



Gode rom

*At the September/October turn of the month, Moelven Pellets AS started production in the new pellet factory at Sokna outside Hønefoss.
Photo: Moelven*

Quarterly report 3/2019

MOELVEN[®]

Amounts in NOK million	Third quarter		9 months		12 months	
	2019	2018	2019	2018	2018	2017
Operating revenues	2,347.3	2,494.0	7,887.2	8,267.3	11,020.8	10,768.4
EBITDA	119.2	204.1	581.4	653.8	932.7	716.1
Gross operating margin/EBITDA in per cent	5.1 %	8.2 %	7.4 %	7.9 %	8.5 %	6.6 %
Depreciation and impairment	75.6	74.5	228.6	215.3	346.5	295.7
Operating profit	43.6	129.6	352.7	438.5	586.2	420.4
Net operating margin/EBIT in per cent	1.9 %	5.2 %	4.5 %	5.3 %	5.3 %	3.9 %
Value change of financial instruments to fair value	-17.6	15.1	-27.6	65.1	51.5	-4.7
Profit before tax	18.8	134.7	266.0	441.4	578.2	373.6
Profit per share in NOK	0.08	0.78	1.57	2.60	3.47	2.26
Cash flow from operational activities, in NOK per share	2.27	2.80	2.43	3.71	5.04	5.22
Total equity*	19.8	110.4	2,360.9	2,253.4	2,435.3	2,092.5
Equity ratio*	2.9 %	3.0 %	41.7 %	42.4 %	45.9 %	41.5 %
Total assets*	-369.5	-118.7	5,665.7	5,314.3	5,302.3	5,044.6
Investments*	120.9	99.8	349.2	291.2	497.4	357.0
Return on capital employed in per cent, 12 month rolling*	-3.1 %	2.9 %	14.5 %	18.6 %	19.0 %	7.2 %
Capital employed*	-150.9	-78.2	3,531.1	3,023.2	3,163.0	2,884.4
Net interest-bearing liabilities*	-172.1	-279.4	1,163.8	644.8	721.4	761.7
Net working capital*	-219.6	-181.0	2,558.5	2,363.8	2,373.3	2,071.5
Number of employees*	-50	-32	3,418	3,516	3,524	3,546
Sick leave percentage*	-0.2 %	-0.2 %	5.4 %	5.5 %	5.5 %	5.6 %
Lost Time Injury Frequency rate, rolling LTI-rate*	0.8	-0.3	10.6	12.6	10.9	12.4
Number of shareholders	882	901	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 third quarter were NOK 2,347.3 million (NOK 2,494.0 million).
- The operating profit was NOK 43.6 million, NOK 86.0 million lower than for the third quarter of 2018. The profit includes cost provisions for structural measures of NOK 17.0 million. (16.0).
- Return on capital employed (12-month rolling basis) was 14.5 per cent (18.6).
- Continued uncertainty and a high supply of goods in the international sawn timber market.
- Delivery volumes to the building products trade were somewhat lower than in the third quarter of 2018.
- Improved order situation in Building Systems, but remaining low activity level.
- Operations at Moelven Eidsvold Værk AS will be discontinued in the first quarter of 2020.

In brief

On the international sawn timber market, which comprises the majority of the group's exports, overall demand remained satisfactory in the third quarter. However, price levels were declining. 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 spruce bark beetles, has led to pressure on prices for lower quality products. For the export-oriented units, which mainly are a part of the Timber division, weak currencies in both Sweden and Norway have contributed maintaining competitiveness. Activity in the building products trade in Scandinavia was somewhat lower than in the third 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, lower demand for module-based apartment buildings has made it necessary to reduce production. In building and construction except for simpler modules, infrastructure and smaller projects, activity has been good.

Access to all assortments of forest raw materials was good in the third quarter. At the end of the quarter timber inventories were higher than at the same time the previous year, and at some facilities it has been necessary to limit the intake of new timber. The prices for sawlogs were lower than in the same period last year, with the greatest decline among the Swedish units. The situation for chip and fibre products was similar, with a fall in price levels overall in Sweden and more stable developments in Norway.

In September it was decided to reduce activities at Moelven Løten AS. This will be done by moving the production of standard goods to Moelven Våler AS, while Moelven Løten AS will produce only specialty products from large pine logs from the turn of the year. The change means that operations will be reduced to one shift. Up to seven people may be affected by the downsizing process. Timber consumption will be reduced from approx. 90,000 m³ to 75,000 m³.

On 30 September the Board of Moelven Eidsvold Værk AS decided to close down the company. Moelven Eidsvold Værk AS is a combined facility with both a sawmill and a planing mill, and has 60 employees. Discontinuation will take place in the first quarter of 2020. The employees were informed that a closure of the plant was being considered as early as late August. The background was high operating costs and an extensive need for investments to make operations profitable in a more normal market situation than has been the case in recent years. Following a comprehensive study, alternative solutions have not been identified that could justify further operations, and the decision to discontinue was therefore made.

