colthrop N. V.	Eerbeek/Netherlands	Holding company	NLG	4,000	100.00	FC	
Ernst Schausberger & Co. Gesellschaft m.b.H.	Gunskirchen/Austria	Production of packaging	ATS	40,000	67.00	FC	
Ernst Schausberger & Co. Gesellschaft m.b.H.	Vienna/Austria	Rental and leasing	ATS	2,000	67.00	FC	
Hermann Schött GmbH Offsetdruckerei	Mönchengladbach/Germany	Production of packaging	DEM	10,000	100.00	FC	
Mayr-Melnhof Finance S.A.	Lausanne/Switzerland	Holding company	CHF	50	100.00	FC	
Mayr-Melnhof Packaging Austria GmbH	Reichenau an der Rax/Austria	Production of packaging	ATS	41,960	100.00	FC	
Mayr Melnhof Packaging France Moneteau S.A.	Moneteau/France	Production of packaging	FRF	2,310	96.00	FC	
Mayr-Melnhof Packaging GmbH	Vienna/Austria	Consulting	ATS	500	100.00	FC	
Mayr-Melnhof Packaging GmbH	Baiersbronn/Germany	Holding company	DEM	8,000	100.00	FC	
Mayr-Melnhof Packaging Holding S.A.R.L.	Seignelay/France	Holding company	FRF	14,000	96.00	FC	
Mayr-Melnhof Packaging Romania S.A.	Ploesti/Romania	Production of packaging	ROL	50,697	100.00	FC	
Mayr-Melnhof Packaging Plc. i.L.	London/England	Corporate shell	DEM	136	100.00	NC	1
Mayr-Melnhof Packaging Trier GmbH & Co. KG	Trier/Germany	Production of packaging	DEM	6,900	100.00	FC	
Mayr-Melnhof Packaging Trier Verwaltung GmbH	Trier/Germany	General partner	DEM	50	100.00	FC	
Mayr-Melnhof Packaging UK Limited	London/England	Production of packaging	GBP	9,700	100.00	FC	
MM Packaging France Seignelay S.A.	Seignelay/France	Production of packaging	FRF	2,000	48.96	FC	
Neupack Gesellschaft m.b.H.	Reichenau an der Rax/Austria	Production of packaging	ATS	25,000	100.00	FC	
Neupack Hungaria Csomagoloanyag Gyarto es Kereskedelmi Korlatolt Felelössegü Tarasag	Budaörs/Hungary	Production of packaging	HUF	191,400	100.00	FC	
Neupack Polska Sp. z o.o.	Bydgoszcz/Poland	Production of packaging	PLN	7,358	99.79	FC	
Offsetdruckerei Caesar GmbH & Co KG	Traben-Trarbach/Germany	Production of packaging	DEM	10,000	100.00	FC	
Offsetdruckerei Caesar Verwaltungs GmbH	Traben-Trarbach/Germany	General partner	DEM	50	100.00	FC	
Schausberger, obaly a tisk, s.r.o.	Solnice/Czech Republic	Distribution of packaging	CZK	100	67.00	FC	
SCI Champs des Isles	Moneteau/France	Estate management	FRF	30	96.00	FC	

Company name	Registerd office Country	Primary activities		Nominal capital in 000's currency units	Shareholding in %	Type of consolidation	Status non-consolidated
SCI Plaine des Isles	Moneteau/France	Estate management	FRF	20	96.00	FC	
C. P. Schmidt Verpackungs-Werk GmbH & Co. KG	Kaiserslautern/Germany	Production of packaging	DEM	7,200	50.00	PC	
C. P. Schmidt Verpackungs-Werk Beteiligungsgesellschaft mbH	Kaiserslautern/Germany	General partner	DEM	350	50.00	PC	
Premium Packaging Tiefdruck Produktions-GmbH	Graz/Austria	Holding company	ATS	32,000	50.00	PC	
Wall MM Gravure Krakow Sp.z o.o.	Krakow/Poland	Production of packaging	PLN	12,044	50.00	PC	
VTV Verpackungstechnische Verfahren GmbH	Kaiserslautern/Germany	Development of packaging	DEM	350	50.00	PC	
Copacarton S.A.	St. Avold/France	Production of packaging	FRF	10,000	49.40	PC	
Eastpack Marktforschungs- und Entwicklungsgesellschaft m.b.H.	Vienna/Austria	Market research	ATS	1,000	25.00	NC	2
Falpa Unterstützungskasse Gesellschaft m.b.H. i.L.	Vienna/Austria	Relief fund	ATS	500	100.00	NC	3

