



Quarterly Report 3/2016

Kimen Kulturhus. Moelven Wood Prosjekt has supplied fire resistant wood of spruce.

Photo: Lene M. Prøven.

Architect: Reiulf Ramstad Arkitekter/JSTArkitekter/Lusparken Arkitekter

Key figures

Amounts in NOK million

	Third quarter		9 months		Total	
	2016	2015	2016	2015	2015	2014
Operating revenues	2 358,6	2 263,2	7 893,5	7 207,3	9 690,4	8 828,2
EBITDA	135,1	146,6	480,8	400,1	553,9	490,0
Gross operating margin/EBITDA	5,7 %	6,5 %	6,1 %	5,6 %	5,7 %	5,6 %
Depreciation	69,2	66,8	209,5	202,5	291,2	286,5
Operating profit before non-recurring items	65,9	79,8	271,3	197,6	262,7	203,6
Impairment losses	0,0	0,0	0,0	47,9	47,9	0,0
Operating profit	65,9	79,8	271,3	149,7	214,8	203,6
Net operating margin/EBIT	2,8 %	3,5 %	3,4 %	2,1 %	2,2 %	2,3 %
Value change of financial instruments to fair value	19,5	-25,1	10,5	2,2	5,6	-30,4
Profit before tax	74,6	41,3	236,2	109,0	158,5	115,3
Profit per share in NOK	0,44	0,24	1,40	0,63	0,90	0,68
Cash flow from operational activities, in NOK per share	2,24	1,93	2,24	2,56	4,53	2,71
Total equity *	-44,2	73,2	1 789,6	1 711,9	1 756,9	1 592,3
Equity ratio *	1,4 %	2,2 %	35,3 %	35,1 %	36,8 %	34,2 %
Total assets *	-336,4	-111,8	5 073,0	4 882,7	4 778,1	4 653,2
Investments *	81,1	54,8	167,1	132,9	215,8	195,1
Return on capital employed *	3,5 %	2,1 %	12,6 %	6,8 %	7,4 %	6,8 %
Capital employed *	-258,4	-70,5	2 882,1	2 933,6	2 870,8	2 959,9
Net interest-bearing liabilities *	-181,2	-170,9	1 055,5	1 186,0	1 110,4	1 353,1
Net working capital *	-213,1	-138,7	2 375,0	2 247,9	2 081,2	1 928,3
Number of employees *	83	-20	3 612	3 393	3 426	3 326
Sick leave percentage *	0,0 %	-0,2 %	5,5 %	5,5 %	5,5 %	5,5 %
Frequency of accidents with absence, H1 value *	-1,3	0,4	13,5	16,4	15,7	15,9
Number of shareholders	936	948	936	948	941	948
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 third quarter increased by 4.2 per cent to NOK 2,358.6 million (2,263.2). Year-to-date operating revenues increased by 9.5 per cent to NOK 7,893.5 million (7,207.3).
- Operating revenues in the third quarter dropped by 17.4 per cent to NOK 65.9 million (79.8). The main causes are lower profitability in the Modular System Interior business in Norway and Modular Buildings in Sweden.
- Adjusted for write-downs of fixed assets and cost adjustments in the project portfolio in 2015, the accumulated operating revenues have increased by 23.5 per cent to NOK 271.3 million
- Continued satisfactory demand for products from the Group's timber processing operations.
- A good level of activity and a continued healthy and well-composed order backlog for Building Systems.

In brief

Demand for the group's products and services was satisfactory in the third quarter. The season developed as expected, with slower market activity in the holiday period and an increase toward the end of the quarter. In the export markets where trade is in EUR, currency conditions have helped maintain margins for the Swedish units, which are responsible for most of exports. Increased marked prices in the UK compensates to some extent for the margin shortfall due to the weakened GBP.

Demand from the builders merchants in Scandinavia has been satisfactory, although the Swedish market is noting a certain slowdown as a result of the reduction in the renovation, modernisation and extension (RME) deduction from the turn of the year.

Access to raw material for the sawlog-consuming units was satisfactory for the period, albeit with somewhat reduced access towards the end of the period. The prices for sawlogs have developed along different lines in

Norway and Sweden. In Norway prices were somewhat higher than for the same period last year, while prices in Sweden were somewhat lower.

Sales of chip and fibre products were good in the quarter, at prices on a par with the corresponding period last year.

On 26 April 2016 the Annual General Meeting decided to delegate authority to disburse dividends to the Board, with an upward limit of NOK 58,294,072. The board has exercised the authority. Dividends of NOK 0.45 per share, which corresponds to the maximum disbursement pursuant to the authority, were disbursed in September.

After the collapse of the Perkolo bridge across the new E6 highway in Gudbrandsdalen this winter, the road authorities established a technical group to check other glulam bridges. The report is now ready, and shows that similar design errors have not been found on any of the other bridges. The report clears both glulam as a building material and bridges made from glulam. Weaknesses have not been found in wood as a construction material for bridges. The inspections that have been carried out have not revealed damage that reduces the bridges' load capacity. Nor have there been found any indications of overloading.

The final building stage at Fjeldsetlia Park in Elverum, which was the first delivery in the new residential concept within Building Modules in Norway, was concluded in August. Production has taken place at Moelven Byggmodul Hjellum AS. The first flats were ready for occupation five months after building started, and the entire project is scheduled for completion by December 2016. The project comprises a total of 88 modules combined into 52 residential units across four storeys.

