



Newst! has named Moelven Modus' office in Malmö one of the nicest offices in Sweden.
Photo: Andreas Hyltén

Quarterly report 2/2019

Amounts in NOK million	Second quarter		6 months		12 months	
	2019	2018	2019	2018	2018	2017
Operating revenues	2,844.0	3,055.7	5,539.8	5,773.4	11,020.8	10,768.4
EBITDA	244.5	289.6	462.2	449.7	932.7	716.1
Gross operating margin/EBITDA in per cent	8.6 %	9.5 %	8.3 %	7.8 %	8.5 %	6.6 %
Depreciation and impairment	76.3	69.8	153.1	140.8	346.5	295.7
Operating profit	168.2	219.8	309.1	308.9	586.2	420.4
Net operating margin/EBIT in per cent	5.9 %	7.2 %	5.6 %	5.4 %	5.3 %	3.9 %
Value change of financial instruments to fair value	-4.6	16.0	-10.0	50.0	51.5	-4.7
Profit before tax	147.1	223.1	247.2	306.7	578.2	373.6
Profit per share in NOK	0.90	1.32	1.50	1.83	3.47	2.26
Cash flow from operational activities, in NOK per share	1.38	2.63	0.16	0.91	5.04	5.22
Total equity*	-112.3	50.3	2,341.1	2,143.0	2,435.3	2,092.5
Equity ratio*	-2.9 %	-0.3 %	38.8 %	39.4 %	45.9 %	41.5 %
Total assets*	144.6	161.6	6,035.1	5,433.0	5,302.3	5,044.6
Investments*	171.5	82.7	228.4	191.4	497.4	357.0
Return on capital employed in per cent, 12 month rolling*	-2.3 %	2.1 %	17.6 %	15.7 %	19.0 %	7.2 %
Capital employed*	2.3	-83.8	3,682.1	3,101.4	3,163.0	2,884.4
Net interest-bearing liabilities*	218.3	-167.9	1,335.9	924.2	721.4	761.7
Net working capital*	88.2	100.0	2,778.1	2,544.7	2,373.3	2,071.5
Number of employees*	-59	-12	3,468	3,548	3,524	3,546
Sick leave percentage*	-0.3 %	-0.6 %	5.6 %	5.8 %	5.5 %	5.6 %
Lost Time Injury Frequency rate, rolling LTI-rate*	-1.4	0.7	9.8	13.0	10.9	12.4
Number of shareholders	884	934	882	901	882	901
Average number of shares (mill)	129.5	129.5	129.5	129.5	129.5	129.5

* The columns regarding the quarterly numbers show the change in the quarter

- Operating revenues in the second quarter were NOK 2,844.0 million (3,055.7 million).
- The operating profit was NOK 168.2 million (219.8 million).
- Return on capital employed (12-month rolling basis) improved to reach 17.6 per cent (15.7).
- Uncertainty and reduced activity on the international sawn timber market.
- Delivery volumes to the building products trade at a normal level.
- Lower level of activity in Building Systems.
- The HSE efforts create results, but still there are too many injuries.

In brief

In the group's export markets for sawn timber, demand was somewhat lower than normal for the season. The backdrop is largely uncertainty in the world economy and reduced activity as a result of the trade war between China and the US. At the same time a large supply of cheap raw materials as a consequence of extensive storm-fellings in Germany, and the resurgence of powder-post beetles, has led to pressure on prices for lower quality spruce products. For the export oriented units, which largely belong to the Timber division, the weakening of NOK has contributed to maintain competitiveness. Activity in the building products trade in Scandinavia was on a par with the second quarter of 2018. The renovation conversion and extension market still has a good level of activity, although new housing starts have declined in both Norway and Sweden.

For the Building Systems division, a lower demand for module based apartment building has made it necessary to reduce production. In building and construction, infrastructure and smaller projects, activity

has been good.

The supply of sawlogs has been good in the period. At the end of the quarter the sawlog inventories were higher than at the same time last year. Inventories are satisfactory with regard to the existing production plans. The prices for sawlogs were higher than for the corresponding period in 2018. Prices for chip and fibre products were also higher than in the second quarter last year.

In the second quarter Moelven Pellets AS entered into a partnership with SCA that secures the Swedish group a delivery contract for the entire production volume (80,000 tons per year) from the Moelven Pellets AS factory at Sokna.

Both Moelven Töreboda AB and Moelven Våler AS, which is an important raw material supplier to the group's glulam production, celebrated their 100th anniversaries in the second quarter. At the same time, Moelven Limtre AS celebrated its 60th anniversary. The anniversaries underscore that there is much history and experience behind the products and services the group currently supplies. In May the 85.4 metre tall Mjøstårnet was awarded its official status as the world's tallest wooden building. Chairman Steve Watts of the international Council on Tall Buildings and Urban Habitat, CTBUH, described Mjøstårnet as "a step into the future" that will have a great impact on the development of the cities of the future. Throughout its 120-year history, Moelven, with projects such as the Olympic halls for the 1994 games and more than 200 wooden bridges and two world records with "Treet" in Bergen and "Mjøstårnet" in Brumunddal, has moved the boundaries for what is possible to build from wood. As a symbol that one of the world's leading centres of expertise in wood structures is in the Moelven group, the group donated the monument "Silva" to Ringsaker municipality. The monument is eight metres tall, eight metres in diameter, can be illuminated according to the season and is made from glulam beams from Moelven Limtre.

In June Moelven Profil AS was presented with the award "Grue Company of the year 2018." The company was established in 1974 and acquired by the Moelven group in 2011. Besides evolving to an efficient and profitable industry, the company has also created a safe and secure working environment. On 25 June the company reached 1,000 days without injuries resulting in absence, and thus proved that purposeful improvement work in the HSE area is beneficial and yields results.

In the second quarter information and training was provided related to the group's new strategic framework that was established in the 2019 – 2021 strategy plan. The strategic framework summarises the four main pillars that the group strategy is based on; "People," "Innovation," "Sustainability" and "Profitability," and provides common guidelines for which priorities that must be made to achieve the group's long-term goals.

A good example of the strategy applied in practice is Moelven Modus's new self-designed offices in Malmö. Newst! has named the office one of Sweden's most attractive offices in 2019. When the office was designed, it was to create new standards not only for what an office can look like, but also to accommodate new work forms and patterns. In other words: "Innovation" and focus on "People." In addition, Modus's solutions are proven to be sustainable compared to traditional in situ solutions, particularly when the opportunities for reuse are exploited.

The residential project "Cederhusen," designed by BAU arkitekter and supplied by Moelven Byggmodul AB, has been nominated for the Haninge Architectural Award. The winner will be named in September, but the nomination alone is a recognition of the architectural quality of module-based buildings.