OTHERS

Syn-group Unternehmensberatungs GmbH	Vienna/Austria	Consulting	ATS	500	50.00	NC	3

Legend:
FC fully consolidated
PC proportional consolidation
NC non-consolidated
1 in accordance with § 249, para. 2 of the Austrian Commercial Code (immaterial)
2 in accordance with § 263, para. 2 of the Austrian Commercial Code (immaterial)
3 in accordance with § 248, para. 1 of the Austrian Commercial Code (incompatible activities)

Individual financial statements (condensed version)

as of December 31, 1999 – Mayr-Melnhof Karton Aktiengesellschaft, Vienna

Balance sheet as of December 31, 1999

ASSETS

	As of Dec. 31, 1999 in TEUR	As of Dec. 31, 1998 in TEUR
Tangible assets	2,899.4	2,971.6
Financial assets	279,249.6	279,524.6
Fixed assets	**282,149.0**	**282,496.2**
Accounts receivable and other assets	21,184.8	12,667.0
Deposits with banks	205.3	223.5
Current assets	**21,390.1**	**12,890.5**
Prepaid expenses	**26.5**	**21.4**
TOTAL ASSETS	**303,565.6**	**295,408.1**

EQUITY CAPITAL AND LIABILITIES

	As of Dec. 31, 1999 in TEUR	As of Dec. 31, 1998 in TEUR
Nominal capital	87,240.0	87,207.4
Capital reserves	177,772.4	177,772.4
Revenue reserves	3,812.7	3,495.6
Balance sheet profit (of which profit carried forward: in TEUR 3,790)	22,517.5	21,231.3
Equity capital	**291,342.6**	**289,706.7**
Untaxed reserves	**417.7**	**767.4**
Provisions	**10,533.0**	**4,071.0**
Liabilities	**1,272.3**	**863.0**
TOTAL EQUITY CAPITAL AND LIABILITIES	**303,565.6**	**295,408.1**

Profit and loss statement for the financial year January 1 to December 31, 1999

	1999 in TEUR	1998 in TEUR
Other operating income	4,685.5	3,569.4
Personnel expenses	2,819.7	1,706.8
Depreciation in respect of fixed tangible assets	72.2	71.4
Other operating expenses	1,840.9	2,409.2
Operating profit	**–47.3**	**–618.0**
Financial result	**25,723.8**	**18,745.4**
Result on ordinary activities	**25,676.5**	**18,127.4**
Taxes on income	6,948.8	623.1
Net income	**18,727.7**	**17,504.3**
Changes to reserves	0.0	–8.5
Profit carried forward	3,789.8	3,735.5
Balance-sheet profit	**22,517.5**	**21,231.3**

The financial statements of Mayr-Melnhof Karton Aktiengesellschaft as of December 31, 1999 were prepared in accordance with the provisions of the Austrian Commercial Code as amended by the 1996 EU Corporate Law Adjustment Act (EU-GesRÄG).

UNITREU Wirtschaftstreuhandgesellschaft m.b.H., auditors and tax consultants, of Vienna, has examined the financial statements and the management report, and approved both without qualification.

The financial statements have been submitted to the registrar of companies at the Vienna commercial court under the registration number 81906a.

Appropriation of profit

The Managing Board proposes payment of a dividend of EUR 1.55 per share, that is an amount of EUR 18,600,000.00 from the balance sheet profit for the 1999 financial year, and that the remaining amount of EUR 3,917,492.25 be carried forward.

Vienna, March 24, 2000

Managing Board

Michael GRÖLLER Alfred FOGARASSY

Wilhelm HÖRMANSEDER

Report of the Supervisory Board

on the 1999 financial year

In the 1999 financial year, the Supervisory Board discharged its responsibilities under statute and the articles of the Company. The Managing Board kept the Supervisory Board continuously informed through written and oral reports on the state of the Company and the Group companies, and provided additional information.

