



Quarterly Report 3/2017

*The world's tallest timber building, Mjøstårnet, Brumunddal.
Moelven Limtre AS is the total subcontractor of the tower building and swimming pool.
Illustration: Voll Arkitekter AS*

Amounts in NOK million	Third quarter		9 months		12 months	
	2017	2016	2017	2016	2016	2015
Operating revenues	2,440.6	2,358.6	8,059.5	7,893.5	10,309.7	9,690.4
EBITDA	126.3	135.1	518.9	480.8	601.6	553.9
Gross operating margin/EBITDA	5.2 %	5.7 %	6.4 %	6.1 %	5.8 %	5.7 %
Depreciation and impairment	88.1	69.2	223.2	209.5	306.6	339.1
Operating profit	38.2	65.9	295.7	271.3	295.0	214.8
Net operating margin/EBIT	1.6 %	2.8 %	3.7 %	3.4 %	2.9 %	2.2 %
Value change of financial instruments to fair value	9.9	19.5	9.0	10.5	14.6	5.6
Profit before tax	46.6	74.6	269.5	236.2	252.5	158.5
Profit per share in NOK	0.26	0.44	1.59	1.40	1.41	0.91
Cash flow from operational activities, in NOK per share	2.69	2.25	4.04	2.24	3.25	4.51
Equity *	14.8	-44.2	1,979.6	1,789.6	1,813.4	1,756.9
Equity ratio (i %) *	3.5 %	1.4 %	39.7 %	35.3 %	38.0 %	36.8 %
Total assets *	-439.0	-336.4	4,989.4	5,073.0	4,766.8	4,778.1
Investments *	87.4	81.1	236.8	167.1	275.2	215.8
Return on capital employed in per cent, 12 month rolling *	-0.9 %	-0.5 %	10.8 %	11.3 %	9.9 %	7.2 %
Capital employed *	-255.5	-258.3	2,862.2	2,882.1	2,846.9	2,870.8
Net interest bearing liabilities *	-260.0	-181.2	777.1	1,055.5	1,026.9	1,110.4
Operating working capital *	-337.3	-213.2	2,182.9	2,375.0	2,082.2	2,081.2
Total number of employees *	-27	82	3,531	3,611	3,492	3,426
Sick leave percentage *	0.0 %	0.0 %	5.6 %	5.5 %	5.6 %	5.5 %
Frequency of accidents with absence, rolling LTI value *	0.1	-1.8	11.5	13.5	12.8	15.7
Number of shareholders	914	941	914	941	934	941
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

- Revenues in the third quarter were NOK 2,440.6 million (NOK 2,358.6 million) and NOK 8 059.5 million (NOK 7 893.5 million) year to date.
- Operating profit in the third quarter was NOK 38.2 million (65.9) and NOK 295.7 million (271.3) year to date.
- The operating profit for the third quarter was charged with a total of NOK 46.1 million as a result of the decision to discontinue activities at Moelven Norsälven AB and a concluded dispute related to a larger project in Building Systems.
- Good international demand for sawn timber.
- Satisfactory activity in the building materials trade in Scandinavia.
- Good level of activity and a good order backlog in Building systems.

In brief

The third quarter entails reduced market activity in the holiday period in the summer and a subsequent increase when the high season begins towards the end of the quarter. Demand for the Group's products and services developed as expected along these lines in 2017, and demand for the Group's products and services was generally satisfactory.

In the export markets where trade is in EUR, currency conditions have helped maintain margins for the Swedish units, which are also responsible for most of exports. Prices on the market in the UK have increased and compensate for part of the margin decline as a result of the weakening of GBP.

Demand from the building products trade in Scandinavia was satisfactory, although the activity level in the Swedish market is somewhat lower than previously.

The increasing interest in environmentally friendly construction and in wood as a building material is notable in all three divisions, but is most pronounced in Building Systems. This concerns both bridges and other load-bearing structures in glulam and module-based apartment buildings. In Sweden the activity level has declined somewhat, but from a very high level. The Norwegian market has seen an increase in demand as a result of economic developments in general, in addition to the great number of infrastructure projects. In some areas the supply of sawlogs has been somewhat reduced due to the wet autumn, but at the end of the quarter sawlog inventories were nevertheless satisfactory and on a par with the same time last year. In both Norway and Sweden prices for sawlogs have increased slightly compared to the same period last year. Prices for chip and fibre products were at the same level as the third quarter last year, but for the Norwegian units, currency conditions and costs related to logistics have had a certain negative impact.

On 25 September the Board of Moelven Norsälven AB decided to discontinue sawmill operations. This is because the plant's technical condition is that of a nature where even significant investments would most likely fail to turn it into a future-oriented and profitable plant.

The closing of Moelven Norsälven is part of a structural overall assessment required to create better overall profitability in the Moelven Group.

A total of 42 employees are affected by the closure. Production at the plant will continue up to year end, and there is an aim of completing the closure in the course of the first quarter of 2018.

In the beginning of September the Ministry of Agriculture and Food informed the management of Moelven Granvin Bruk AS that the company will receive a grant to build a timber quay, following an application from the company in partnership with Granvin municipality, Ulvik municipality, Voss municipality, Vestskog SA and Nortømmer AS. There is extensive activity in the forestry industry in western Norway, and the quay will be an important component of the infrastructure for forestry in Voss, the largest forest municipality in Hordaland and the surrounding region.