On Wednesday 22 May module number 90,000 left the Moelven Byggmodul factory. Since the current Moelven Byggmodul AS factory was built in 1975, the company has produced and supplied sustainable wood modules for the building and construction sector, public buildings, commercial buildings and buildings for residential purposes. After the acquisition of Moelven Byggmodul Hjellum AS, the apartment

concept will be maintained by the latter, while Moelven Byggmodul AS has specialised its production for the building and construction sector and public and commercial buildings.

Operating revenues and profits

Operating revenues dropped compared to the same period last year as a result of lower activity in Building Systems and Timber. Higher delivery volumes and higher market prices for processed goods resulted in increased operating revenues for Wood. With the exception of operational disruptions resulting from the fire in the lumber dryers at Moelven Trysil AS, the second quarter was good in terms of operations. Cost levels were nevertheless too high at certain units, and this imposes requirements towards further efficiency improvement measures.

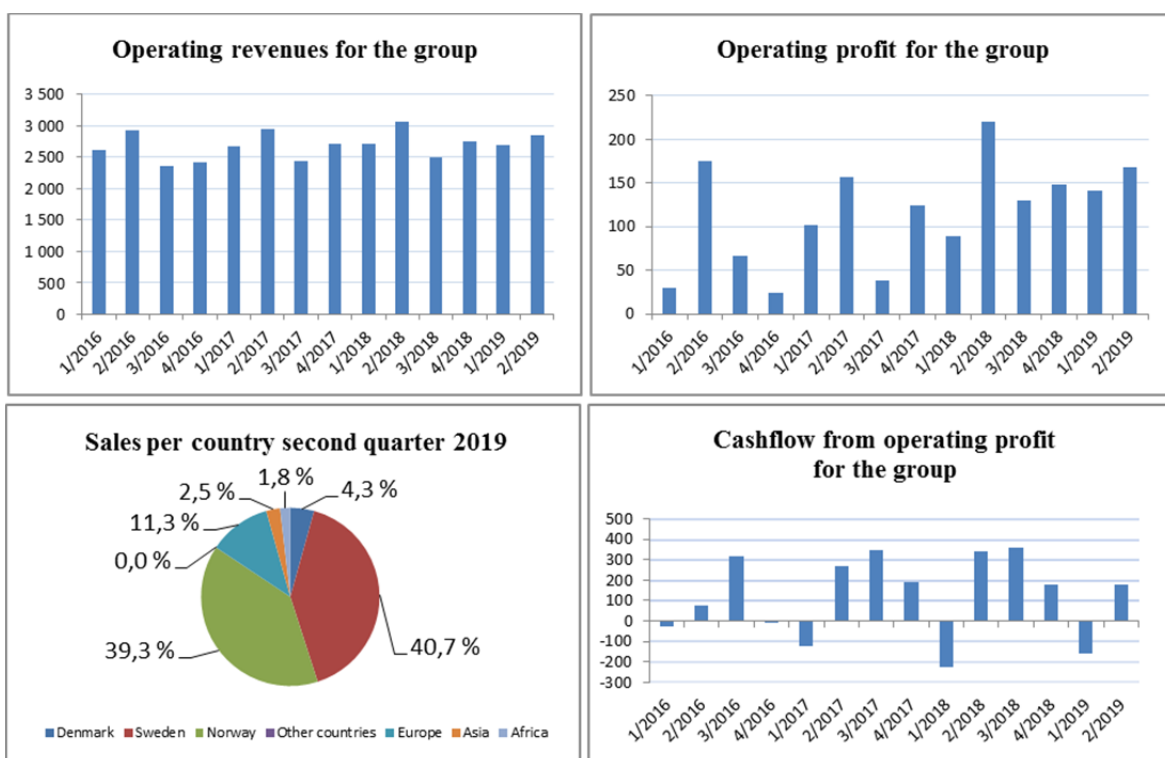
The FIFO principle requires that inventory calculations are adjusted in line with developments in raw material costs. Along with an update of real value assessments of inventory, this has impacted the operating profit with a total of NOK -9.5 million (30.3 million) in the quarter, and NOK 0.0 million (41.7 million) for the first six months. The items do not have any impact on cash flow.

The group employs financial instruments as a hedge against short-term fluctuations in foreign exchange rates, interest rates and power prices. Non-cash items related to fair value assessments on unrealized financial instruments totalled NOK -4.6 million (NOK 16.0 million) for the quarter and NOK -10.0 million (NOK 50.0 million) for the first six months. For the second quarter the amounts include basis swap effects of NOK -0.5 million (0.1), and for the first six months NOK 17.6 million (26.4). Basis swaps are hedging instruments that when viewed for the entire term have a market value change equalling zero, and where the accounting effect therefore is reversed over time.

Amounts in NOK million	Second quarter		6 months		12 months	
	2019	2018	2019	2018	2018	2017
Operating revenues						
Timber	840.0	878.4	1,735.8	1,712.4	3,263.3	3,118.2
Wood	1,191.9	1,143.1	2,147.0	2,036.6	3,977.3	3,805.6
Building Systems	788.8	1,041.3	1,611.1	2,009.9	3,743.0	3,856.4
Other businesses	1,025.3	937.0	2,057.9	1,849.9	3,547.6	3,414.6
<i>Internal</i>	<i>-1,002.0</i>	<i>-944.0</i>	<i>-2,011.9</i>	<i>-1,835.5</i>	<i>-3,510.5</i>	<i>-3,426.4</i>
The Group	2,844.0	3,055.7	5,539.8	5,773.4	11,020.8	10,768.4

EBITDA						
Timber	79.6	126.4	196.8	216.7	449.4	266.9
Wood	134.2	119.4	194.3	148.8	318.5	265.7
Building Systems	37.9	52.2	84.0	100.8	189.0	206.7
Other businesses	-7.1	-8.4	-12.9	-16.6	-24.1	-23.2
The Group	244.5	289.6	462.2	449.7	932.7	716.1

Operating profit						
Timber	54.8	102.1	146.9	167.9	343.3	146.7
Wood	107.2	92.9	139.8	95.0	151.9	154.8
Building Systems	17.6	36.3	44.0	68.9	128.3	153.9
Other businesses	-11.4	-11.5	-21.5	-22.9	-37.2	-34.9
The Group	168.2	219.8	309.1	308.9	586.2	420.4



Investments, balance sheet and funding

Investments totalling NOK 171.5 million (NOK 82.7 million) were made during the second quarter, and NOK 228.4 million (NOK 191.4 million) during the first half of the year. The increase in the investment rate is taking place in accordance with the investment programme in the group's strategy plan. The depreciations were NOK 76.3 million (NOK 69.8 million) in the quarter and NOK 153.1 million (NOK 140.8 million) for the first six months. At mid-year, the group's total assets were reported as NOK 6,035.1 million (NOK 5,433.0 million). In addition to high investments in 2019/2018 and the accounting effects of the implementation of IFRS 16 – Leasing, increased inventories are the main reason of the increase in total assets.