The annual financial statements of Mayr-Melnhof Karton AG for the year ending December 31, 1999 and the Group`s financial statements as of December 31, 1999 were audited by Unitreu Wirtschaftstreuhand-gesellschaft m.b.H, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna.

The audit showed that the accounting, the annual financial statements, and the consolidated financial statements conformed with legal requirements and the articles of association. The audit gave no reason for query, and the auditors duly issued unqualified opinions on the annual financial statements and consolidated financial statements of Mayr-Melnhof Karton AG. The in accordance with § 267 (3) of the Austrian Companies Act combined management report (Group management report) is consistent with the annual financial statements and consolidated financial statements, respectively.

The Supervisory Board agrees with the combined management report and consolidated financial statements and approved the annual financial statements for the year ending December 31, 1999 of Mayr-Melnhof Karton AG. The 1999 annual financial statements of Mayr-Melnhof Karton AG are accordingly adopted in accordance with § 125 (2) of the Austrian Companies Act.

The Supervisory Board has considered and approves the proposal of the Managing Board for the appropriation of the net income.

The Supervisory Board wishes to thank all employees of the Company and the Group for their work in 1999.

Vienna, April 2000

Carl Anton GOESS-SAURAU
Chairman of the Supervisory Board

Financial indicator definitions
Glossary

For the calculation of the divisions' indicators, the Group's holding company is not included.

Acid test ratio[1)]
The sum of investment securities, trade debtors with residual terms less than one year, other securities, and cash on hand, cheques, and deposits with banks divided by the sum of liabilities with residual terms less than one year, provision for taxes, and provisions-other.

Cash earnings
The sum of net income including minority interests, and depreciation and amortisation.

Cash earnings margin
Cash earnings divided by sales.

Cash ratio[1)]
The sum of investment securities, other securities, and cash on hand, cheques, and deposits with banks divided by the sum of liabilities with residual terms less than one year, provision for taxes, and provisions-other.

Current ratio[1)]
The sum of investment securities, the total of current assets with residual terms less than one year, and prepaid expenses divided by the sum of liabilities with residual terms less than one year, provision for taxes, and provisions-other.

EBDIT (Earnings before depreciation, interest, and income taxes)
The sum of operating profit and depreciation.

EBDIT margin
EBDIT divided by sales.

Employees
Average employees for the year, including part-time employees on a pro-rata basis, and apprentices, according to interest held in the company.

Enterprise value
The sum of market capitalisation, minority interests in equity capital, and net debt.

Equity capital to tangible fixed assets
The sum of equity capital, and liabilities with residual terms greater than one year, divided by total tangible fixed assets.

Equity to total assets
Equity capital divided by total assets.

Net debt
The sum of debenture loans and liabilities towards banks subtracted by the sum of investment securities, other securities, and cash on hand, cheques, and deposits with banks.

Net debt to equity
Net debt divided by equity capital.

Net profit margin
Net income including minority interest, divided by sales.

Operating margin
Operating profit divided by sales.

Other provisions
Provisions for taxes, deferred income taxes, and provisions-other.

Return on assets
The sum of net income including minority interests, and interest expense divided by average total assets.

Return on capital employed
The sum of net income including minority interests, extraordinary results, income taxes, net interest expense, and goodwill amortisation divided by the average sum of equity capital, goodwill written-off directly against the revenue reserves, and net debts.

Return on equity
Net income including minority interests, divided by the average equity capital, and goodwill written-off directly against the revenue reserves.

Return on investment
The sum of net income including minority interests, interest and similar expenses, and the result on extraordinary activities divided by the average sum of equity capital, debenture loans and liabilities towards banks.

Tangible fixed assets to total assets
Tangible fixed assets divided by total assets.

Times interest earned
Operating profit divided by the sum of interest income and interest expense.

Total operating revenue
The sum of sales, increase in finished goods inventories and work in progress, own work capitalised, and other operating income.

Working capital*
The sum of investment securities, the total of current assets with residual terms less than one year, and prepaid expenses subtracted by the sum of liabilities with residual terms less than one year, provision for taxes, and provisions-other.

[1)] Foreign trade financing loans are considered long-term for calculation of these indicators.