Anders Lindh has been appointed new Division Manager of the Timber Division, succeeding Ole Helge Aalstad who chose to take up another position outside of the group after 16 years with Moelven. Anders Lindh (45) comes from the position of Director at Moelven Våler AS. He is a graduate engineer and has formerly held several managerial positions in the timber processing industry, including outside of the Moelven Group.

Revenues and results

The operating revenues in the third quarter also increased compared with the same period last year.

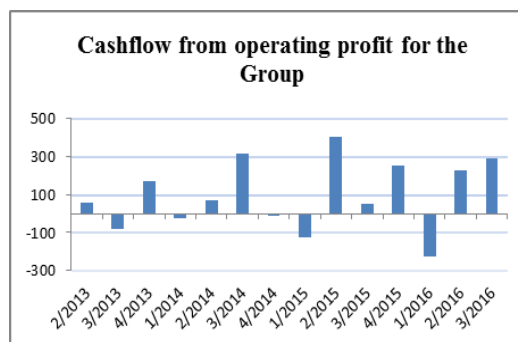
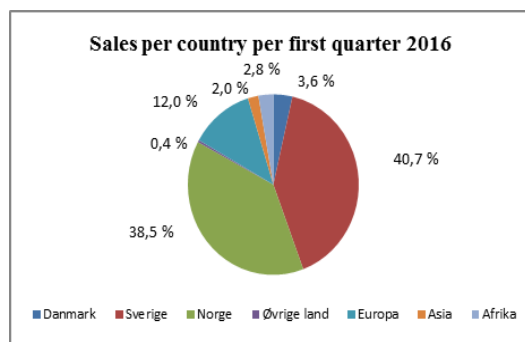
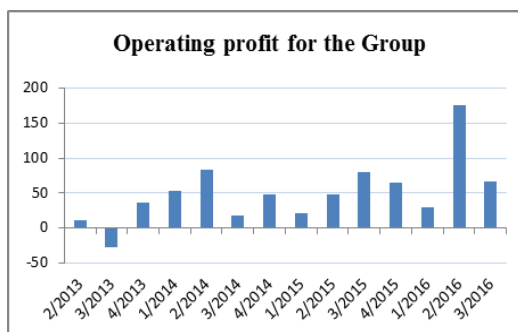
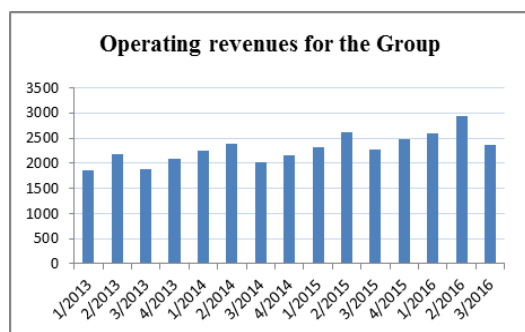
The main cause is increased volumes. In Norway an acquisition was completed at the beginning of the fourth quarter last year. Activities in the acquired enterprise, which currently operates under the name Moelven Byggmodul Hjellum AS, are not included in the 2015 accounts prior to the fourth quarter. Year-to-date figures for 2015 include an impairment of NOK 48 million related to the completed sale of operations at Moelven Nössemark Trä AB, in addition to cost adjustments in the project portfolio of the Electrical Installations business of NOK 22 million. Both were charged to the second quarter accounts of 2015. Updates of inventory estimates based on price developments resulted in recognition of profit of NOK 0.4 million for the quarter (-5.2). The accumulated result is credited with NOK 3.0 million (-33,7).

As a result of realised currency exchange gains, net financial expenses excluding value adjustments on financial instruments, were lower than in the third quarter last year, even though the combined loan margin has increased following refinancing carried out in June 2016.

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 19.5 million (NOK -25.1 million) for the quarter and NOK 10.5 million (NOK 2.2 million) for the year.

MNOK	Third quarter		9 months		12 months	
	2016	2015	2016	2015	2015	2014
Operating revenues						
Timber	673,6	649,9	2 306,8	2 248,6	3 010,1	2 872,3
Wood	914,0	890,0	2 782,4	2 535,5	3 275,7	3 066,2
Building Systems	699,2	712,3	2 694,4	2 391,7	3 375,2	2 836,7
Other businesses	742,3	629,9	2 535,0	2 236,7	3 003,8	3 204,4
<i>Internal</i>	<i>-670,5</i>	<i>-619,0</i>	<i>-2 425,0</i>	<i>-2 205,1</i>	<i>-2 974,5</i>	<i>-3 151,4</i>
The Group	2 358,6	2 263,2	7 893,5	7 207,3	9 690,4	8 828,2
EBITDA						
Timber	29,3	26,4	137,0	112,7	145,1	199,5
Wood	71,2	72,3	221,1	191,6	237,4	225,3
Building Systems	35,1	50,9	138,9	108,2	185,2	98,8
Other businesses	-0,5	-2,9	-16,2	-12,5	-13,9	-33,6
The Group	135,1	146,6	480,8	400,1	553,9	490,0
Operating profit						
Timber *	1,9	-2,0	53,9	-18,8	-23,9	83,0
Wood	43,2	45,5	136,5	109,2	123,7	110,9
Building Systems	25,0	41,8	106,8	79,7	140,8	57,2
Other businesses	-4,2	-5,4	-26,0	-20,4	-25,9	-47,5
The Group	65,9	79,8	271,3	149,7	214,8	203,6

* Includes non-recurring items



Investments, statement of financial position and funding

Investments totalling NOK 81.1 million (NOK 54.8 million) were made during the third quarter, and NOK 167.1 million (NOK 132.9 million) year to date. Investment activity will increase further compared to the previous year in the course of the fourth quarter. The overall investment level for 2016 will thus also be higher than for the last year.