In September the construction of the world's tallest wooden building, Mjøstårnet, started in Brumunddal. Moelven Limtre is supplying self-produced load-bearing structures and floor elements from Moelven Töreboda Limträ AB for the building, which when completed in March 2019 will stand 81 metres tall. The 18 floors will have a total floor area of 11,300 m² and will accommodate offices, apartments, a hotel, restaurants and common areas.

Moelven Modus took up residence in its new Oslo office in the quarter. In the light and spacious premises in a brand new building at Alnabru in Oslo, the Modular Buildings business also has a branch office, while Moelven Wood and Moelven Limtre have decorated an attractive showroom. The idea of the premises is to display as many of Moelven's products as possible in an integrated environment and to show the whole range to customers across companies.

Operating revenues and results

Revenues increased by around 3.5 per cent compared to the same period last year. The main cause is increased sawn timber prices, a changed product mix in Wood, and a higher level of activity in the Modular Building business.

Operating profit dropped by 42.0 per cent compared to the same period last year. The operating profit includes a charge totalling NOK 46.1 million that is not directly related to operations in the period. When adjusted for this, operating profit increased by 26.0 per cent. The reason for the charge was the decision to discontinue activities at Moelven Norsälven AB, which is a part of the Timber division, and a concluded dispute related to a larger project in Building Systems.

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 provided a positive effect totalling NOK 15.0 million in the quarter (4.2) and NOK 25.7 million (2.5) year to date. The items do not have any impact on cash flow.

The financial results are positively impacted by NOK 9.6 million as a result of a reversal of previously allocated warranty costs.

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 9.9 million (NOK 19.5 million) for the quarter and NOK -9.0 million (NOK 10.5 million) for the year.

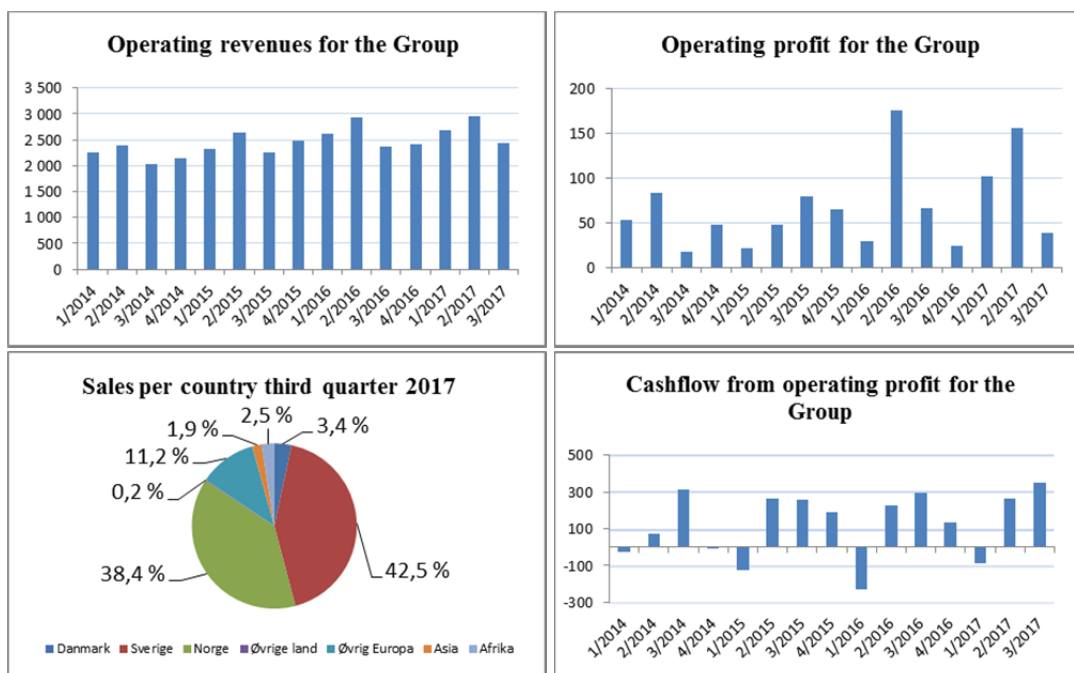
Amounts in NOK million	Third quarter		9 months		12 months	
	2017	2016	2017	2016	2016	2015
Operating revenues						
Timber	666.5	673.6	2,293.9	2,306.8	3,020.6	3,010.1
Wood	971.8	914.0	2,964.1	2,782.4	3,529.9	3,275.7
Building Systems	794.8	715.0	2,824.7	2,694.4	3,616.8	3,375.2
Other businesses	719.8	742.3	2,554.1	2,535.0	3,388.9	3,003.8
<i>Internal</i>	-712.3	-686.3	-2,577.3	-2,425.0	-3,246.5	-2,974.5
The Group	2,440.6	2,358.6	8,059.5	7,893.5	10,309.7	9,690.4