The new energy centre that Moelven Pellets AS has built at Sokna outside Hønefoss in connection with its own pellets factory and Moelven Soknabruket AS, was put into operation in the third quarter. Commissioning has gone according to plan, and Moelven Soknabruket AS will close its old heating plant in October.

Trial production started at the pellets factory at the September/October turn of the month. Ramp up is going according to plan, and according to schedule the first deliveries will take place in October.

As part of the efforts to reduce the risk of personal injury, the group has strengthened requirements to the use of safety goggles and helmets.

Operating revenues and profit

The operating revenues fell compared to the same period last year. Market activities have been somewhat lower and delivery volumes dropped for all three divisions. The main cause of the decrease in operating revenues is reduced activity in Building Systems. In terms of profit the Timber division has seen a significantly weaker quarter than at the same time last year due to the drop in prices in the international sawn timber market. For Wood, market prices remained somewhat higher than at the same time last year.

Production volumes in the Wood division are also reduced compared to last year, both in the quarter and year to date. Measures have been initiated to adapt activity and cost levels to the current market conditions, but profit developments pose requirements to further efficiency-improving measures at several units. As a result of the decision to discontinue operations at Moelven Eidsvold Værk AS, the operating profit has been charged with cost provisions totalling NOK 17.0 million.

The operating profit for the third quarter 2018 has been charged with NOK 16.0 million related to the discontinuation of Moelven Are AS.

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 -13.2 million in the quarter (27.2 million). Year to date downward adjustment is also NOK -13,2 million, while year to date as at 30 September 2018 it was NOK 69.0 million. The items have no 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 -17.1 million (NOK 15.1 million) for the quarter and NOK 27.6 million (NOK 65.1 million) for the year. For the third quarter the amounts include basis swap effects of NOK 0.0 million (-3.1 million) and year to date NOK 17.6 mill (26.4 million). 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.

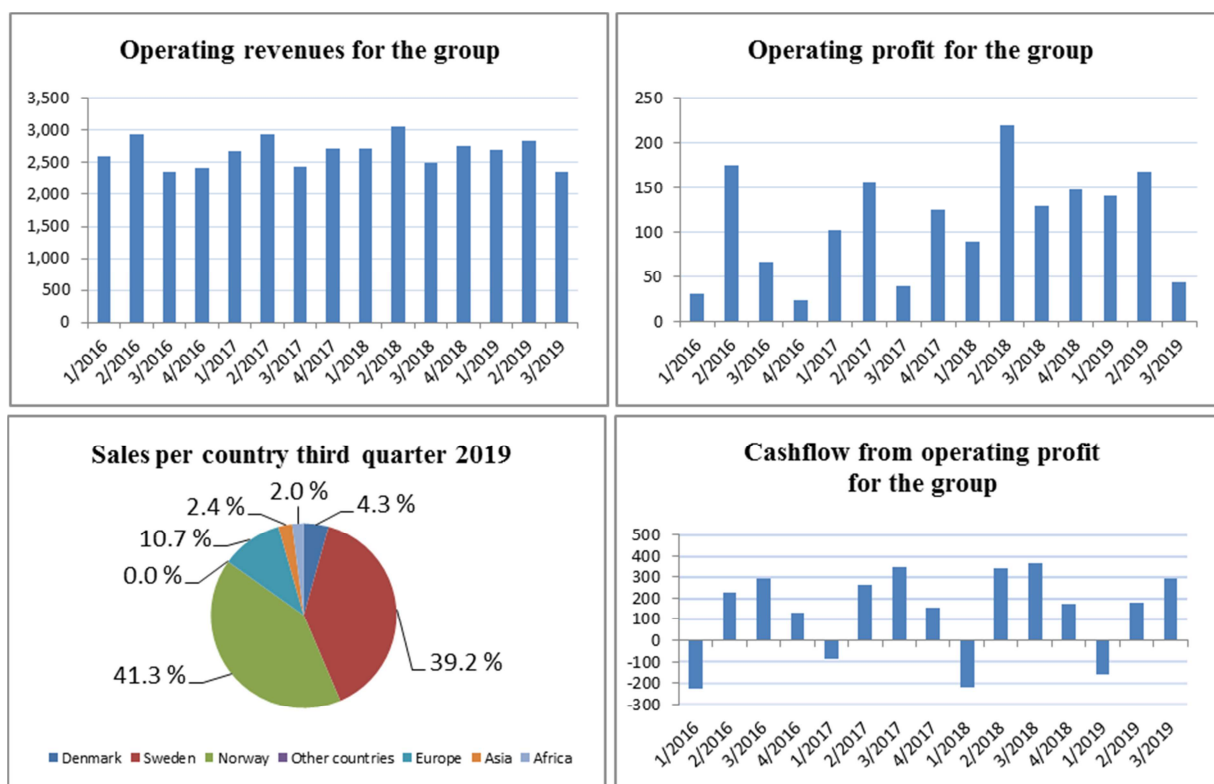
Amounts in NOK million	Third quarter		9 months		12 months	
	2019	2018	2019	2018	2018	2017
Operating revenues						
Timber	659.8	692.6	2,395.6	2,405.0	3,263.3	3,118.2
Wood	1,016.4	999.0	3,163.4	3,035.6	3,977.3	3,805.6
Building Systems	634.1	797.2	2,245.1	2,807.1	3,743.0	3,856.4
Other businesses	765.3	755.9	2,823.2	2,605.8	3,547.6	3,414.6
<i>Internal</i>	-728.3	-750.8	-2,740.1	-2,586.2	-3,510.5	-3,426.4
The Group	2,347.3	2,494.0	7,887.2	8,267.3	11,020.8	10,768.4