At the end of the third quarter, the book value of the Group's total assets was NOK 5,073.0 million (NOK 4,882.7 million).

Cash flow from operating activities in the third quarter was NOK 291.0 million (NOK 250.1 million), corresponding to NOK 2.24 per share (NOK 1.93). Corresponding figures for the year's three first quarters was NOK 290.1 million (NOK 331.0 million), which is equivalent to NOK 2.24 (NOK 2.56) per share. The improvement in cash flow is primarily due to the realisation of working capital. Cash flow from working capital items was NOK 131.2 million in the third quarter (NOK 9.3 million) and NOK -144.8 million year to date (NOK -21.5 million).

Net interest-bearing liabilities were NOK 1,055.5 million (NOK 1,186.0 million) at the end of the second quarter. Financial leases are included in net interest-bearing liabilities in the amount of NOK 31.5 million (NOK 28.2 million). Cash reserves including short-term credit facilities was NOK 807.0 million.

Equity at the end of the quarter amounted to NOK 1,789.6 million (NOK 1,711.9 million), equivalent to NOK 13.81 (NOK 13.21) per share. The equity ratio was 35.3 per cent (35.1 per cent). On 26 April 2016 the Annual General Meeting decided to delegate authority to disburse dividends to the Board, with an upward limit of NOK 58,294,072. The board has exercised the authority. Dividends of NOK 0.45 per share, which corresponds to the maximum disbursement pursuant to the authority, were disbursed in September. Equity at the end of the quarter is thus reduced accordingly. In 2015 a dividend of NOK 0.40 per share was paid in December.

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 extent and consequences of likely variations in exchange rates are within acceptable risk limits. In the third quarter, exchange rate fluctuations resulted in an unrealised change in equity of NOK -43.9 million (NOK 41.8 million). Year to date the change was NOK -86.2 million (37.4 million). Approximately half of the Group's assets are recognized in SEK. The total assets thus also change based on the exchange rate. The equity ratio in percent is therefore less impacted by exchange rate fluctuations than the nominal equity.

Divisions

Timber

Amounts in NOK million	Third quarter		9 months		Total	
	2016	2015	2016	2015	2015	2014
Sales to external customers	536,2	546,0	1 853,6	1 877,1	2 487,4	2 391,9
Sales to internal customers	137,4	103,9	453,1	371,6	522,7	480,4
Operating revenues	673,6	649,9	2 306,8	2 248,6	3 010,1	2 872,3
Depreciation	27,4	28,5	83,1	83,7	121,1	116,5
Operating profit before non-recurring items	1,9	-2,0	53,9	29,1	24,0	83,0
Impairment losses	0,0	0,0	0,0	47,9	47,9	0,0
Operating profit	1,9	-2,0	53,9	-18,8	-23,9	83,0
Operating margin in per cent **	0,3 %	-0,3 %	2,3 %	1,3 %	0,8 %	2,9 %
Net operating capital (% of operating revenues) *	-1,4 %	-0,5 %	15,9 %	18,5 %	18,7 %	19,8 %
Total assets *	-77,2	45,4	1 527,6	1 714,6	1 664,5	1 754,5
Equity *	-30,1	22,7	831,2	800,2	841,0	813,5
Capital employed *	-21,7	16,2	1 121,8	1 221,7	1 222,2	1 282,2
Return on capital employed * **	2,4 %	-1,8 %	6,2 %	3,1 %	1,9 %	6,5 %
Investments *	22,8	26,7	45,8	57,8	75,9	67,6
Number of employees *	-20	-7	677	708	679	703

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

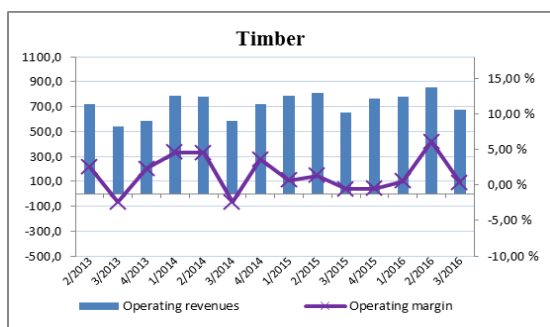
** The key figures is calculated before non-recurring items

Beyond the seasonal slowdown of market activity in the holiday period, overall activity and demand in the Timber Division's main markets has been good throughout the third quarter. Taking into account that the figures for 2015 included activities at Moelven Nössemark Trä AB which has now been discontinued, delivery volumes were higher in the third quarter this year.

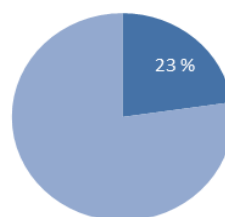
Most of the exports are from the division's Swedish units. Changes in the currency situation have contributed to alter competitive ability in the export markets. The SEK has weakened against the EUR during the quarter and has improved competitive ability in several markets, while the GBP has weakened significantly with the opposite effect in the UK.

Average prices, without adjustment for market mix in the quarter, were marginally higher than prices for the same period last year for Norwegian producers, and correspondingly slightly lower for Swedish producers. Access to raw material has been satisfactory for the period, albeit with somewhat reduced access towards the end of the period. Overall, prices for sawlogs were somewhat lower than in Q3 2015. Inventory levels are at a satisfactory level for the time of year. Prices for chip and fibre products were around the same level as in the same period last year.