EBITDA

Timber	30.5	29.3	173.4	137.0	181.1	145.1
Wood	62.8	71.2	214.4	221.1	274.5	237.4
Building Systems	36.6	35.1	148.1	138.9	166.3	185.2
Other businesses	-3.6	-0.5	-17.1	-16.2	-20.3	-13.9
The Group	126.3	135.1	518.9	480.8	601.6	553.9

Operating Profit

Timber	-12.8	1.9	79.8	53.9	53.5	-23.9
Wood	34.3	43.2	131.4	136.5	160.6	123.7
Building Systems	23.1	25.0	109.6	106.8	115.1	140.8
Other businesses	-6.4	-4.2	-25.1	-26.0	-34.2	-25.9
The Group	38.2	65.9	295.7	271.3	295.0	214.8



Investments, balance sheet and funding

During the third quarter, total investments were NOK 87.4 million (NOK 81.1 million). For the year's first three quarters upgrades and maintenance investments totalling NOK 236.8 million (167.1) have been carried out. Investments in 2017 are increasing compared to 2016, partly due to projects that have been postponed. Depreciation in the quarter, including impairments of fixed assets at Moelven Norsälven AB, totalled NOK 88.1 million (69,2) and NOK 223.2 million (209.5) year to date. At the end of the third quarter, the book value of the Group's total assets was NOK 4,989.4 million (NOK 5 073.0 million). Cash flow from operating activities in the third quarter was NOK 348.9 million (NOK 291.0 million), corresponding to NOK 2.69 per share (NOK 2.25). Corresponding figures for the year's three first quarters was NOK 523.3 million (NOK 290.1 million), which is equivalent to NOK 4.04 (NOK 2.24) per share. Beyond normal fluctuations in working capital items, the improvements compared to last year are mainly due to reduced working capital in projects. Cash flow from working capital items was NOK 191.2 million in the third quarter (NOK 149.4 million) and NOK 76.0 million year to date (NOK -135.7 million). Net interest-bearing liabilities were NOK 777.1 million (NOK 1 055.5 million) at the end of the third quarter. Financial leases are included in net interest-bearing liabilities in the amount of NOK 18.8 million (NOK 31.5 million). The liquidity reserve was NOK 1,135.4 million (NOK 807.0 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 1,979.6 million (NOK 1 789.6 million), equivalent to NOK 15.28 (NOK 13.81) per share. The equity ratio was 39.7 per cent (35.3 per cent). The dividend for 2016 of NOK 0.48 per share, totalling NOK 62.2 million, was paid and charged to equity in the second quarter. Parts of the Group's equity are linked to ownership interests in foreign subsidiaries, principally in Sweden, and are thereby exposed to exchange rate fluctuations. The scope and consequences of likely exchange rate fluctuations are within acceptable risk limits. In the third quarter, exchange rate fluctuations resulted in an unrealised change in equity of NOK -17.8 million (NOK -43.8 million). Year to date the change was NOK 23.2 million (NOK -86.1 million). Approximately half of the Group's assets are recognized 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	
	2017	2016	2017	2016	2016	2015
Sales to external customers	539.1	536.2	1,828.2	1,853.6	2,410.6	2,487.4
Sales to internal customers	127.4	137.4	465.7	453.1	610.0	522.7
Operating revenues	666.5	673.6	2,293.9	2,306.8	3,020.6	3,010.1
Depreciation and impairment	43.3	27.4	93.6	83.1	127.6	169.0
Operating profit	-12.8	1.9	79.8	53.9	53.5	-23.9
Operating margin in per cent *	-2.2 %	-0.8 %	3.5 %	2.3 %	1.8 %	-0.8 %
Net operating capital (% of operating revenues) *	-0.1 %	-1.5 %	16.9 %	15.9 %	16.3 %	18.7 %
Total assets *	-72.5	-77.2	1,471.1	1,527.6	1,567.1	1,664.5
Equity *	-28.1	-30.1	816.1	831.2	787.8	841.0
Capital employed *	-32.3	-21.7	1,041.1	1,121.8	1,093.7	1,222.2
Return on capital employed in per cent, 12 month rolling*	-1.2 %	0.4 %	7.6 %	4.1 %	4.6 %	-1.9 %
Investments *	28.8	22.8	71.7	45.8	64.2	75.9
Total number of employees *	6	-20	657	677	674	679

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

Market activity and demand in the Timber division's main markets was good in the third quarter. Deliveries to certain countries in North Africa and Asia remained somewhat reduced due to challenges related to sea transport and public regulations, but this improved toward the end of the quarter. Adjusted for the transfer of Moelven Tom Heurlin AB to the Wood division from 1 January 2017, delivery volumes increased compared to the third quarter last year.

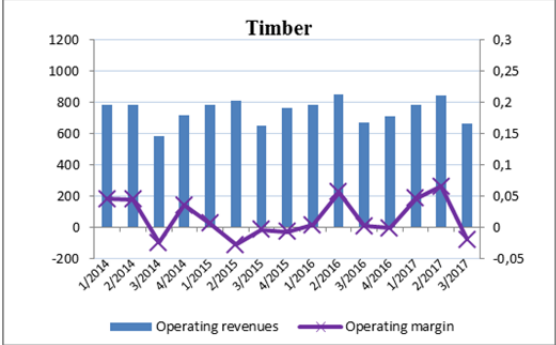
Average prices were overall higher than for the same period last year, and the EUR exchange rate in particular continues to contribute to shore up competitiveness. Operating revenues measured in NOK are adversely affected by the consolidation rate for SEK being lower in the current year than last year.