EBITDA

Timber	22.5	90.4	219.4	307.1	449.4	266.9
Wood	56.7	76.3	251.0	225.1	318.5	265.7
Building Systems	39.6	36.8	123.6	137.6	189.0	206.7
Other businesses	0.3	0.6	-12.6	-16.0	-24.1	-23.2
The Group	119.2	204.1	581.4	653.8	932.7	716.1

Operating profit

Timber	-2.2	66.5	144.7	234.4	343.3	146.7
Wood	29.6	42.9	169.3	137.8	151.9	154.8
Building Systems	20.4	22.6	64.4	91.5	128.3	153.9
Other businesses	-4.1	-2.4	-25.7	-25.3	-37.2	-34.9
The Group	43.6	129.6	352.7	438.5	586.2	420.4



Investments, balance sheet and funding

Investments totalling NOK 120.9 million (NOK 99.8 million) were made during the third quarter, and NOK 349.2 million (NOK 291.2 million) year to date. The increase in the investment rate is taking place in accordance with the investment programme in the group's strategy plan. Depreciations were NOK 75.6 million (NOK 74.5 million) in the quarter and NOK 228.6 million (NOK 215.3 million) year-to-date. At the end of the third quarter, the book value of the Group's total assets was NOK 5,665.7 million (NOK 5,314.3 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 third quarter was NOK 293.7 million (NOK 362.8 million), corresponding to

NOK 2.27 per share (NOK 2.80). Corresponding figures for the year's three first quarters was NOK 314.6 million (NOK 480.4 million), which is equivalent to NOK 2.43 (NOK 3.71) 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 198.4 million in the third quarter (NOK 180.1 million) and NOK -115.5 million year to date (NOK -70.2 million).

Net interest-bearing liabilities were NOK 1,163.8 million (NOK 644.8 million) at the end of the third quarter. Financial leases are included in net interest-bearing liabilities in the amount of NOK 209.9 million (NOK 13.6 million). The increase is due to the balancing of all leases in accordance with IFRS 16 – Leasing, which was implemented from 1 January 2019.

The liquidity reserve was NOK 920.7 million (NOK 1,235.0 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 third quarter amounted to NOK 2,360.9 million (NOK 2,253.4 million), equivalent

to NOK 18.2 (NOK 17.40) per share. The equity ratio was 41.7 per cent (42.4 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 of the current year. 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 third quarter, exchange rate fluctuations resulted in an unrealised change in equity of NOK 11.1 million (NOK 8.0 million). Year to date the change was NOK -52.8 million (-90.2 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	Third quarter		9 months		12 months	
	2019	2018	2019	2018	2018	2017
Sales to external customers	537.1	546.0	1,921.7	1,954.9	2,628.4	2,499.5
Sales to internal customers	122.7	146.6	473.9	450.2	634.9	618.8
Operating revenues	659.8	692.6	2,395.6	2,405.0	3,263.3	3,118.2
Depreciation and impairment	24.7	23.9	74.6	72.7	106.2	120.3
Operating profit	-2.2	66.5	144.7	234.4	343.3	146.7
Operating margin in per cent*	-2.4 %	-0.1 %	6.0 %	9.7 %	10.5 %	4.7 %
Net operating capital (% of operating revenues)*	0.1 %	0.3 %	17.5 %	16.8 %	18.3 %	17.5 %
Total assets*	-31.0	88.2	1,565.7	1,599.4	1,663.4	1,545.5
Equity*	-7.5	78.0	904.6	947.6	809.0	752.7
Capital employed*	5.8	55.5	1,142.0	1,124.4	985.7	988.6
Return on capital employed in per cent, 12 month rolling*	-6.5 %	7.4 %	23.3 %	29.0 %	32.4 %	14.3 %
Investments*	32.5	43.8	72.3	85.8	136.7	99.2
Total number of employees*	-8	1	635	623	620	650

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

Activity in the international sawn timber markets was somewhat lower than in the same period last year. At the same time the supply of lower qualities, particularly of spruce, has increased as a result of storm fellings and spruce bark beetle attacks. The high supply of goods has resulted in a fall in market prices, and this is the main reason for the drop in operating revenues. Overall delivery volumes were marginally lower than in the same period in 2018.