Due to price developments, the profits for the quarter have been credited with price adjustments to inventories totalling NOK 1.4 million. The corresponding adjustment in Q3 2015 resulted in a charge of NOK 4.3 million. Year to date the price adjustment constitutes NOK -7.6 million (NOK -19.5 million). Several units have improved their efficiency through the ongoing improvement work, but there are still units with unsatisfactory results. Extensive improvement work will continue in order to bring all units up to acceptable profitability levels.



Timber's share of the Groups sale to external customers



Wood

Amounts in NOK million	Third quarter		9 months		Total	
	2016	2015	2016	2015	2015	2014
Sales to external customers	884,1	863,1	2 671,4	2 447,4	3 153,8	2 954,3
Sales to internal customers	29,9	26,9	110,9	88,0	121,9	111,9
Operating revenues	914,0	890,0	2 782,4	2 535,5	3 275,7	3 066,2
Depreciation and impairment	28,0	26,7	84,6	82,4	113,7	114,4
Operating profit	43,2	45,5	136,5	109,2	123,7	110,9
Operating margin in per cent	4,7 %	5,1 %	4,9 %	4,3 %	3,8 %	3,6 %
Net operating capital (% of operating revenues) *	-4,5 %	-8,4 %	25,3 %	28,1 %	27,7 %	28,7 %
Total assets *	-95,3	-36,5	2 231,1	2 239,9	2 134,8	2 033,9
Equity *	14,2	62,4	978,1	929,0	907,7	815,1
Capital employed *	-89,2	-61,5	1 533,0	1 549,4	1 513,7	1 442,9
Return on capital employed *	0,1 %	1,4 %	12,0 %	9,8 %	8,4 %	7,9 %
Investments *	26,7	19,6	69,9	47,2	96,8	82,1
Number of employees *	-9	-6	1 032	1 012	1 009	993

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

Both activity levels and results were on a par with the same period last year. Demand has been satisfactory in both Norway and Sweden, with the exception of south-west Norway which is still experiencing an economic downturn. Sales of custom products such as surface-treated or cut-to-length products is on the increase. Commissioning and building of new homes is at a high level in both countries. In Sweden however, activity in the renovation, conversion and extension market has dropped following changes to the tax rules concerning deductions.

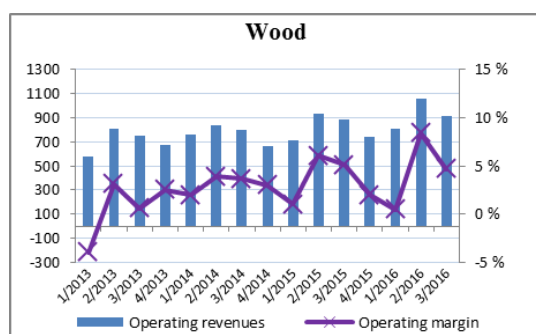
Operating conditions during the quarter were good, but the result is to a certain extent characterised by lower production than usual following start-up after new investments.

For the planing mills that use purchased sawn timber as raw material, raw material prices were somewhat higher than for the third quarter of 2015.

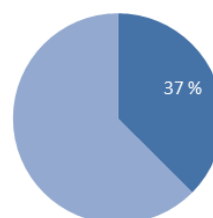
Access to raw material for the sawlog-consuming units in the division has been satisfactory, albeit with somewhat reduced access towards the end of the period. Overall, prices for sawlogs were somewhat higher than for Q3 2015. Inventory levels are at a satisfactory level for the time of year. Prices for chip and fibre products were around the same level as in the same period last year.

Due to price developments, the profits for the quarter have been charged with price adjustments to inventories totalling NOK 1.0 million, which is the same as for the third quarter of 2015. Year to date the price adjustment constitutes NOK 10.6 million (NOK -14.2 million).

Improvement efforts to bring units that still have poor earnings up to an acceptable level continue unabated.



Wood's share of the Groups sale to external customers



Building systems

Amounts in NOK million	Third quarter		9 months		Total	
	2016	2015	2016	2015	2015	2014
Sales to external customers	698,6	711,3	2 692,1	2 388,8	3 371,2	2 832,2
Sales to internal customers	0,5	1,1	2,3	2,9	4,1	4,4
Operating revenues	699,2	712,3	2 694,4	2 391,7	3 375,2	2 836,7
Depreciation and impairment	10,1	9,1	32,1	28,5	44,4	41,6
Operating profit	25,0	41,8	106,8	79,7	140,8	57,2
Operating margin in per cent	3,6 %	5,9 %	4,0 %	3,3 %	4,2 %	2,0 %
Net operating capital (% of operating revenues) *	0,6 %	1,6 %	18,1 %	13,9 %	12,9 %	11,0 %
Total assets *	77,0	0,2	1 834,0	1 378,8	1 616,8	1 256,4
Equity *	44,1	61,1	766,7	634,9	665,5	523,9
Capital employed *	13,3	56,6	830,3	681,0	743,2	600,1
Return on capital employed *	-2,8 %	4,2 %	18,4 %	17,1 %	21,4 %	10,6 %
Investments *	31,9	7,8	47,9	25,8	40,2	37,9
Number of employees *	102	-6	1 599	1 540	1 607	1 498

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

The reduction in revenues compared to the previous year is due to a lower activity level for the Modular System Interiors business in Norway, in addition to the transfer of the Electrical Installations business to Other businesses.