The operating conditions were stable and good for the quarter. Production volumes increased compared to the same period in 2016, and processing costs were reduced. Inventory levels at the end of the quarter were satisfactory.

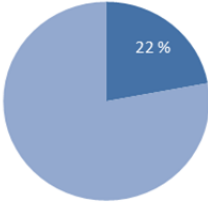
On 25 September the Board of Moelven Norsälven AB decided to close down the sawmill. Impairment of fixed assets and cost provisions related to the closure have been charged to the operating profit for the quarter to the tune of NOK 29,0 million.

Due to price developments the profits for the quarter have seen a positive effect of a price adjustment to inventories totalling NOK 5.6 million. The corresponding adjustment in the third quarter of 2016 resulted in a charge of NOK 4.7 million. Year to date the price adjustments comprised NOK 8.0 million (NOK -8.1 million).

In some areas the supply of sawlogs has been somewhat reduced due to the wet autumn, but at the end of the quarter sawlog inventories were nevertheless satisfactory and on a par with the same time last year. In both Norway and Sweden prices for sawlogs have increased slightly compared to the same period in 2016. Prices for chip and fibre products were at the same level as the third quarter last year, but for the Norwegian units, currency conditions and costs related to logistics have had a certain negative impact.



Timber’s share of the Groups sale to external customers



Wood

Amounts in NOK million	Third quarter		9 months		12 months	
	2017	2016	2017	2016	2016	2015
Sales to external customers	936.3	884.1	2,829.6	2,671.4	3,359.7	3,153.8
Sales to internal customers	35.5	29.9	134.5	110.9	170.2	121.9
Operating revenues	971.8	914.0	2,964.1	2,782.4	3,529.9	3,275.7
Depreciation and impairment	28.5	28.0	83.0	84.6	113.8	113.7
Operating profit	34.3	43.2	131.4	136.5	160.6	123.7
Operating margin in per cent *	-0.4 %	-0.1 %	4.4 %	4.9 %	4.5 %	3.8 %
Net operating capital (% of operating revenues) *	-7.4 %	-4.5 %	25.7 %	25.3 %	27.6 %	27.7 %
Total assets *	-104.0	-95.9	2,457.7	2,241.7	2,151.6	2,146.7
Equity *	15.9	13.6	1,086.9	988.7	932.0	919.6
Capital employed *	-103.0	-89.9	1,667.7	1,543.7	1,493.8	1,525.6
Return on capital employed in per cent, 12 month rolling*	-0.7 %	-0.2 %	9.5 %	9.6 %	10.3 %	8.0 %
Investments *	18.4	26.2	62.7	69.9	114.7	96.8
Total number of employees *	-4	-10	1,065	1,031	1,039	1,009

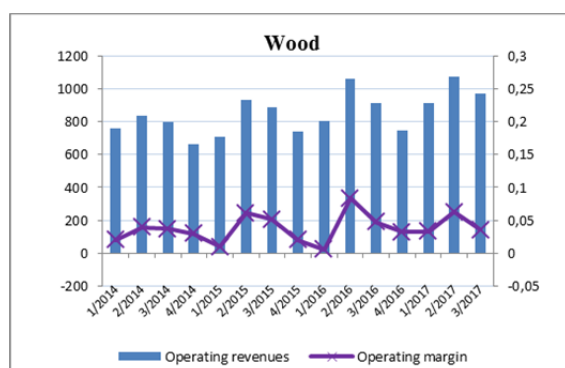
* The columns regarding the quarterly numbers show the change in the quarter

Market activity and demand in the Wood division's main markets were satisfactory in the third quarter. Delivery volumes in the period were on a par with the same period last year, but a change in product mix and somewhat increased average prices nevertheless resulted in increased operating income. Activity at Moelven Tom Heurlin AB, which was transferred to the Wood division from the Timber division effective from 1 January 2017, has been reduced in order for the company to provide satisfactory profitability. The planing mills in the division use mainly sawn timber as raw material. As a result of price trends for sawn timber internationally, the raw material costs for these units have increased, and this has led to a pressure on margins for highly processed goods.

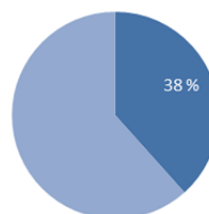
In some areas the supply of sawlogs has been somewhat reduced due to the wet autumn, but at the end of the quarter sawlog inventories were nevertheless satisfactory and on a par with the same time last year. In both Norway and Sweden prices for sawlogs have increased slightly compared to the same period in 2016. Prices for chip and fibre products were at the same level as the third quarter last year, but for the Norwegian units, currency conditions and costs related to logistics have had a certain negative impact.

Due to price developments the profits for the quarter have seen a positive effect of a price adjustment to inventories totalling NOK 9.4 million. The corresponding adjustment in the third quarter of 2016 was NOK 8.9 million. Year to date the price adjustments comprised NOK 17.7 million (NOK 10.6 million).