Cash flow from operating activities in the second quarter was NOK 178.6 million (NOK 340.9 million), corresponding to NOK 1.38 per share (NOK 2.63). Corresponding figures for the first six months were NOK 20.9 million (NOK 117.6 million), which is equivalent to NOK 0.16 (NOK 0.91) per share. The change compared to last year is due to natural fluctuations in working capital items. Cash flow from working capital items was NOK -12.3 million in the second quarter (NOK 105.0 million) and NOK -313.9 million year to date (NOK -250.3 million).

Net interest-bearing liabilities were NOK 1,335.9 million (NOK 924.2 million) at the end of the second quarter. Financial leases are included in net interest-bearing liabilities in the amount of NOK 214.8 million (NOK 14.1 million). The reason for the increase is because after the implementation of IFRS 16 – Leasing, all leases are recognised in the balance sheet as debt-financed assets.

The liquidity reserve was NOK 747.6 million (NOK 936.9 million). In the group's main financing the available loan facility varies in time with the natural fluctuations in the group's tied-up capital through the year.

Equity at the end of the second quarter amounted to NOK 2,341.1 million (NOK 2,143.0 million), which is equivalent to NOK 18.07 (NOK 16.54) per share. The equity ratio was 38.8 per cent (39.4 per cent). The

dividend for the previous year of NOK 1.74 (0.68) per share, totalling NOK 225.4 million (88.1), was paid and charged to equity in the second quarter. Parts of the group's equity are linked to ownership interests in foreign subsidiaries, principally in Sweden, and are thereby exposed to exchange rate fluctuations. The scope and consequences of likely exchange rate fluctuations are within acceptable risk limits. In the second quarter, exchange rate fluctuations resulted in an unrealised change in equity of NOK -6.2 million (NOK -34.4 million). Year to date the change was NOK -64.0 million (-100.5 million). Approximately half of the group's assets are recognised in SEK. The total assets thus also change based on the exchange rate, and the equity ratio in percent is therefore less impacted by exchange rate fluctuations than the nominal equity.

Divisions

Timber

Amounts in NOK million	Second quarter		6 months		12 months	
	2019	2018	2019	2018	2018	2017
Sales to external customers	665.0	715.8	1,384.6	1,408.8	2,628.4	2,499.5
Sales to internal customers	175.0	162.6	351.2	303.6	634.9	618.8
Operating revenues	840.0	878.4	1,735.8	1,712.4	3,263.3	3,118.2
Depreciation and impairment	24.8	24.3	49.9	48.8	106.2	120.3
Operating profit	54.8	102.1	146.9	167.9	343.3	146.7
Operating margin in per cent*	-1.8 %	1.9 %	8.5 %	9.8 %	10.5 %	4.7 %
Net operating capital (% of operating revenues)*	0.9 %	0.5 %	17.4 %	16.5 %	18.3 %	17.5 %
Total assets*	-198.1	-76.2	1,596.7	1,511.2	1,663.4	1,545.5
Equity*	36.4	91.9	912.0	869.6	809.0	752.7
Capital employed*	86.8	79.4	1,136.2	1,068.9	985.7	988.6
Return on capital employed in per cent, 12 month rolling*	-4.8 %	4.5 %	29.8 %	21.6 %	32.4 %	14.3 %
Investments*	21.3	22.1	39.7	42.0	136.7	99.2
Total number of employees*	1	-17	643	622	620	650

*The columns regarding the quarterly numbers show the change in the quarter

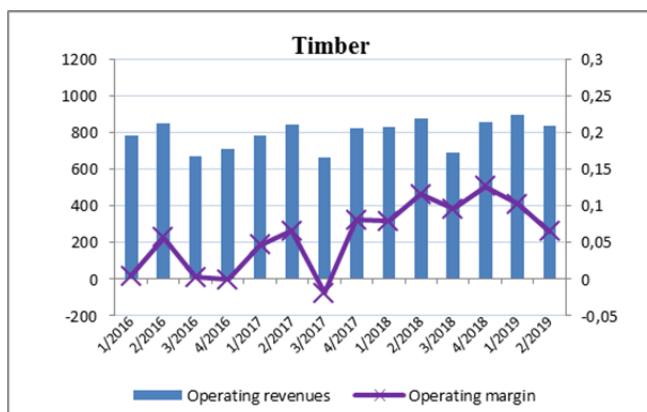
Activities in the export markets were lower than at the same time last year. Price levels were overall somewhat higher than in the second quarter of 2018. However, particularly for lower qualities of spruce, prices came under pressure as a result of the great supply of cheap raw material further south in Europe due to extensive storm fellings and increased harvesting because of attacks from powder-post beetles. Production was somewhat lower than in the same period last year, and contributed to inventories being kept at acceptable levels. Cost levels were however higher than planned, and measures are being implemented in order to improve cost efficiency.

The new dry sorting line at Moelven Notnäs Ransby AB, Ransby department, started up according to plan on 27 May. With the new dry sorting line in place, cost efficiency will improve in the second half of the year.

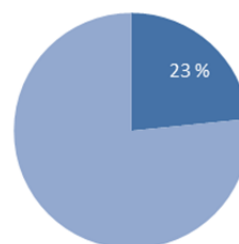
The supply of sawlogs has been good in the period. At the end of the quarter sawlog inventories were somewhat higher than at the same time last year, particularly for spruce in Sweden. Inventories are satisfactory with regard to the existing production plans. The prices for sawlogs were higher than for the corresponding period in 2018. Prices for chip and fibre products were also higher than in the second quarter last year.

Due to price developments the profits for the quarter have been impacted by a price adjustment to inventories totalling NOK -3.2 million. The corresponding adjustment in the second quarter of 2018 was NOK 5.4 million. Year to date the price adjustments comprised NOK 5.1 million (NOK 7.2 million).

In the second quarter the division's sales offices in Poland and the Netherlands were discontinued. Responsibility for these markets has been transferred to Moelven Deutschland GmbH.