The decline of the operating result in the quarter is due to reduced earnings in the Modular System Interiors business in Norway and Modular Buildings in Sweden. Year to date the operating result for 2015 has been charged with cost adjustments of NOK 22 million with regard to the project portfolio of the part of the Electrical Installations business that remains in the division.

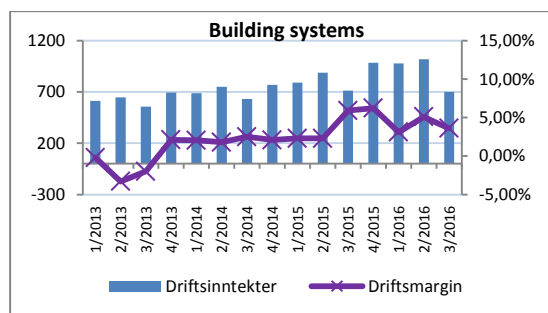
Modular Buildings operations in Sweden continued to experience very good demand in all market segments in the third quarter, and projects are ongoing to expand capacity. The investment in a new production line at the plant in Säffle, which is scheduled for completion in Q2 2017, has reached the half way mark. A conversion of the plant in Kil will also be carried out, which will increase capacity in building and construction modules by 15 per cent. Due to the increased level of activity, 107 contract employees have now been given permanent positions.

For operations in Norway demand has increased in all market segments, but most of all in housing. The housing market in eastern Norway is particularly good, with demand for projects for production in 2017 and 2018. Activity levels are also good in the project market. The market for accommodation rigs and offices is to a certain extent characterised by the presence of many older modules that are still in use. The third quarter has also seen available capacity at the plants in Norway being used to produce modules for the Swedish market.

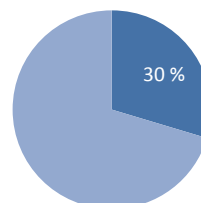
For the Modular System Interiors companies, activities and demand on the Norwegian side of the border have developed well, both for new projects and renovation, modernisation and extension. Staffing on the Norwegian side has been reduced and adjusted in accordance with the current market situation. The Swedish market remains good with high demand for both small and large projects, primarily concentrated around the major cities of Stockholm, Gothenburg and Malmö.

For Glulam operations activity was high in the third quarter in both Norway and Sweden, with good volumes in both the project market and standard dimensions. The quarter's results are the best in several years. The increasing interest in building with wood and in using wood as a load-bearing material has had a positive effect. Despite good access to new projects, the prices in Sweden are however experiencing some pressure. The reason is that several players have turned their volumes from the export markets in Asia and are instead directing these at the home market in Sweden.

The Electrical Installations business in the Building Systems division is working exclusively with concluding its ongoing projects. The other electrical installations business has been transferred to the reporting area “*Other businesses*” as of the second quarter of 2016.



Building Systems' share of the Group's external sales in Q3 2016

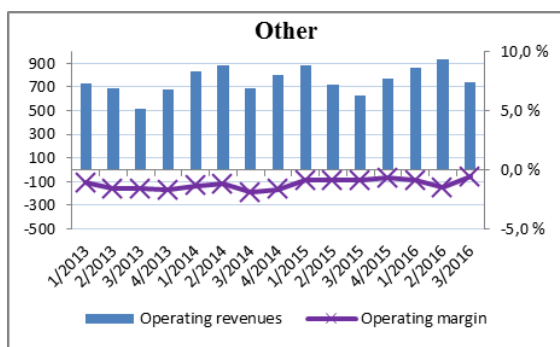


Other businesses

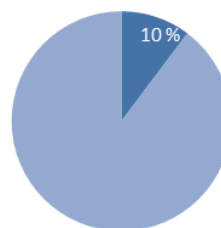
Amounts in NOK million	Third quarter		9 months		Total	
	2016	2015	2016	2015	2015	2014
Sales to external customers	242,1	163,2	735,6	557,9	763,4	721,6
Sales to internal customers	500,2	466,7	1 799,4	1 678,8	2 240,4	2 482,8
Operating revenues	742,3	629,9	2 535,0	2 236,7	3 003,8	3 204,4
Depreciation and impairment	3,7	2,5	9,7	8,0	12,0	13,9
Operating profit	-4,2	-5,4	-26,0	-20,4	-25,9	-47,5
Operating margin in per cent	-0,6 %	-0,9 %	-1,0 %	-0,9 %	-0,9 %	-1,5 %
Net operating capital (% of operating revenues) *	2,9 %	5,0 %	8,9 %	10,1 %	5,9 %	5,2 %
Total assets *	-342,7	70,1	2 328,3	2 551,3	2 468,5	2 702,7
Equity *	-245,1	-22,4	831,9	958,2	1 007,9	1 004,7
Capital employed *	-221,9	-7,7	1 789,7	2 025,7	1 977,1	2 104,8
Return on capital employed *	0,0 %	0,1 %	0,0 %	0,4 %	0,4 %	-0,8 %
Investments *	0,2	0,6	3,5	2,0	3,0	7,5
Number of employees *	10	-1	304	133	131	132

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

Other businesses include Moelven Industrier ASA, with common services in economics, finance, insurance, communications, HR, ICT and procurement. Timber 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, Moelven Virke AS, Vänerbränsle AB and Moelven Bioenergi AS. As of the second quarter of 2016, Moelven Elektro AS, which focuses exclusively on maintenance contract and small and medium size projects, is also a part of Other businesses. The market in these segments has been good, with satisfactory access to new projects. Apart from this reorganization, fluctuations in operating revenues within the area of Other businesses are largely due to fluctuations in the level of activity within timber supply and sales of chips and energy products. The main activity is internal sales, which do not materially affect the results 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 the transport of these. The business is based on fixed agreements on both the customer and supplier sides.