Operating conditions in the period were good, and due to the ongoing improvement work production costs per unit have been reduced.



Wood's share of the Groups sale to external customers



Building Systems

Amounts in NOK million	Third quarter		9 months		12 months	
	2017	2016	2017	2016	2016	2015
Sales to external customers	794.5	714.5	2,823.8	2,692.1	3,611.1	3,371.2
Sales to internal customers	0.3	0.5	0.9	2.3	5.7	4.1
Operating revenues	794.8	715.0	2,824.7	2,694.4	3,616.8	3,375.2
Depreciation and impairment	13.5	10.1	38.6	32.1	51.2	44.4
Operating profit	23.1	25.0	109.6	106.8	115.1	140.8
Operating margin in per cent *	-0.4 %	-0.2 %	3.9 %	4.0 %	3.2 %	4.2 %
Net operating capital (% of operating revenues) *	-1.9 %	0.6 %	10.9 %	18.1 %	12.5 %	12.9 %
Total assets *	-80.6	77.0	1,643.1	1,834.0	1,653.2	1,616.8
Equity *	14.8	44.3	810.5	766.7	692.2	665.5
Capital employed *	21.8	13.3	912.1	830.3	775.6	743.2
Return on capital employed in per cent, 12 month rolling*	-0.5 %	-3.6 %	14.1 %	21.4 %	14.4 %	21.8 %
Investments *	35.2	31.9	88.7	47.9	84.5	40.2
Total number of employees *	-23	102	1,679	1,599	1,647	1,607

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

Operating profit for the third quarter includes cost adjustments totalling NOK 17.2 million following the conclusion of a dispute.

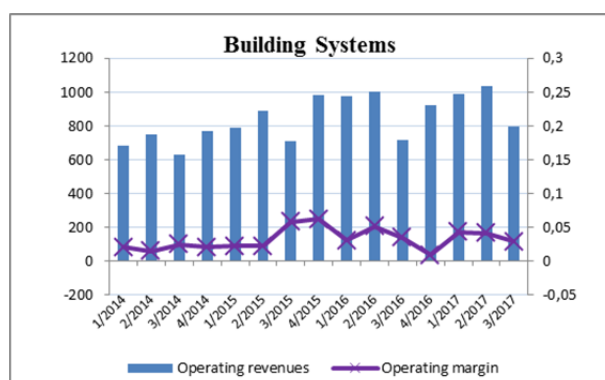
For Glulam operations demand is good both for standard glulam and projects in both Norway and Sweden. The use of glulam is experiencing a positive trend, with increasing demand for load-bearing structures for various building purposes. Demand from the building materials trade for standard glulam has dropped slightly, but remains high. Delivery volumes increased compared to the corresponding period last year. On the Swedish market there is nevertheless significant pressure on prices due to strong competition.

The demand for housing remains high, but trends have levelled off at a high level.

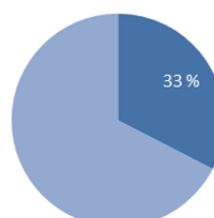
Activity levels for the Modular Buildings business in Sweden remains very high, particularly in the residential and project markets. Demand is also high for rental modules, but competition from foreign players is on the increase. For the Norwegian part of the business the market situation in the housing segment remains good. In addition, there is noticeable increased demand for project and standard modules as a result of the increased investment rate in infrastructure.

For System Interiors– Moelven Modus – demand is good in the big cities Oslo, Stockholm, Gothenburg and Malmö. This applies to both new buildings and the renovation, conversion and extension market. The market in south-west Norway is improving steadily. Economic developments, especially in Sweden are resulting in greater competition.

Modus has also noted that the interest in using wood as a building material and having visible wood in the finished projects is on the increase among both architects and customers.