Timber's share of the Groups sale to external customers



Wood

Amounts in NOK million	Second quarter		6 months		12 months	
	2019	2018	2019	2018	2018	2017
Sales to external customers	1,141.8	1,093.6	2,045.7	1,943.0	3,787.0	3,623.9
Sales to internal customers	50.1	49.5	101.3	93.6	190.3	181.7
Operating revenues	1,191.9	1,143.1	2,147.0	2,036.6	3,977.3	3,805.6
Depreciation and impairment	26.9	26.5	54.5	53.9	166.6	110.9
Operating profit	107.2	92.9	139.8	95.0	151.9	154.8
Operating margin in per cent*	3.1 %	4.4 %	6.5 %	4.7 %	3.8 %	4.1 %
Net operating capital (% of operating revenues)*	-1.1 %	-0.5 %	36.4 %	33.2 %	30.1 %	27.4 %
Total assets*	79.3	104.0	2,771.8	2,563.8	2,466.9	2,413.9
Equity*	93.7	69.9	1,139.2	1,064.9	1,048.3	1,033.4
Capital employed*	116.1	56.5	1,915.0	1,763.8	1,648.0	1,627.4
Return on capital employed in per cent, 12 month rolling*	0.7 %	1.5 %	11.3 %	9.1 %	8.9 %	9.3 %
Investments*	40.5	43.8	52.7	94.0	198.1	119.9
Total number of employees*	-6	25	1,100	1,114	1,108	1,079

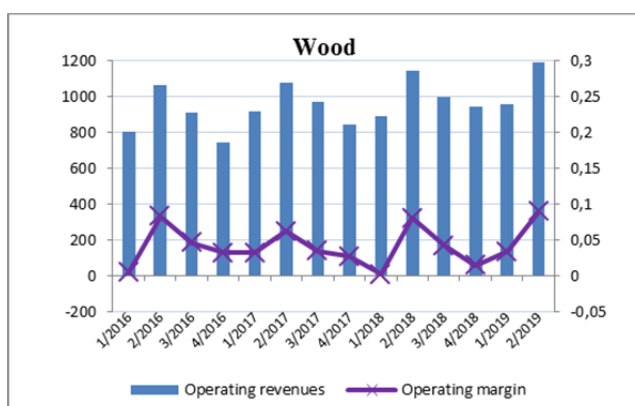
*The columns regarding the quarterly numbers show the change in the quarter

Activities in the building products trade in Scandinavia was on a par with the corresponding period in 2018, but with higher price levels. Delivery volumes to the trade increased somewhat, combined with a certain change in the product mix. Compared to the same period last year, the combined units also increased deliveries to the export markets for sawn timber. Overall, this resulted in an increase in operating revenues in the quarter.

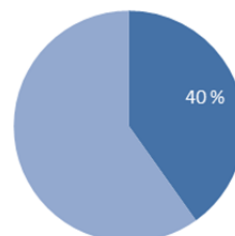
Operating conditions in the period were generally good, but the fire at Moelven Trysil AS resulted in operational disruptions at the plant in Trysil and at the units affected by the continuity plans. The plant is insured both in terms of damage and disruptions. Excess costs and a waiting period for the consequential loss insurance was charged to the accounts in the first quarter to the tune of NOK 5 million. Construction of new lumber dryers was initiated during the second quarter.

The supply of sawlogs has been good in the period. At the end of the quarter sawlog inventories were somewhat higher than at the same time last year, particularly for spruce in Sweden. Inventories are satisfactory with regard to the existing production plans. The prices for sawlogs were higher than for the corresponding period in 2018. Prices for chip and fibre products were also higher than in the second quarter last year.

Due to price developments the profits for the quarter have been impacted by a price adjustment to inventories totalling NOK -6.3 million. The corresponding adjustment in the second quarter of 2018 was NOK 24.9 million. Year to date the price adjustments comprised NOK -5.1 million (NOK 34.6 million).



Wood's share of the Groups sale to external customers



Building Systems

Amounts in NOK million	Second quarter		6 months		12 months	
	2019	2018	2019	2018	2018	2017
Sales to external customers	787.9	1,040.8	1,609.3	2,009.2	3,738.9	3,854.7
Sales to internal customers	0.9	0.5	1.8	0.7	4.2	1.7
Operating revenues	788.8	1,041.3	1,611.1	2,009.9	3,743.0	3,856.4
Depreciation and impairment	20.3	15.9	40.0	31.9	60.6	52.8
Operating profit	17.6	36.3	44.0	68.9	128.3	153.9
Operating margin in per cent*	-0.5 %	0.1 %	2.7 %	3.4 %	3.4 %	4.0 %
Net operating capital (% of operating revenues)*	2.0 %	-0.6 %	15.8 %	13.0 %	13.5 %	11.3 %
Total assets*	-231.4	-171.5	1,770.7	1,683.7	1,751.4	1,808.9
Equity*	11.4	22.0	800.0	821.2	780.9	798.0
Capital employed*	-16.3	-37.4	1,066.1	854.2	846.4	884.1
Return on capital employed in per cent, 12 month rolling*	-2.5 %	-0.9 %	11.0 %	15.3 %	14.7 %	17.8 %
Investments*	10.9	12.8	26.3	47.1	93.5	118.9
Total number of employees*	-56	-23	1,567	1,678	1,647	1,687

*The columns regarding the quarterly numbers show the change in the quarter

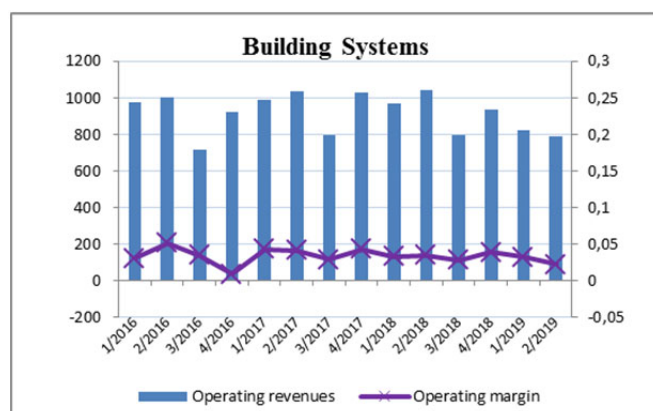
At the end of the quarter the order backlog for the division as a whole was NOK 509 million lower than at the same time in 2018, and this has made it necessary to implement capacity adjustments at certain units. For the Modular buildings business in Norway, activities in building and construction have been good, and production for this market segment has been satisfactory. The new robot line that has been installed at the factory in Moelv has started up, and will provide further rationalisation of operations in the time ahead. In the housing segment activity has been slow, and not sufficient to ensure production through the first six months. However, production will start up again in the third quarter.

For the Swedish operations, demand for more basic modules used in building and construction and leasing has been somewhat weaker than normal, while the housing segment remains hesitant. Pursuant to Swedish legislation, layoffs are not permitted. In order to adjust capacity to the market conditions, redundancies are therefore necessary. Notice of this, as well as termination of agreements for hiring personnel, have been issued and will reduce capacity by more than 30 per cent during the third quarter.