Other's share of the Groups sale to external customers



Employees

Employees	Per third quarter 2016				Per third quarter 2015			
	Male	Female	%Female	Total	Male	Female	%Female	Total
Timber	604	73	10,8 %	677	632	76	10,7 %	708
Wood	872	160	15,5 %	1 032	852	160	15,8 %	1 012
Building Systems	1 505	94	5,9 %	1 599	1 441	99	6,4 %	1 540
Others	266	38	12,5 %	304	100	33	24,8 %	133
The Group	3 247	365	10,1 %	3 612	3 025	368	10,8 %	3 393

Sickness absence rate in %	Per third quarter	
	2016	2015
Timber	4,88 %	4,40 %
Wood	5,00 %	5,33 %
Building Systems	6,47 %	6,34 %
Others	2,90 %	3,01 %
The Group	5,53 %	5,50 %

H1 Value	Per third quarter	
	2016	2015
Timber	19,0	25,3
Wood	7,9	8,9
Building Systems	18,3	18,7
Others	0,0	0,0
The Group	14,8	16,4

The increase in the number of employees compared to the same time in 2015 is due to the acquisition of what is now Moelven Byggmodul Hedalm AS in the fourth quarter of 2015, in addition to a higher level of activity in the Building Module operations in Sweden through the permanent hiring of 107 contract employees. In the third quarter, absence due to illness was 5.5 per cent (5.3), where 2.8 per cent (2.7) represents long-term absence. The Group is still working on the reduction of absence due to illness below the maximum target level of 4 per cent. Many of Moelven's businesses have sickness absence levels lower than the maximum target of 4%. Efforts, which include employee surveys, close follow-up of sickness absence and cooperation with the occupational health services, are therefore particularly directed at those businesses with the highest sickness absence levels.

There were 13 (21) personal injuries with subsequent sick leave during the quarter, and 57 (67) year-to-date. A reduction in the number of injuries combined with a higher activity level and thus a higher number of hours worked, resulted in the LTI rate (number of personal injuries with sick leave per million worked hours) dropping significantly for the quarter compared to the same period last year. Moelven's goal is that no one is injured at work, and injury rates are thus still unacceptably high. HSE work has a high priority in the work of the board, the corporate management and the safety committee. The latter comprises the CEO, division managers, the HR and Communications Director and two employee representatives for the building and timber processing parts of the group respectively, and is the governing body for HSE work. Work on training and awareness-raising is constantly ongoing in order to establish a culture for safety at all levels. By 1 November all of Moelven's subsidiaries must complete the course "Clear HSE management" for everyone with operational and personnel responsibility, in addition to employee representatives and safety

representatives. In the Wood division one has achieved a significant reduction in the number of injuries with absence in the past two years through focused efforts and clear leadership.

Outlook

In Norway activity in the petroleum sector remains low, while the economy at large is showing signs of recovery. Sweden appears to be in for a soft landing as growth declines following a period with a very high level of activity. In USA the economy is still on the mend. The growth rate in China is declining, while the Middle East and North Africa are characterized by unrest and regulations from public authorities that complicate international trade. However, the underlying demand is good in the latter markets.

Stable developments in the international market for industrial wood are expected. The currency situation continues to contribute to maintain competitive ability in export markets, particularly for the Group's Swedish businesses where trading is in EUR or USD. Swedish units have also achieved a significantly stronger competitive position in the Norwegian market. Currency hedges have contributed to reduce the effects of the weakening of GBP in the aftermath of the Brexit referendum, but this effect is steadily decreasing as the hedges are realized. Prices in GBP have however increased, and will compensate some of the margin shortfall as a result of the currency fluctuations.

In Norway demand for processed products is expected to remain on a par with the previous year, albeit with regional differences. Building activity in and around the major cities, with the exception of south-west Norway, is expected to remain high. In Sweden the need for new homes remains high and activity in the new building market is strong. The renovation, modernisation and extension market is also experiencing good levels of activity, although the changes in the renovation, modernisation and extension deduction have slowed activities somewhat. No major changes are expected in the markets, and the Swedish market is expected to be at the same level as 2015 overall. Timber stocks at the start of the fourth quarter are satisfactory with regard to planned production. Continued satisfactory access to saw timber is expected.

For glulam it is expected that the positive trend of choosing wood for load bearing structures will continue. In both Norway and Sweden demand is good for module-based buildings for housing purposes. Demands toward short construction times are increasing. This applies equally to homes, schools and care facilities.

The market for modular system interiors is strong in Sweden, primarily in the Stockholm, Gothenburg and Malmö areas. The Norwegian market has been declining, and capacity adjustments have been carried out. There are signs of improvement, but pressure on prices persists. Good activity is expected to continue in Norway and Sweden in renovation, modernisation and extension.

For the Group as a whole revenues are expected to increase somewhat. The programme for operational improvement and structuring of the group in line with the long-term strategy plan continues unabated and will contribute to improved profitability for the underlying operations.

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 result for 2016 is expected to be somewhat better than for 2015. The group has a long-term goal of a return on capital employed of 13 per cent. The Board is of the opinion that the Group has sufficient long-term access to liquidity to implement the restructuring and improvement projects required to achieve this goal.