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

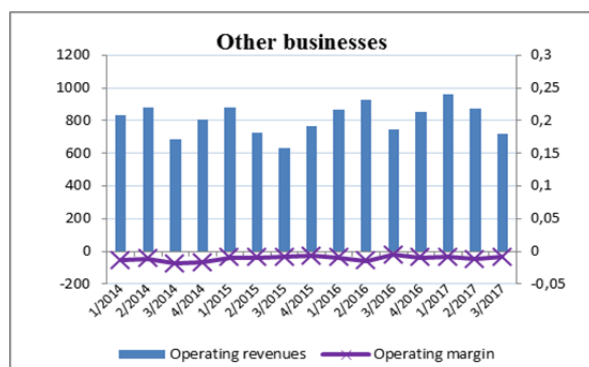


Other Businesses

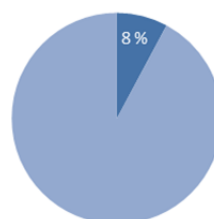
Amounts in NOK million	Third quarter		9 months		12 months	
	2017	2016	2017	2016	2016	2015
Sales to external customers	191.4	242.1	640.9	735.6	1,006.9	763.4
Sales to internal customers	528.4	500.2	1,913.1	1,799.4	2,382.0	2,240.4
Operating revenues	719.8	742.3	2,554.1	2,535.0	3,388.9	3,003.8
Depreciation and impairment	2.9	3.7	8.0	9.7	13.9	12.0
Operating profit	-6.4	-4.2	-25.1	-26.0	-34.2	-25.9
Operating margin in per cent *	0.0 %	0.2 %	-1.0 %	-1.0 %	-1.0 %	-0.9 %
Net operating capital (% of operating revenues) *	3.5 %	2.9 %	7.0 %	8.9 %	4.9 %	5.9 %
Total assets *	-165.0	-220.4	2,293.2	2,328.0	2,453.6	2,468.1
Equity *	-3.0	-76.1	933.8	831.6	1,044.8	1,007.5
Capital employed *	-191.1	-221.9	1,669.0	1,789.3	1,890.5	1,976.7
Return on capital employed in per cent, 12 month rolling*	-0.1 %	0.0 %	-0.3 %	0.0 %	-0.2 %	0.4 %
Investments *	5.0	0.2	13.7	3.5	11.8	3.0
Total number of employees *	-6	10	130	304	132	131

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

Other businesses include Moelven Industrier ASA, with shared group services for finance, accounting, insurance, communications, HR and ICT. 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. On 1 December 2016 Moelven Elektro AS was sold to Bravida Norge AS, and was therefore no longer a part of the Group at year end. Year-to-date figures for 2016 include Moelven Elektro AS. As of 1 June 2016, this company, which focused exclusively on maintenance contracts and small and medium size projects, was transferred to the "Other businesses" reporting area. Apart from this reorganization and sale of operations, 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. These are internal sales, which do not materially affect the results within the business area. In order to safeguard the supply of sawlogs 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 2017				Per third quarter 2016			
	Male	Female	%Female	Total	Male	Female	%Female	Total
Timber	587	70	10.7 %	657	604	73	10.8 %	677
Wood	900	165	15.5 %	1,065	871	160	15.5 %	1,031
Building Systems	1,559	120	7.1 %	1,679	1,486	113	7.1 %	1,599
Other businesses	97	33	25.4 %	130	267	37	12.2 %	304
Total number of employees	3,143	388	11.0 %	3,531	3,228	383	10.6 %	3,611

Sickness absence rate in %	Per third quarter	
	2017	2016
Timber	4.64 %	4.88 %
Wood	4.98 %	5.00 %
Building Systems	6.61 %	6.45 %
Other businesses	2.95 %	2.90 %
The Group	5.63 %	5.53 %

LTI Value	Per third quarter	
	2017	2016
Timber	12.6	19.1
Wood	7.2	8.1
Building Systems	14.6	16.1
Other businesses	3.8	0.0
The Group	11.5	13.5

The reduction in the number of employees compared to the same period in 2016 is due to the sale of Moelven Elektro AS in the fourth quarter of 2016. In the third quarter, absence due to illness was 5.64 per cent (5.47), where 1.74 per cent (2.86) represents long-term absence. Many of Moelven's businesses have sickness absence levels lower than the maximum target for 2017 of 4.5 per cent. Work is still being done to reduce sick leave 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.

There were 12 (11) personal injuries with subsequent sick leave during the quarter. So far this year there have been 51 (57) injuries with subsequent absence. In addition to the reduction in the number of injuries, higher activity levels and thus a higher number of worked hours have contributed to a reduction in the LTI rate (number of personal injuries with absence per million hours worked) compared to 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 is the governing body for HSE work and comprises the CEO, division managers, the HR Director and two employee representatives for the building and timber processing parts of the Group respectively. Work on training and awareness-raising is constantly ongoing in order to establish a culture for safety at all levels. All of Moelven's subsidiaries have completed the course "Clear HSE management" for everyone with operational and personnel responsibility, in addition to employee representatives and senior safety representatives.

Outlook

The growth in the global economy continues, but a more moderate rate is expected ahead. In Norway the mainland economy is approaching normal levels after a period of poor developments. In Sweden activity levels remain high, even though the strong growth is showing signs of levelling off in certain markets.

Somewhat above 80 per cent of the Group's sales are made in Scandinavia, but both the domestic markets and export markets are positively affected when the global market balance improves. The most important export markets are Europe, the Middle East and North Africa, and, to some extent, Asia.

In Europe, a continued marginal positive growth rate is expected. In the USA the economy is still improving, although the growth rate is somewhat lower than previously. Moelven has only occasional deliveries to the United States. Growth in China is declining, while there are indications of higher activity in the rest of Asia. The Middle East and North Africa are still characterized by unrest and regulations from public authorities that complicate international trade. However, the underlying demand is good in the latter markets.

Positive and stable developments in the international market for sawn timber 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. Prices in GBP have increased, and thus compensate some of the margin shortfall as a result of the depreciation of the pound following the Brexit referendum.

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, but growth is showing signs of levelling off. The renovation, conversion and extension market is also experiencing good levels of activity, although the changes in the renovation, conversion and extension deduction have slowed activities somewhat. No major changes are expected in the markets, and the Swedish market as a whole is expected to be at the same level as the previous year. Sawlog inventories and access to sawlogs at the start of the fourth quarter are acceptable with regard to planned production.