The UK is an important export market, particularly for the Swedish units in Timber.

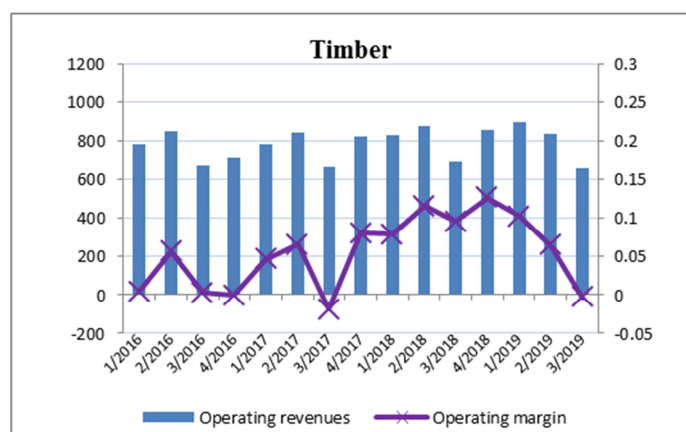
Uncertainty concerning developments in the UK remains high, but as far as possible, measures have been implemented to maintain deliveries in the event of a Brexit without EU trade agreements.

Production was also lower than in the third quarter last year, partly due to planned lower production time and production constraints. Processing costs increased compared to the same period in 2018, mainly due to necessary maintenance.

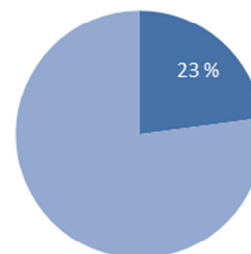
Access to all assortments of forest raw materials was good in the third quarter. At the end of the quarter timber inventories were higher than at the same time the previous year, and at some facilities it has been necessary to limit the intake of new timber. The prices for sawlogs were lower than in the same period last year, with the greatest decline among the Swedish units. The situation for chip and fibre products was similar, with a fall in price levels overall in Sweden and more stable developments in Norway.

Due to price developments, the profits for the quarter have been impacted by a price adjustment to inventories totalling NOK -13.1 million. The corresponding adjustment in the second quarter of 2018 was

NOK 4.9 million. Year to date the price adjustments comprised NOK -8.0 million (NOK 12.1 million).



Timber's share of the Groups sale to external customers



Wood

Amounts in NOK million	Third quarter		9 months		12 months	
	2019	2018	2019	2018	2018	2017
Sales to external customers	976.4	955.6	3,022.0	2,898.5	3,787.0	3,623.9
Sales to internal customers	40.0	43.5	141.3	137.1	190.3	181.7
Operating revenues	1,016.4	999.0	3,163.4	3,035.6	3,977.3	3,805.6
Depreciation and impairment	27.2	33.4	81.7	87.3	166.6	110.9
Operating profit	29.6	42.9	169.3	137.8	151.9	154.8
Operating margin in per cent*	-1.2 %	-0.1 %	5.4 %	4.5 %	3.8 %	4.1 %
Net operating capital (% of operating revenues)*	-6.1 %	-5.1 %	30.3 %	28.1 %	30.1 %	27.4 %
Total assets*	-127.5	-49.3	2,644.3	2,514.6	2,466.9	2,413.9
Equity*	29.2	47.1	1,168.5	1,112.0	1,048.3	1,033.4
Capital employed*	-113.9	-57.8	1,801.2	1,706.0	1,648.0	1,627.4
Return on capital employed in per cent, 12 month rolling*	-0.9 %	0.5 %	10.4 %	9.6 %	8.9 %	9.3 %
Investments*	24.9	32.7	77.6	126.7	198.1	119.9
Total number of employees*	13	-13	1,113	1,101	1,108	1,079

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

Activity in the building products trade in Scandinavia was somewhat lower in the quarter than in the corresponding period in 2018. Delivery volumes from the Wood division fell somewhat compared to the previous year, but price levels were overall higher and provided an increase in operating revenue. Production was also lower than in the corresponding period in 2018, mainly due to the implementation of major maintenance projects and reduced drying capacity at Moelven Trysil AS following the fire in February. The construction of new dryers is going according to plan, and will be completed in the fourth quarter of 2019.