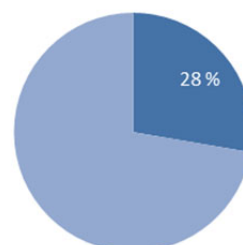
For the Interior systems operations activity in the market is good in both Norway and Sweden, particularly in the capital regions. The market's focus on the environment has strengthened significantly, as well as requirements to flexibility and good design in activity-based working environments. Material choices and product documentation are becoming more and more important in connection with the environmental

certification of buildings. All of this, in addition to the authorities' focus on proper working conditions in the construction industry, is good for the business.

A new painting line at the factory in Hulån in Sweden, as well as new production equipment for the production of Eco Panel at the factory in Norway, will contribute to further rationalisation.



Building Systems's share of the Groups sale to external customers



Other Businesses

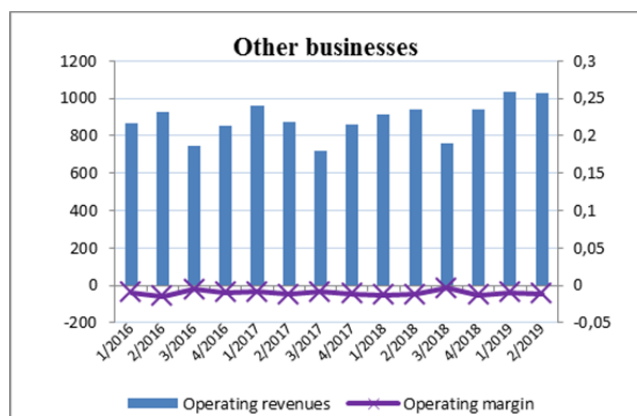
Amounts in NOK million	Second quarter		6 months		12 months	
	2019	2018	2019	2018	2018	2017
Sales to external customers	274.6	231.7	551.7	463.9	969.0	875.7
Sales to internal customers	750.6	705.3	1,506.2	1,386.0	2,578.6	2,538.9
Operating revenues	1,025.3	937.0	2,057.9	1,849.9	3,547.6	3,414.6
Depreciation and impairment	4.3	3.1	8.6	6.3	13.1	11.7
Operating profit	-11.4	-11.5	-21.5	-22.9	-37.2	-34.9
Operating margin in per cent*	-0.1 %	0.0 %	-1.0 %	-1.2 %	-1.0 %	-1.0 %
Net operating capital (% of operating revenues)*	-2.6 %	-2.1 %	2.4 %	2.8 %	2.0 %	1.4 %
Total assets*	-171.1	-180.0	2,692.7	2,378.3	2,662.0	2,398.0
Equity*	-263.6	-153.4	1,105.9	1,003.5	1,459.0	1,198.0
Capital employed*	-134.0	-258.2	1,984.9	1,716.4	2,012.2	1,834.9
Return on capital employed in per cent, 12 month rolling*	0.0 %	-0.1 %	-0.7 %	-0.6 %	-0.7 %	-0.4 %
Investments*	98.7	4.0	109.6	8.3	69.2	19.1
Total number of employees*	1	3	158	134	149	130

*The columns regarding the quarterly numbers show the change in the quarter

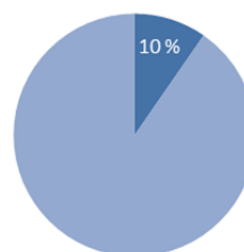
Other businesses include Moelven Industrier ASA, with shared services for finance, accounting, insurance, communications, HSE and ICT. Sawlog supply and sales of wood chips and energy products are organised as a common function for the group's timber processing industry and are included with the companies Moelven Skog AB, Broberg Skogs AB, Moelven Virke AS, Vänerbränsle AB and Moelven Bioenergi AS. Moelven Pellets AS, which was established in June 2018 to manage construction and operation of the new pellet factory and energy centre in connection with Moelven Soknabruket AS, is also included in the area, but as of yet with no result items of significance. The pellet factory will be commissioned in the autumn of 2019. In the second quarter Moelven Pellets AS entered into a partnership with SCA that secures the Swedish group a delivery contract for the entire production volume (80,000 tons per year) from the Moelven Pellets AS factory at Sokna.

Fluctuations in operating revenues in the area of Other Businesses are largely due to the level of activity within sawlog supply and sales of wood chips and energy products. These are mainly internal sales, which do not materially affect the profits within the business area. In order to safeguard the supply of timber and

market opportunities for wood chip and energy products in regions without local demand for pulp wood and wood chips, train solutions have been established for transport. The business is based on fixed agreements on both the customer and supplier sides.



Other businesses's share of the groups sale to external customers



Employees

Employees	Per second quarter 2019				Per second quarter 2018			
	Male	Female	%Female	Total	Male	Female	%Female	Total
Timber	574	69	10.7 %	643	554	68	10.9 %	622
Wood	926	174	15.8 %	1,100	939	175	15.7 %	1,114
Building Systems	1,458	109	7.0 %	1,567	1,563	115	6.9 %	1,678
Other businesses	120	38	24.1 %	158	102	32	23.9 %	134
The Group	3,078	390	11.2 %	3,468	3,158	390	11.0 %	3,548

Sickness absence rate	Per second quarter	
	2019	2018
Timber	4.7 %	4.3 %
Wood	5.6 %	5.4 %
Building Systems	6.2 %	6.6 %
Other businesses	1.9 %	3.6 %
The Group	5.6 %	5.8 %

LTI Value	Per second quarter	
	2019	2018
Timber	11.4	10.2
Wood	8.8	11.6
Building Systems	10.4	15.9
Other businesses	4.0	0.0
The Group	9.8	13.0

Moelven's overall goal in safety work is that no one should be harmed at work. The LTI rate on a 12 month rotating basis, which is an expression for the number of injuries with subsequent sick leave per million worked hours, was 9.8 (13.0) at the end of the second quarter 2019. Developments are headed in the right direction, but the level remains above the target for 2019 of 7.0. HSE work has a high priority in the work of the board, the corporate management and the safety committee. Work on training and awareness-raising is constantly ongoing in order to establish a culture for safety at all levels. As a part of the systematic work to reach the targets in safety work, investigations have been introduced as a method in incidents of a certain severity. The purpose of the investigations is to ensure a thorough and unbiased examination or investigation of the incident, and to ensure follow up of HSE incidents to prevent recurrences. The investigations shall ensure learning and the transfer of experience in all companies in Moelven. There were 11 (20) personal injuries with subsequent sick leave during the quarter. As a part of work to

increase focus on injuries in general, target figures have also been established for the TRIF, which means number of personal injuries with and without absence per million worked hours. For 2019 the goal is set at 33. At the end of the second quarter the TRIF was 35.1 (40.8). To succeed with the 2019 target for LTI rate of < 7.0 and TRIF of < 33, it is essential that preventive work is carried out based on good causal analyses of adverse events.