Summary quarterly accounts for the Moelven Group for the third quarter of 2016

Earnings and comprehensive income

Amounts in NOK million	Third quarter		9 months		Total	
	2016	2015	2016	2015	2015	2014
Operating revenues	2 358,6	2 263,2	7 893,5	7 207,3	9 690,4	8 828,2
Cost of goods sold	1 539,2	1 478,8	5 083,4	4 692,3	6 207,3	5 601,0
Payroll expenses	440,2	402,4	1 553,3	1 403,7	1 943,3	1 807,6
Depreciation	69,2	66,8	209,5	202,5	291,2	286,5
Impairment losses	0,0	0,0	0,0	47,9	47,9	0,0
Other operating expenses	244,1	235,3	776,0	711,2	985,9	929,5
Operating profit	65,9	79,8	271,3	149,7	214,8	203,6
Income from associates	0,0	0,0	0,0	0,0	0,0	0,0
Value change of financial instruments to fair value	19,5	-25,1	10,5	2,2	5,6	-30,4
Other financial income	8,9	6,4	16,3	43,3	51,2	28,2
Other financial expenses	-19,8	-19,9	-61,8	-86,2	-113,0	-86,0
Profit before tax	74,6	41,3	236,2	109,0	158,5	115,3
Estimate income tax	18,2	9,9	55,2	26,7	41,5	27,0
Net profit	56,4	31,4	181,0	82,3	117,0	88,4
Non-controlling interest share	-0,3	-0,2	0,1	0,0	-0,5	0,0
Owner of parent company share	56,7	31,6	180,9	82,2	117,6	88,4
Earnings per share (in NOK)	0,4	0,2	1,4	0,6	0,9	0,7
Statement of comprehensive income						
Net profit	56,4	31,4	181,0	82,3	117,0	88,4
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	0,0	0,0	0,0	50,0	-40,0
Income tax on items that are not reclassified to profit or loss	0,0	0,0	0,0	0,0	-12,5	10,8
	0,0	0,0	0,0	0,0	37,5	-29,2
<i>Items that may be reclassified subsequently to profit or loss</i>						
Translation differences	-43,9	41,8	-86,2	37,4	61,7	12,3
Proportion of other income and costs in associated companies	-3,8	0,0	-3,8	0,0	0,0	0,0
Other changes	5,4	0,0	0,0	0,0	0,1	-1,2
Income tax on items that may be reclassified to profit or loss	0,0	0,0	0,0	0,0	0,0	0,0
	-42,3	41,8	-90,0	37,4	61,8	11,1
Other comprehensive income, net of tax	-42,3	41,8	-90,0	37,4	99,3	-18,1
Total comprehensive income for the period	14,1	73,2	90,9	119,6	216,4	70,3
Comprehensive income assigned to:						
Owners of parent company	14,4	73,4	90,8	119,5	216,9	70,3
Non-controlling interests	-0,3	-0,2	0,1	0,0	-0,5	0,0

Consolidated balance sheet

Amounts in NOK million	Per 30.09		Per 31.12.
	2016	2015	2015
Intangible assets	30,9	36,9	35,5
Tangible fixed assets	1 620,6	1 738,0	1 765,2
Financial fixed assets	8,8	9,4	8,9
Total fixed assets	1 660,3	1 784,3	1 809,6
Inventory	1 287,2	1 411,4	1 526,7
Receivables	2 086,2	1 644,4	1 433,7
Liquid assets	39,2	42,7	8,1
Total current assets	3 412,7	3 098,4	2 968,5
Total assets	5 073,0	4 882,7	4 778,1
Share capital*	647,7	647,7	647,7
Other equity	1 141,9	1 064,2	1 109,2
Total equity	1 789,6	1 711,9	1 756,9
Provisions	155,0	220,6	111,9
Long term interest-bearing liabilities	1 092,6	1 221,7	1 034,3
Long term interest-free liabilities	11,7	1,8	12,1
Total long term liabilities	1 259,3	1 444,1	1 158,2
Short term interest-bearing liabilities	0,0	0,0	79,7
Short term liabilities	2 024,2	1 726,7	1 783,3
Total short term liabilities	2 024,2	1 726,7	1 862,9
Total liabilities	3 283,5	3 170,8	3 021,2
Total equity and liabilities	5 073,0	4 882,7	4 778,1

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 per 1.1.2015	647,7	180,7	0,0	752,6	1 581,0	11,4	1 592,3
Comprehensive income for the period							
Net profit	0,0	0,0	0,0	82,2	82,2	0,0	82,3
Other comprehensive income							
Translation differences	0,0	0,0	0,0	37,3	37,3	0,1	37,4
Other changes	0,0	0,0	0,0	0,0	0,0	0,0	0,0
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	37,3	37,3	0,1	37,4
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	0,0	0,0	0,0	0,0
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	0,0	0,0	0,0	0,0
Total as at 30.09.2015	647,7	180,7	0,0	872,1	1 700,4	11,6	1 711,9
Total per 1.1.2016	647,7	180,7	0,0	917,5	1 745,9	11,1	1 756,9
Comprehensive income for the period							
Net profit	0,0	0,0	0,0	180,9	180,9	0,1	181,0
Other comprehensive income							
Translation differences	0,0	0,0	0,0	-86,1	-86,1	-0,1	-86,2
Other changes	0,0	0,0	0,0	-3,8	-3,8	0,0	-3,8
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	-89,9	-89,9	-0,1	-90,0
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	-58,3	-58,3	0,0	-58,3
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	-58,3	-58,3	0,0	-58,3
Total as at 30.09.2016	647,7	180,7	0,0	950,3	1 778,7	11,0	1 789,6