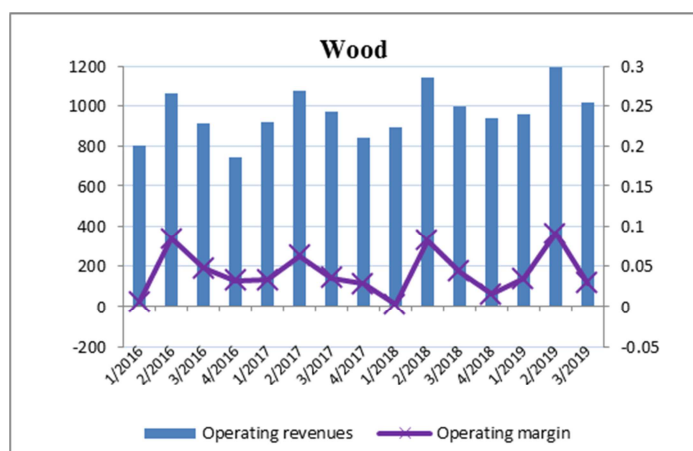
Access to all assortments of forest raw materials was good in the third quarter. At the end of the quarter the timber stocks were higher than at the same time the previous year. Inventories are satisfactory with regard to the existing production plans. The prices for sawlogs were lower than in the same period last year, with the greatest decline among the Swedish units. The situation for chip and fibre products was similar, with a fall in price levels overall in Sweden and more stable developments in Norway.

As a result of the decision to discontinue operations at Moelven Eidsvold Værk AS, the operating profit has been charged with cost provisions totalling NOK 17.0 million.

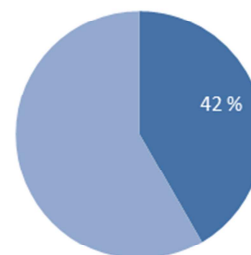
The operating profit for the third quarter 2018 has been charged with NOK 16.0 million related to the

discontinuation of Moelven Are AS.

Due to price developments the profits for the quarter have been impacted by a price adjustment to inventories totalling NOK -0.1 million. The corresponding adjustment in the third quarter of 2018 was NOK 22.3 million. Year to date the price adjustments comprised NOK -5.2 million (NOK 56.9 million).



Wood's share of the Groups sale to external customers



Building Systems

Amounts in NOK million	Third quarter		9 months		12 months	
	2019	2018	2019	2018	2018	2017
Sales to external customers	632.4	797.0	2,241.7	2,806.2	3,738.9	3,854.7
Sales to internal customers	1.7	0.2	3.5	0.9	4.2	1.7
Operating revenues	634.1	797.2	2,245.1	2,807.1	3,743.0	3,856.4
Depreciation and impairment	19.2	14.2	59.3	46.1	60.6	52.8
Operating profit	20.4	22.6	64.4	91.5	128.3	153.9
Operating margin in per cent*	0.1 %	-0.2 %	2.9 %	3.3 %	3.4 %	4.0 %
Net operating capital (% of operating revenues)*	-0.6 %	-0.8 %	15.2 %	12.2 %	13.5 %	11.3 %
Total assets*	-65.8	-24.8	1,704.9	1,659.0	1,751.4	1,808.9
Equity*	23.0	27.4	823.0	848.5	780.9	798.0
Capital employed*	14.9	47.5	1,081.0	901.7	846.4	884.1
Return on capital employed in per cent, 12 month rolling*	-0.7 %	0.0 %	10.3 %	15.3 %	14.7 %	17.8 %
Investments*	19.7	22.0	46.0	69.1	93.5	118.9
Total number of employees*	-62	-29	1,505	1,649	1,647	1,687

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

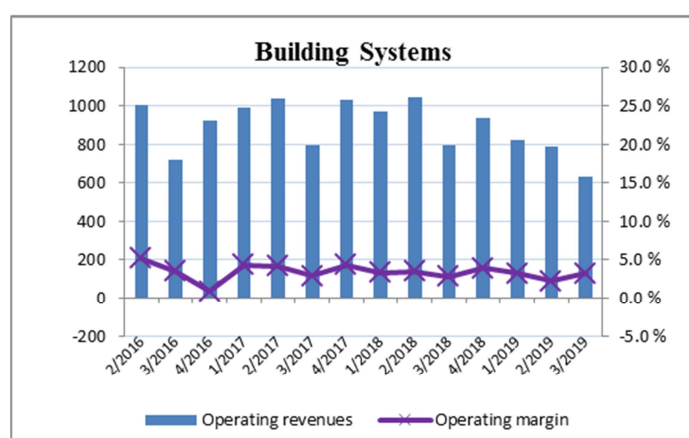
Following an improvement in the last part of the quarter, the order backlog for the division as a whole was NOK 166 million lower than at the same time in 2018. Low market activity and a poor order situation at some units have made it necessary to implement capacity adjustments.

For the Laminated Timber operations in Norway activity levels dropped somewhat compared to the third quarter of 2018. In Sweden demand has been satisfactory, but excessive production costs make for weak profit. For both glulam companies this means that there are high requirements to the implementation of rationalisation measures and concept adjustments going forward.