In the second quarter, absence due to illness was 5.3 per cent (5.2), where 2.8 per cent (2.6) represents long-term absence. Although absence increased slightly during the quarter, the long-term trend is nevertheless still declining. Many of Moelven's businesses have sickness absence levels lower than the maximum target for 2019 of 4.4 per cent. There is nevertheless much to be gained, and work is ongoing to reduce sickness absence for the group as a whole to below the target level. Efforts, which include employee surveys, close follow-up of sickness absence and cooperation with the occupational health services, are particularly directed at those businesses with the highest sickness absence levels.

Outlook

Activity in the world economy has declined somewhat. The trade conflict between the US and China and uncertainty concerning Brexit are contributing to fears of a further slowdown, and several central banks have already cut interest rates and implemented other measures to stimulate the economy. In Norway the mainland economy is at a normal level, while activity in Sweden has declined. The rest of Europe still has a marginal positive growth rate.

Uncertainty related to the UK has not diminished with the change of prime minister. The consequences of a hard Brexit may lead to significant changes in trade with the UK, with possible ripple effects in the rest of Europe. Moelven has implemented measures to reduce the risk related to this.

In the USA the economy is still improving, although the growth rate is lower and uncertainty greater than previously. Moelven has only occasional deliveries to the United States, but the group sees a positive effect from an improved global market balance. The growth rate in China and Japan is decreasing, and is to a certain extent affected by the ongoing trade war between China and the US. In other parts of Asia there are signs of increasing activity. The Middle East and North Africa are important export markets for Moelven, but remain characterised by conditions that complicate international trade. However, the underlying demand is good in the latter markets. Positive and stable developments in international demand for industrial wood are expected.

Both NOK and SEK are weakened against most currencies except the GBP. This improves competitiveness on the export markets.

In Norway demand for processed products in 2019 is expected to remain on a par with 2018, albeit with regional differences. Construction activity in and surrounding the major cities is expected to remain high. In Sweden the need for new homes remains high, but activity in the new building market remains hesitant as in Norway. The order situation for building module operations remains weak, and it is taking a long time to finally clarify the projects that are on the market. Activity in the renovation, conversion and extension market remains good. Increased interest for wood as a building material contributes to maintain activity levels.

Sawlog inventories and access to sawlogs at the start of the third quarter 2019 are satisfactory. However, in Sweden increased harvesting of spruce to avoid powder-post beetle attacks has led to a certain reduction in the supply of pine. Some uncertainty remains in relation to further developments in the market as a result of the powder-post beetle attacks. In addition the situation is affected by major storm fellings in certain areas in Europe.

The group's composition, with divisions that experience different impacts from economic fluctuations and units that operate in different markets, provides the group with a good starting point for further improvements. The group has a long-term goal of a return on capital employed of 13 per cent over an economic cycle. Parts of the strategic programme for operational improvement and structuring of the group are being pushed ahead to counter weaker economic developments than assumed by the strategy plan. This will contribute to continued strengthened profitability in the underlying operations. The Board is of the opinion that the group has adequate solvency and access to liquidity over the long term to introduce the necessary measures to develop the group in line with the strategy plan. For 2019 the Board expects a somewhat lower activity level than in 2018 in some of the market segments, and an overall weaker profit as a consequence of economic developments.

Quarterly accounts for the Moelven Group for the second quarter of 2019

Earnings and comprehensive income

Amounts in NOK million	Second quarter		6 months		12 months	
	2019	2018	2019	2018	2018	2017
Operating revenues	2,844.0	3,055.7	5,539.8	5,773.4	11,020.8	10,768.4
Cost of goods sold	1,749.4	1,874.6	3,354.5	3,587.2	6,746.3	6,799.2
Payroll expenses	568.4	580.2	1,147.4	1,147.8	2,200.1	2,153.3
Depreciation and impairment	76.3	69.8	153.1	140.8	346.5	295.7
Other operating expenses	281.8	311.3	575.7	588.7	1,141.6	1,099.8
Operating Profit	168.2	219.8	309.1	308.9	586.2	420.4
Income from associates	0.0	0.0	0.0	0.0	0.0	0.0
Value change of financial instruments to fair value	-4.6	16.0	-10.0	50.0	51.5	-4.7
Other financial income	2.0	5.4	3.3	12.4	7.9	16.2
Other financial expenses	18.5	18.2	55.2	64.7	67.4	58.3
Profit before tax	147.1	223.1	247.2	306.7	578.2	373.6
Estimate income tax	30.8	50.2	52.5	68.8	127.0	80.7
Net profit	116.3	172.9	194.7	237.9	451.2	293.0
Non-controlling interest share	0.2	1.2	0.9	1.3	1.8	-0.1
Owner of parent company share	116.2	171.6	193.9	236.6	449.4	293.0
Earnings per share (in NOK)	0.9	1.3	1.5	1.8	3.5	2.3
Statement of comprehensive income						
Net profit	116.3	172.9	194.7	237.9	451.2	293.0
Other comprehensive income						
<i>Items that are not reclassified subsequently to profit or loss</i>						
Actuarial gains (losses) on defined-benefit pension schemes	0.0	-2.6	0.0	0.0	-0.9	0.1
Income tax on items that are not reclassified to profit or loss	0.0	-0.6	0.0	0.0	0.2	0.0
	0.0	-1.9	0.0	0.0	-0.7	0.1
<i>Items that may be reclassified subsequently to profit or loss</i>						
Translation differences	-6.1	17.8	-64.0	-100.5	-17.3	41.2
Proportion of other income and costs in associated companies	0.0	0.0	0.0	0.0	0.5	0.2
Other changes	2.2	8.3	-0.1	1.1	-2.4	7.1
Income tax on items that may be reclassified to profit or loss	0.0	0.0	0.0	0.0	0.0	0.0
	-3.9	26.1	-64.1	-99.3	-19.2	48.5
<i>Items that may be reclassified subsequently to profit or loss</i>						
Other comprehensive income, net of tax	-3.9	24.2	-64.1	-99.4	-19.9	48.6
Total comprehensive income for the period	112.4	197.1	130.6	138.5	431.4	341.5
Comprehensive income assigned to:						
Owners of parent company	112.3	195.8	129.7	137.3	429.6	341.6
Non-controlling interests	0.2	1.2	0.9	1.3	1.8	-0.1