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. In Sweden the market for system interiors is strong in the areas around Stockholm, Gothenburg and Malmö. On the Norwegian side of the border the market in the Oslo region is strong. In the rest of the country the market for new commercial buildings is showing signs of improvement following a slow period. Good activity is expected to continue in Norway and Sweden in renovation, conversion 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 continued 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. Overall, the result for 2017 is expected to be somewhat better than for 2016. The Group has a long-term goal of a return on capital employed of 13 per cent over an economic cycle. The Board is of the opinion that the Group has sufficient solidity and 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 2017

Earnings and comprehensive income

Amounts in NOK million	Third quarter		9 months		12 months	
	2017	2016	2017	2016	2016	2015
Operating revenues	2,440.6	2,358.6	8,059.5	7,893.5	10,309.7	9,690.4
Cost of goods sold	1,608.7	1,539.2	5,168.5	5,083.4	6,552.5	6,207.3
Payroll expenses	455.5	440.2	1,569.5	1,553.3	2,113.2	1,943.3
Depreciation and impairment	88.1	69.2	223.2	209.5	306.6	339.1
Other operating expenses	250.2	244.1	802.7	776.0	1,042.5	985.9
Operating Profit	38.2	65.9	295.7	271.3	295.0	214.8
Income from associates	0.0	0.0	0.0	0.0	0.0	0.0
Value change of financial instruments to fair value	9.9	19.5	9.0	10.5	14.6	5.6
Other financial income	7.7	8.9	13.8	16.3	32.4	51.2
Other financial expenses	9.2	19.8	49.0	61.8	89.4	113.0
Profit before tax	46.6	74.6	269.5	236.2	252.5	158.5
Estimate income tax	13.3	18.2	63.7	55.2	73.4	41.5
Net profit	33.3	56.4	205.8	181.0	179.1	117.0
Non-controlling interest share	0.3	-0.3	0.3	0.1	-4.1	-0.5
Owner of parent company share	33.1	56.7	205.5	180.9	183.1	117.6
Earnings per share (in NOK)	0.3	0.4	1.6	1.4	1.4	0.9
Statement of comprehensive income						
Net profit	33.3	56.4	205.8	181.0	179.1	117.0
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	-1.9	50.0
Income tax on items that are not reclassified to profit or loss	0.0	0.0	0.0	0.0	-0.5	12.5
	0.0	0.0	0.0	0.0	-1.4	37.5
<i>Items that may be reclassified subsequently to profit or loss</i>						
Translation differences	-17.9	-43.9	23.1	-86.2	-67.3	61.7
Proportion of other income and costs in associated companies	0.0	-3.8	0.0	-3.8	0.1	0.0
Other changes	-0.3	5.4	-0.2	0.0	4.4	0.1
Income tax on items that may be reclassified to profit or loss	0.0	0.0	0.0	0.0	0.0	0.0
	-18.2	-42.2	22.9	-90.0	-62.7	61.8
<i>Items that may be reclassified subsequently to profit or loss</i>						
Other comprehensive income, net of tax	-18.2	-42.2	22.9	-90.0	-64.1	99.3
Total comprehensive income for the period	15.1	14.2	228.7	91.0	114.9	216.3
Comprehensive income assigned to:						
Owners of parent company	14.8	14.5	228.4	90.9	119.0	216.8
Non-controlling interests	0.3	-0.3	0.3	0.1	-4.1	-0.5

Consolidated balance sheet

Amounts in NOK million	Per 30.09		Per 31.12	
	2017	2016	2016	2015
Intangible assets	74.7	30.9	72.8	35.5
Tangible fixed assets	1,676.8	1,620.6	1,637.2	1,765.2
Financial fixed assets	8.2	8.8	8.7	8.9
Total fixed assets	1,759.7	1,660.3	1,718.7	1,809.6
Inventory	1,418.5	1,287.2	1,464.1	1,526.7
Receivables	1,697.5	2,086.2	1,568.5	1,433.7
Liquid assets	113.6	39.2	15.6	8.1
Total current assets	3,229.7	3,412.7	3,048.1	2,968.5
Total assets	4,989.4	5,073.0	4,766.8	4,778.1
Share capital*	647.7	647.7	647.7	647.7
Other equity	1,331.9	1,141.9	1,165.7	1,109.2
Total equity	1,979.6	1,789.6	1,813.4	1,756.9
Provisions	246.7	155.0	180.6	111.9
Long term interest-bearing liabilities	872.5	1,092.6	910.2	1,034.3
Long term interest-free liabilities	6.3	11.7	6.5	12.1
Total long term liabilities	1,125.6	1,259.3	1,097.4	1,158.2
Short term interest-bearing liabilities	0.0	0.0	112.4	79.7
Short term liabilities	1,884.2	2,024.2	1,743.7	1,783.3
Total short term liabilities	1,884.2	2,024.2	1,856.1	1,862.9
Total liabilities	3,009.8	3,283.5	2,953.4	3,021.2
Total liabilities and equity	4,989.4	5,073.0	4,766.8	4,778.1