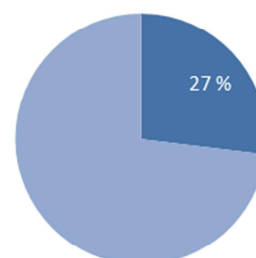
For the Modular Buildings operations in Norway, activities in building and construction have been good, and production for this market segment has been satisfactory. In the housing segment activity has been poor, and lay-offs have been implemented throughout the first six months and up to August. The situation

improved in the summer and in the start of the third quarter, and production started up again in August. 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. Although activity picked up somewhat in the summer, there is no basis for changing the plans to implement capacity adjustments. 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, were issued in the first and second quarters, and have reduced capacity by more than 30 per cent during the third quarter.

For System Interiors 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.



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



Other Businesses

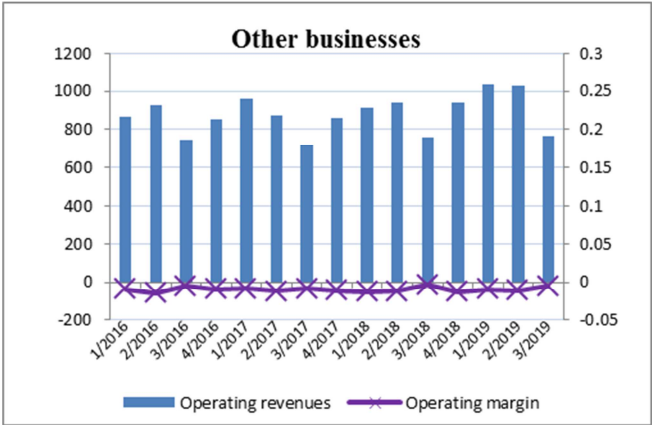
Amounts in NOK million	Third quarter		9 months		12 months	
	2019	2018	2019	2018	2018	2017
Sales to external customers	226.0	218.8	777.7	682.7	969.0	875.7
Sales to internal customers	539.3	537.0	2,045.5	1,923.0	2,578.6	2,538.9
Operating revenues	765.3	755.9	2,823.2	2,605.8	3,547.6	3,414.6
Depreciation and impairment	4.5	3.0	13.1	9.3	13.1	11.7
Operating profit	-4.1	-2.4	-25.7	-25.3	-37.2	-34.9
Operating margin in per cent*	0.1 %	0.3 %	-0.9 %	-1.0 %	-1.0 %	-1.0 %
Net operating capital (% of operating revenues)*	4.6 %	3.9 %	7.1 %	6.7 %	2.0 %	1.4 %
Total assets*	-92.6	-75.8	2,600.1	2,302.6	2,662.0	2,398.0
Equity*	-50.7	-34.7	1,055.2	968.8	1,459.0	1,198.0
Capital employed*	-89.2	-137.7	1,895.7	1,578.7	2,012.2	1,834.9
Return on capital employed in per cent, 12 month rolling*	-0.1 %	0.2 %	-0.7 %	-0.4 %	-0.7 %	-0.4 %
Investments*	43.7	1.3	153.4	9.6	69.2	19.1
Total number of employees*	7	9	165	143	149	130

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

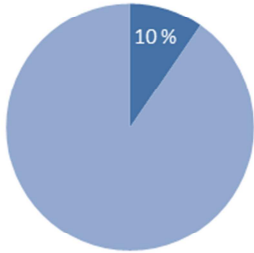
Other businesses include Moelven Industrier ASA, with shared services for finance, accounting, insurance,

communications, HR 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, 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 energy centre started up in September, while the pellets factory started trial production in September/October. The first pellets deliveries will take place in October. A partnership agreement has been concluded with SCA for the delivery of pellets. The agreement entails that the Swedish SCA group acquires 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 profit 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' share of the groups sale to external customers



Employees

Employees	Per third quarter 2019				Per third quarter 2018			
	Male	Female	%Female	Total	Male	Female	%Female	Total
Timber	568	67	10.6 %	635	554	69	11.1 %	623
Wood	938	175	15.7 %	1,113	924	177	16.1 %	1,101
Building Systems	1,407	98	6.5 %	1,505	1,537	112	6.8 %	1,649
Other businesses	126	39	23.6 %	165	109	34	23.8 %	143
The Group	3,039	379	11.1 %	3,418	3,124	392	11.2 %	3,516

Sickness absence rate	Per third quarter	
	2019	2018
Timber	4.6 %	4.1 %
Wood	5.4 %	5.0 %
Building Systems	6.0 %	6.6 %
Other businesses	1.8 %	3.6 %
The Group	5.4 %	5.5 %

LTI Value	Per third quarter	
	2019	2018
Timber	10.6	9.3
Wood	10.4	11.0
Building Systems	11.4	16.0
Other businesses	3.9	0.0
The Group	10.6	12.6

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 10.6 (12.6) at the end of the third 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. The Group has also strengthened requirements toward the use of safety goggles and helmets. 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 14 (10) personal injuries with subsequent sick leave during the quarter, and 48 (52) year-to-date. As a part of work to increase focus on injuries in general, target figures have also been established for the 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 third quarter the TRI rate was 36.1 (40.2). To succeed with the 2019 target for LTI of < 7.0 and injuries with and without absence of < 33, it is essential that preventive work is carried out based on good causal analyses of adverse events.