Consolidated balance sheet

Amounts in NOK million	Per 30.06		Per 31.12	
	2019	2018	2018	2017
Intangible assets	81.2	75.5	84.9	76.6
Tangible fixed assets	2,084.3	1,687.2	1,873.5	1,762.5
Financial fixed assets	6.9	7.4	7.0	7.9
Total fixed assets	2,172.4	1,770.2	1,965.4	1,847.1
Inventory	1,796.1	1,549.7	1,673.9	1,524.1
Contract assets	112.4	101.2	126.0	139.4
Receivables	1,929.7	1,935.3	1,483.1	1,493.6
Liquid assets	24.6	76.7	53.9	40.4
Total current assets	3,862.8	3,662.8	3,336.9	3,197.6
Total assets	6,035.1	5,433.0	5,302.3	5,044.6
Share capital*	647.7	647.7	647.7	647.7
Other equity	1,693.4	1,495.2	1,787.6	1,444.8
Total equity	2,341.1	2,143.0	2,435.3	2,092.5
Provisions	303.0	282.0	261.1	242.9
Long term interest-bearing liabilities	1,245.7	948.0	712.1	782.8
Long term interest-free liabilities	0.8	6.1	0.9	6.3
Total long term liabilities	1,549.5	1,236.1	974.1	1,031.9
Short term interest-bearing liabilities	91.3	0.0	9.4	0.0
Contract liabilities	106.4	136.4	78.8	167.7
Short term liabilities	1,946.9	1,917.5	1,804.7	1,752.5
Total short term liabilities	2,144.6	2,053.9	1,892.9	1,920.2
Total liabilities	3,694.1	3,290.1	2,867.0	2,952.1
Sum egenkapital og gjeld	6,035.1	5,433.0	5,302.3	5,044.6

Consolidated statement of changes in equity

Amounts in NOK million	Equity assigned to owners of parent company					Non-controlling interests	Total equity
	Share capital	Share premium funds	Own shares	Other equity	Total		
Total pr 1.1.2018	647.7	130.9	0.0	1,304.1	2,082.7	9.8	2,092.5
Comprehensive income for the period							
Net profit	0.0	0.0	0.0	236.6	236.6	1.3	237.9
Other comprehensive income							
Translation differences	0.0	0.0	0.0	-100.5	-100.5	0.0	-100.5
Other changes	0.0	0.0	0.0	1.1	1.1	0.0	1.1
Actuarial gains (losses) on defined-benefit pension schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax on other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other comprehensive income (net of tax)	0.0	0.0	0.0	-99.4	-99.4	0.0	-99.4
Transactions with owners, entered directly against equity							
Purchase of non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Effect of acquisition	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend to owners	0.0	0.0	0.0	-88.1	-88.1	0.0	-88.1
Share based payment transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total transactions with owners	0.0	0.0	0.0	-88.1	-88.1	0.0	-88.1
Total as at 30.06.2018	647.7	130.9	0.0	1,353.3	2,131.9	11.0	2,143.0
Total pr 1.1.2019	647.7	130.9	0.0	1,643.2	2,421.8	13.5	2,435.3
Comprehensive income for the period							
Net profit	0.0	0.0	0.0	193.9	193.9	0.9	194.7
Other comprehensive income							
Translation differences	0.0	0.0	0.0	-63.9	-63.9	-0.1	-64.0
Other changes	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.1
Actuarial gains (losses) on defined-benefit pension schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax on other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other comprehensive income (net of tax)	0.0	0.0	0.0	-64.0	-64.0	-0.1	-64.1
Transactions with owners, entered directly against equity							
Purchase of non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Effect of acquisition	0.0	0.0	0.0	0.6	0.6	0.0	0.6
Dividend to owners	0.0	0.0	0.0	-225.4	-225.4	0.0	-225.4
Share based payment transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total transactions with owners	0.0	0.0	0.0	-224.8	-224.8	0.0	-224.8
Total as at 30.06.2019	647.7	130.9	0.0	1,548.2	2,326.8	14.3	2,341.1

Consolidated statement of cash flow

Amounts in NOK million

	Per 30.06.	
	2019	2018
CASH FLOW FROM OPERATIONAL ACTIVITIES:		
Net profit	194.7	237.9
<i>Adjustments to reconcile net profit with net cash flow from operations:</i>		
Depreciation	154.3	140.8
Impairment	-1.3	0.0
Income from associated companies	0.0	0.0
Tax paid	-75.7	-29.8
Unpaid pension costs entered as costs and unreceived pension funds entered as income	0.3	0.2
Loss (profit) on sale of fixed assets	-0.1	0.0
Net value change of financial instruments to fair value	10.0	-50.0
Income tax	52.5	68.8
<i>Changes in operating assets and liabilities:</i>		
Changes in inventory	-122.2	-25.5
Changes in accounts receivable and other receivables	-432.6	-404.1
Changes in trade accounts payable	56.5	5.6
Changes in provisions and benefits to employees	41.9	39.1
Changes in short-term liabilities excluding borrowing	142.5	134.7
Cash flow from operational activities	20.9	117.6
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Investment in plant and equipment exc. acquisition	-228.4	-191.4
Net cash outlay on acquisition	0.0	0.0
Receipts from sale of fixed assets	0.3	0.0
Sale of other long-term investments	0.0	0.0
Acquisition of subsidiary, net of cash	0.0	0.0
Cash flow from investment activities	-228.0	-191.4
CASH FLOW FROM FINANCING ACTIVITIES:		
Raising short term debt	0.0	0.0
Repayment of short term debt	0.0	0.0
Change in bank overdrafts	81.9	0.0
Purchase of non-controlling interests	0.0	0.0
Change in long term debt (borrowing facility)	351.5	171.1
Changes in other long-term liabilities	11.3	-0.3
Payment of leases	-13.2	-4.9
Payment of dividend	-225.4	-88.1
Cash flow from financial activities	206.0	77.8
Net increase (reduction) in liquid assets during year	-1.2	4.0
Liquid assets start of period	6.3	30.2
Effect of exchange rate changes on liquid assets	0.0	0.0
Liquid assets end of period	5.1	34.2
Cash and cash equivalents		
Liquid assets	5.1	34.2
Unused drawing rights	742.5	902.7
Restricted bank deposits	0.0	0.0
Cash and cash equivalents	747.6	936.9

Notes to the consolidated financial statements

Note 1 – General information

Moelven Industrier ASA is a public limited liability company, registered in Norway. The company's headquarters are located at Industriveien 2, 2390 Moelv, Norway. The consolidated financial statement for the second quarter of 2019, ending on 30 June 2019, includes Moelven Industrier ASA and its subsidiaries (collectively referred to as “the group”) and the group's interests in associated companies. The annual accounts for 2018 are available at www.moelven.no.

Note 2 – Statement of conformity

The consolidated financial statements for the second quarter of 2019 have been prepared in accordance with the requirements of IAS 34 “Interim Financial Reporting” which have been approved by the EU. The interim financial statements do not include all the information required in a complete annual report and ought to be read in conjunction with the consolidated financial statements for 2018. The consolidated quarterly financial statements were approved by the Board on 27 August 2019.

Note 3 – Accounting policies

The accounting policies adopted in the quarterly financial statements for 2019 are the same as those in the consolidated financial statements for 2018, with the exception of principles related to IFRS 16, which were implemented on 1 January 2019. Changes to accounting principles as a result of IFRS 16 are described in the consolidated accounts note 3. Currency exchange rates in the consolidation are retrieved from Norges Bank.