Consolidated statement of cash flow

Amounts in NOK million	Per 30.09	
	2016	2015
CASH FLOW FROM OPERATIONAL ACTIVITIES:		
Net profit	181,0	82,3
<i>Adjustments to reconcile net profit with net cash flow from operations:</i>		
Depreciation	209,5	202,5
Impairment	0,0	47,9
Income from associated companies	0,0	0,0
Tax paid	0,0	0,0
Unpaid pension costs entered as costs and unreceived pension funds entered as income	-0,5	-2,3
Loss (profit) on sale of fixed assets	0,2	-2,4
Net value change of financial instruments to fair value	-10,5	-2,2
Income tax	55,2	26,7
<i>Changes in operating assets and liabilities:</i>		
Changes in inventory	239,5	112,5
Changes in accounts receivable and other receivables	-653,7	-391,6
Changes in trade accounts payable	44,7	39,2
Changes in provisions and benefits to employees	0,5	30,8
Changes in short-term liabilities excluding borrowing	224,2	187,6
Cash flow from operational activities	290,1	331,0
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Investment in plant and equipment exc. acquisition	-167,1	-132,9
Net cash outlay on acquisition	0,0	0,0
Receipts from sale of fixed assets	1,0	2,6
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	-166,1	-130,3
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	-79,7	-143,3
Purchase of non-controlling interests	0,0	0,0
Change in long term debt (borrowing facility)	-5,7	-36,6
Changes in other long-term liabilities	-5,2	0,4
Payment of dividend	0,0	0,0
Cash flow from financial activities	-90,6	-179,5
Net increase (reduction) in liquid assets during year	33,4	21,2
Liquid assets start of period	3,6	14,4
Effect of exchange rate changes on liquid assets	0,0	0,0
Liquid assets end of period	37,0	35,6
Cash and cash equivalents		
Liquid assets	37,0	35,6
Unused drawing rights	770,0	440,4
Restricted bank deposits	0,0	0,0
Cash and cash equivalents	807,0	476,0

Notes to the summary consolidated quarterly financial statements

Note 1 – General information

Moelven Industrier ASA is a public limited liability company, registered in Norway. The company's head office is at Industriveien 2, 2390 Moelv, Norway. The summary consolidated financial statements for the third quarter of 2016 ended 30 September 2016 include Moelven Industrier ASA and its subsidiaries (collectively referred to as the “Group”) and the Group's interests in associated companies. The annual accounts for 2015 are available at www.moelven.no.

Note 2 – Statement of conformity

The consolidated financial statements for the third quarter of 2016 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 2015. The summary consolidated quarterly financial statements were approved by the Board on 19 October 2016.

Note 3 – Accounting policies

The accounting policies adopted in the quarterly financial statements are the same as those in the consolidated financial statements for 2015.

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 summary 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 2015 and the principal sources of estimate uncertainty are the same when preparing these summary quarterly accounts as for the consolidated accounts for 2015.

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 is normally subject to variability throughout the year. This involves a low season during the first quarter, increasing activity and a peak season over the second and third quarters, and diminishing activity in the final 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.

In the third quarter there has been normal development in working capital, but the level is too high and measures to reduce working capital have been implemented.

Note 7 – Fixed assets, intangible assets and goodwill

Amounts in NOK million	Per 30.09	
	2016	2015
Book value per 1.1	1 790,1	1 838,3
Acquisitions	167,1	132,9
Business combinations	0,0	0,0
Disposals	-1,0	-0,1
Depreciations	-209,5	-202,5
Impairment losses	0,0	-47,9
Transfers	0,0	0,0
Translation differences	-105,8	42,8
Book value per 30.09	1 640,9	1 763,5

Note 8 - Financial instruments

Amounts in NOK million	Per 30.09.2016			Per 31.12.2015		
	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Currency derivatives	5,4	-3,2	2,2	4,5	-0,9	-3,6
Interest rate derivatives	0,0	-79,6	-79,6	0,0	-76,2	-76,2
Power derivatives	0,0	-1,4	-1,4	0,0	-16,6	-16,6
Total	5,4	-84,1	-78,8	4,5	-93,7	-89,2

Amounts in NOK million	Per 30.09.2015			Per 31.12.2014		
	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Currency derivatives	7,1	-3,8	3,2	6,6	-10,2	-3,6
Interest rate derivatives	0,0	-79,0	-79,0	0,0	-80,1	-80,1
Power derivatives	0,0	-16,8	-16,8	0,0	-11,1	-11,1
Total	7,1	-99,7	-92,6	6,6	-101,4	-94,8

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 2015 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	Per 30.09	
	2016	2015
Timber	40,9	-25,1
Wood	113,8	91,8
Building Systems	105,1	79,9
Other	-23,5	-37,7
Profit before tax in segments	236,2	109,0
Eliminations	0,0	0,0
Profit before tax in Group Accounts	236,2	109,0

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 40 per cent of Moelven's total purchasing requirement for timber of 4 million cubic metres comes via the Norwegian forest owner cooperatives.

Moelven' 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 delivery 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 185 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, electrical installations 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 44 production companies in Norway and Sweden and has 3,612 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 (15.8 per cent), Viken Skog SA (11.9 per cent), Mjøsen Skog SA (11.7 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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