In the third quarter, absence due to illness was 4.9 per cent (5.0), where 2.7 per cent (2.6) represents long-term absence. The long-term trend for sickness absence developments is falling, and 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 USA and China is still ongoing, and the Brexit situation remains unresolved. Several central banks have already carried out interest rate cuts and 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 remains high. 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, however, 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. Positive and stable developments in international demand for industrial wood are expected.

NOK and SEK have weakened against most currencies. This strengthens 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.

Timber inventories and access to timber at the start of the fourth quarter 2019 are satisfactory. However, in Sweden increased harvesting of spruce to avoid spruce bark 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 spruce bark 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 operations improvements and structuring of the group is 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 lower activity level than in 2018 for several of the market segments, and an overall weaker profit as a consequence of economic developments.

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

Earnings and comprehensive income

Amounts in NOK million	Third quarter		9 months		12 months	
	2019	2018	2019	2018	2018	2017
Operating revenues	2,347.3	2,494.0	7,887.2	8,267.3	11,020.8	10,768.4
Cost of goods sold	1,488.9	1,578.3	4,843.4	5,165.4	6,746.3	6,799.2
Payroll expenses	452.6	453.4	1,600.0	1,601.2	2,200.1	2,153.3
Depreciation and impairment	75.6	74.5	228.6	215.3	346.5	295.7
Other operating expenses	286.7	258.2	862.3	846.9	1,141.6	1,099.8
Operating Profit	43.6	129.6	352.7	438.5	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	-17.6	15.1	-27.6	65.1	51.5	-4.7
Other financial income	1.7	9.3	5.0	21.7	7.9	16.2
Other financial expenses	8.9	19.2	64.1	83.9	67.4	58.3
Profit before tax	18.8	134.7	266.0	441.4	578.2	373.6
Estimate income tax	9.3	34.0	61.8	102.8	127.0	80.7
Net profit	9.5	100.7	204.2	338.6	451.2	293.0
Non-controlling interest share	-0.5	0.3	0.3	1.5	1.8	-0.1
Owner of parent company share	10.0	100.5	203.9	337.1	449.4	293.0
Earnings per share (in NOK)	0.1	0.8	1.6	2.6	3.5	2.3
Statement of comprehensive income						
Net profit	9.5	100.7	204.2	338.6	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	0.0	0.0	0.0	-0.9	0.1
Income tax on items that are not reclassified to profit or loss	0.0	0.0	0.0	0.0	0.2	0.0
	0.0	0.0	0.0	0.0	-0.7	0.1
<i>Items that may be reclassified subsequently to profit or loss</i>						
Translation differences	11.1	10.2	-52.9	-90.2	-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	-0.7	-0.5	-0.9	0.6	-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
	10.4	9.7	-53.8	-89.6	-19.2	48.5
<i>Items that may be reclassified subsequently to profit or loss</i>						
Other comprehensive income, net of tax	10.4	9.7	-53.8	-89.7	-19.9	48.6
Total comprehensive income for the period	19.8	110.4	150.4	249.0	431.4	341.5
Comprehensive income assigned to:						
Owners of parent company	20.4	110.2	150.1	247.4	429.6	341.6
Non-controlling interests	-0.5	0.3	0.3	1.5	1.8	-0.1

Consolidated balance sheet

Amounts in NOK million	Per 30.09		Per 31.12	
	2019	2018	2018	2017
Intangible assets	80.0	74.5	84.9	76.6
Tangible fixed assets	2,144.2	1,730.1	1,873.5	1,762.5
Financial fixed assets	7.0	7.4	7.0	7.9
Total fixed assets	2,231.2	1,812.1	1,965.4	1,847.1
Inventory	1,659.4	1,467.7	1,673.9	1,524.1
Contract assets	95.7	81.2	126.0	139.4
Receivables	1,660.3	1,784.0	1,483.1	1,493.6
Liquid assets	19.2	169.2	53.9	40.4
Total current assets	3,434.5	3,502.2	3,336.9	3,197.6
Total assets	5,665.7	5,314.3	5,302.3	5,044.6
Share capital*	647.7	647.7	647.7	647.7
Other equity	1,713.2	1,605.7	1,787.6	1,444.8
Total equity	2,360.9	2,253.4	2,435.3	2,092.5
Provisions	314.1	317.6	261.1	242.9
Long term interest-bearing liabilities	1,099.2	762.6	712.1	782.8
Long term interest-free liabilities	0.7	0.9	0.9	6.3
Total long term liabilities	1,414.0	1,081.0	974.1	1,031.9
Short term interest-bearing liabilities	68.1	0.0	9.4	0.0
Contract liabilities	91.3	108.9	78.8	167.7
Short term liabilities	1,731.3	1,871.0	1,804.7	1,752.5
Total short term liabilities	1,890.8	1,979.9	1,892.9	1,920.2
Total liabilities	3,304.8	3,060.9	2,867.0	2,952.1
Total liabilities and equity	5,665.7	5,314.3	5,302.3	5,044.6

*129.542.384 shares á NOK 5,-, adjusted for 1.100 own shares.