*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 1.1.2016	647.7	180.7	0.0	917.4	1,745.8	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	950.1	1,778.5	11.0	1,789.6
Total pr 1.1.2017	647.7	180.7	0.0	978.2	1,806.6	6.8	1,813.4
Comprehensive income for the period							
Net profit	0.0	0.0	0.0	205.5	205.5	0.3	205.8
Other comprehensive income							
Translation differences	0.0	0.0	0.0	23.2	23.2	-0.1	23.1
Other changes	0.0	0.0	0.0	-3.2	-3.2	3.0	-0.2
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	20.0	20.0	3.0	22.9
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	-62.2	-62.2	0.0	-62.2
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	-62.2	-62.2	0.0	-62.2
Total as at 30.09.2017	647.7	180.7	0.0	1,141.4	1,969.8	10.1	1,979.9

Consolidated statement of cash flow

Amounts in NOK million	Per 30.09.	
	2017	2016
CASH FLOW FROM OPERATIONAL ACTIVITIES:		
Net profit	205.8	181.0
<i>Adjustments to reconcile net profit with net cash flow from operations:</i>		
Depreciation	205.8	209.5
Impairment	17.3	0.0
Income from associated companies	0.0	0.0
Tax paid	-25.5	-15.6
Unpaid pension costs entered as costs and unreceived pension funds entered as income	3.1	6.8
Loss (profit) on sale of fixed assets	-13.9	-0.7
Net value change of financial instruments to fair value	-9.0	-10.5
Income tax	63.7	55.2
<i>Changes in operating assets and liabilities:</i>		
Changes in inventory	45.6	239.5
Changes in accounts receivable and other receivables	-129.4	-653.7
Changes in trade accounts payable	58.6	44.7
Changes in provisions and benefits to employees	66.1	43.1
Changes in short-term liabilities excluding borrowing	35.2	190.7
Cash flow from operational activities	523.3	290.1
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Investment in plant and equipment exc. acquisition	-236.8	-167.1
Net cash outlay on acquisition	0.0	0.0
Receipts from sale of fixed assets	14.2	1.0
Sale of other long-term investments	0.0	0.0
Acquisition of subsidiary, net of cash	5.0	0.0
Cash flow from investment activities	-217.6	-166.1
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	-112.4	-79.7
Purchase of non-controlling interests	0.0	0.0
Change in long term debt (borrowing facility)	-34.0	-10.5
Changes in other long-term liabilities	1.7	-0.4
Payment of dividend	-62.2	0.0
Cash flow from financial activities	-206.8	-90.6
Net increase (reduction) in liquid assets during year	98.9	33.3
Liquid assets start of period	6.6	3.6
Effect of exchange rate changes on liquid assets	0.0	0.0
Liquid assets end of period	105.5	37.0
Cash and cash equivalents		
Liquid assets	105.5	37.0
Unused drawing rights	1,029.9	770.0
Restricted bank deposits	0.0	0.0
Cash and cash equivalents	1,135.4	807.0

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 second quarter of 2017 ended 30 September 2017 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 2016 are available at www.moelven.com.

Note 2 – Statement of conformity

The consolidated financial statements for the second quarter of 2017 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 2016. The summary consolidated quarterly financial statements were approved by the Board on 25 October 2017.

Note 3 – Accounting policies

The accounting policies adopted in the quarterly financial statements are the same as those in the consolidated financial statements for 2016.

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 2016 and the principal sources of estimate uncertainty are the same when preparing these summary quarterly accounts as for the consolidated accounts for 2016.

Note 5 – Pensions and taxes

The income tax expense is determined in each quarter on the basis of the expected annual income tax expense.

Defined-benefit pension schemes are valued at present value of the future pension benefits that have been earned on the date of balance. Pension funds are valued at fair value.

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.

Note 7 – Fixed assets, intangible assets and goodwill

Fixed assets, intangible assets and goodwill

Amounts in NOK million

	Per 30.09.	
	2017	2016
Book value per 1.1	1,669.7	1,790.1
Acquisitions	236.8	167.1
Business combinations	0.0	0.0
Disposals	-2.1	-1.1
Depreciations	-205.8	-209.5
Impairment losses	-17.3	0.0
Transfers	8.1	0.0
Translation differences	21.9	-105.8
Book value per 30.06.	1,711.3	1,640.8

Note 8 - Financial instruments

Amounts in NOK million	Per Third quarter 2017			31.12.2016		
	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Currency derivatives	2.8	-2.1	0.7	5.6	-1.1	4.6
Interest rate derivatives	0.0	-71.7	-71.7	0.0	-82.6	-82.6
Power derivatives	5.3	0.0	5.3	3.4	0.0	3.4
Total	8.1	-73.8	-65.7	9.0	-83.7	-74.7

Amounts in NOK million	Per Third quarter 2016			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	-84.2	-78.8	4.5	-93.7	-89.2

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 2016 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	
	2017	2016
Timber	68.9	40.9
Wood	113.7	113.8
Building Systems	108.4	105.1
Other	-21.5	-23.5
Profit before tax in segments	269.5	236.2
<i>Eliminations</i>	<i>0.0</i>	<i>0.0</i>
Profit before tax in Group Accounts	269.5	236.2

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 4.3 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 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 organized 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 the Timber division 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 44 production companies in Norway and Sweden and has 3,531 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 (11.8 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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