Note 4 – Critical judgements and estimates

The preparation of quarterly financial statements requires management to make judgements, estimates and assumptions that affect both which accounting policies are applied and the reported amounts of assets, liabilities, revenues and expenses. Actual amounts may differ from the estimated amounts. In preparing these quarterly financial statements management has applied the same critical judgements in applying the accounting policies as it made when preparing the consolidated financial statements for 2018 and the principal sources of estimate uncertainty are the same when preparing these quarterly accounts as for the consolidated accounts for 2018.

Note 5 – Pensions and taxes

The calculations of pension costs and pension liabilities are undertaken annually by actuaries. In the quarterly accounts pension costs and pension liabilities are based on forecasts from actuaries. The income tax expense is determined in each quarter on the basis of the expected annual income tax expense.

Note 6 – Seasonal fluctuations

Demand for the group's products and services are normally subject to variability throughout the year. This means a low season through the first quarter, increasing activity and a high season through the second and third quarters and less activity in the last part of the fourth quarter.

Due to the annual seasonal variation in raw material access and market activity, the group's working capital varies by NOK 300 million to NOK 400 million from its highest level in May/June to its lowest in November/December.

Note 7 – Fixed assets, intangible assets and goodwill

Fixed assets, intangible assets and goodwill

Amounts in NOK million

	Per 30.06.	
	2019	2018
Book value per 1.1	1910.7	1796.8
Acquisitions	228.4	194.4
Lease acquisitions	5.1	0.0
Business combinations	0.0	0.0
Disposals	-0.2	0.0
Depreciations	-154.3	-140.8
Impairment losses	1.3	0.0
Transfers	179.3	-44.4
Translation differences	-52.3	-85.6
Book value per 31.12.	2,117.7	1,720.4

Note 8 - Financial instruments

Amounts in NOK million	Per 6 months 2019			31.12.2018		
	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Currency derivatives	6.7	-2.6	4.1	16.9	-4.4	12.4
Interest rate derivatives	0.0	-55.0	-55.0	0.0	-69.8	-69.8
Power derivatives	12.7	-0.2	12.5	30.8	-1.3	29.5
Total	19.5	-57.8	-38.4	47.6	-75.5	-27.9

Amounts in NOK million	Per 6 months 2018			31.12.2017		
	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Currency derivatives	2.9	-16.0	-13.1	3.5	-7.0	-3.6
Interest rate derivatives	9.0	-55.8	-46.7	0.0	-81.5	-81.5
Power derivatives	31	0.0	30.5	6.7	-1.0	5.8
Total	42.5	-71.8	-29.3	10.2	-89.5	-79.4

Note 9 – Operating segments

The divisions are divided in accordance with Moelven's three core activities: Timber (industrial goods), Wood (building products) and Building Systems (projects). There is also a division named "Other" in which the remaining units are placed. The divisions are built up around independent subsidiaries with activities clearly defined within the divisions. All transactions between the divisions are conducted on normal commercial terms. The split into divisions differs from the formal legal ownership structure. See the consolidated financial statements for 2018 for further information about segments. Below is a reconciliation of the profit before taxes in the reporting segments with the company's profit before taxes.

Amounts in NOK million	Second quarter		6 months		12 months	
	2019	2018	2019	2018	2018	2017
Timber	56.6	104.9	145.1	160.4	339.2	129.3
Wood	99.7	84.4	119.4	75.9	136.2	129.9
Building Systems	16.5	35.0	42.5	67.6	127.4	152.3
Other	-25.8	-1.2	-59.8	2.8	-24.5	-37.8
Profit before tax in segments	147.1	223.1	247.2	306.7	578.2	373.6
<i>Eliminations</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Profit before tax in Group Accounts	147.1	223.1	247.2	306.7	578.2	373.6

Note 10 – Related parties

Transactions with the owners are performed in some areas of the ordinary activities. Among other things, this relates to purchase of timber, where the Norwegian forest owner cooperatives are suppliers. There will also be deliveries of biofuel from the Moelven Group to a bioenergy plant owned by Eidsiva Energi AS, with possible buy-back of bioenergy for Moelven's industries in connection with the energy plant. Eidsiva Marked AS also trades electric power to Moelven's Norwegian industrial operations. All these transactions have in common that the arm's length principle shall be applied. Where other suppliers can offer better prices or terms, these will be used. About 42 per cent of Moelven's total purchasing requirement for timber of 4.4 million cubic metres comes via the Norwegian forest owner cooperatives.

Moelven's supply of energy raw materials to Eidsiva's bioenergy plant represents between 40 and 50 GWh on an annual basis, while buying back energy represents between 20 and 30 GWh. Net deliveries of energy raw materials is 20 GWh. The extent of the sale of electrical power corresponds to about 40 per cent of Moelven's total consumption of 210 GWh.

Moelven has a long tradition of running its operations in accordance with all the laws and ethical guidelines of the industry and is of the opinion that competition is positive for all parties in industry. In order to ensure that this culture is maintained, ethical guidelines and guidelines for complying with legislation on competition have been devised.

Note 11 - Events after the balance sheet date

There have not been any events after the balance sheet date which would have an impact on the income, expenses, assets and liabilities disclosed in the quarterly financial statements.

Moelven is organised into three divisions: Timber, Wood and Building Systems. There is also an Other Businesses reporting area, which consists of the holding companies, supply businesses and bioenergy companies. The sawmills in Timber supply sawn wood products and components to industrial customers in Scandinavia and the rest of Europe, the Middle East and North Africa. The industrial customers use the products as intermediate goods in their own production. Shavings, chip and bark products are also supplied and are used in the pulp, chipboard and biofuel industry. The companies in Wood supply the building products trade in Scandinavia with a broad range of building and interior products. A critical competitive advantage is the division's efficient distribution system, which offers customers rapid and precise deliveries of a broad range of products. The companies within Building Systems deliver flexible system solutions for interior walls, modular buildings and load-bearing structures in glulam to projects and contractor clients, principally in Norway and Sweden. The division focuses on developing concepts and systems in collaboration with the customers and experts within architecture, design and construction. In total, the group is composed of 36 production companies in Norway and Sweden and has 3 468 employees. Moelven also has its own sales offices in Denmark, England, Germany and the Netherlands. The Moelven Group is owned by Glommen Skog SA (29.1 per cent), Eidsiva Vekst AS (23.8 per cent), Felleskjøpet Agri SA (15.9 per cent), Viken Skog SA (11.9 per cent), Mjøsen Skog SA (11.8 per cent) and AT Skog SA (7.3 per cent). Most of the remaining 0.4 per cent is owned by private individuals.

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