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	337.1	337.1	1.5	338.6
Other comprehensive income							
Translation differences	0.0	0.0	0.0	-90.2	-90.2	0.0	-90.2
Other changes	0.0	0.0	0.0	0.6	0.6	0.0	0.6
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	-89.7	-89.7	0.0	-89.7
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 30.09.2018	647.7	130.9	0.0	1,463.4	2,242.1	11.3	2,253.4
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	203.9	203.9	0.3	204.2
Other comprehensive income							
Translation differences	0.0	0.0	0.0	-52.8	-52.8	-0.1	-52.9
Other changes	0.0	0.0	0.0	-0.9	-0.9	0.0	-0.9
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	-53.7	-53.7	-0.1	-53.8
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 30.09.2019	647.7	130.9	0.0	1,568.5	2,347.2	13.8	2,360.9

Consolidated statement of cash flow

Amounts in NOK million	Per 30.09.	
	2019	2018
CASH FLOW FROM OPERATIONAL ACTIVITIES:		
Net profit	204.2	338.6
<i>Adjustments to reconcile net profit with net cash flow from operations:</i>		
Depreciation	230.2	208.8
Impairment	-1.6	6.4
Income from associated companies	0.0	0.0
Tax paid	-92.6	-40.9
Unpaid pension costs entered as costs and unreceived pension funds entered as income	0.6	0.6
Loss (profit) on sale of fixed assets	-0.1	-0.6
Net value change of financial instruments to fair value	27.6	-65.1
Income tax	61.8	102.8
<i>Changes in operating assets and liabilities:</i>		
Changes in inventory	14.5	56.4
Changes in accounts receivable and other receivables	-148.3	-232.7
Changes in trade accounts payable	-105.7	-23.6
Changes in provisions and benefits to employees	53.0	74.6
Changes in short-term liabilities excluding borrowing	71.0	55.1
Cash flow from operational activities	314.6	480.4
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Investment in plant and equipment exc. acquisition	-349.2	-291.2
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	4.2	0.0
Acquisition of subsidiary, net of cash	0.0	0.0
Cash flow from investment activities	-344.7	-291.2
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	58.7	0.0
Purchase of non-controlling interests	0.0	0.0
Change in long term debt (borrowing facility)	220.6	-13.3
Changes in other long-term liabilities	-0.2	-5.5
Payment of leases	-23.5	-7.1
Payment of dividend	-225.4	-88.1
Cash flow from financial activities	30.2	-113.9
Net increase (reduction) in liquid assets during year	0.2	75.3
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	6.4	105.5
Cash and cash equivalents		
Liquid assets	6.4	105.5
Unused drawing rights	914.3	1,129.5
Restricted bank deposits	0.0	0.0
Cash and cash equivalents	920.7	1,235.0

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 third quarter of 2019, ending on 30 September 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 third 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 23 October 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 30.09.	
	2019	2018
Book value per 1.1	1910.7	1796.8
Acquisitions	349.2	294.2
Lease acquisitions	6.9	0.0
Business combinations	0.0	0.0
Disposals	-0.2	0.6
Depreciations	-230.2	-208.8
Impairment losses	1.6	-6.4
Transfers	182.9	-36.2
Translation differences	-44.4	-77.8
Book value per 30.09.	2,176.4	1,762.3

Note 8 - Financial instruments

Amounts in NOK million	Per 9 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	2.3	-10.5	-8.1	16.9	-4.4	12.4
Interest rate derivatives	0.0	-57.1	-57.1	0.0	-69.8	-69.8
Power derivatives	10.4	-0.7	9.7	30.8	-1.3	29.5
Total	12.8	-68.3	-55.5	47.6	-75.5	-27.9

Amounts in NOK million	Per 9 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	5.2	-4.9	0.3	3.5	-7.0	-3.6
Interest rate derivatives	6.0	-53.6	-47.6	0.0	-81.5	-81.5
Power derivatives	33	0.0	33.0	6.7	-1.0	5.8
Total	44.2	-58.5	-14.3	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	Third quarter		9 months		12 months	
	2019	2018	2019	2018	2018	2017
Timber	80.3	128.3	136.9	233.2	339.2	129.3
Wood	44.2	34.7	143.9	119.1	136.2	129.9
Building Systems	45.4	55.7	61.8	90.7	127.4	152.3
Other	-50.9	-0.4	-76.6	-1.6	-24.5	-37.8
Profit before tax in segments	118.9	218.3	266.0	441.4	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	118.9	218.3	266.0	441.4	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 3 418 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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