Quality rooms

Quarterly report 4/2011

Moelven Limtre AS has supplied and fitted 565 cubic metres of laminated wood in Terningen Arena, Elverum. Architect: Willy Olsen of Anderssen + Fremming AS. Main contractor: Martin M. Bakken Photo: Ole Marius Elvestad.

Directors' report

NOK mill.	4th Quarter 2011	4th Quarter 2010	Total 2011	Total 2010
Operating revenues	2 011,5	1 885,2	8 059,9	7 184,5
Depreciation	59,6	55,4	225,9	212,1
Cost of goods sold	1 275,7	1 214,9	5 341,2	4 520,7
Operating expenses	678,2	650,1	2 479,9	2 208,6
Operating profit	**-2,0**	**-35,2**	**12,9**	**243,1**
Income from associates	-0,7	0,0	-0,7	-2,3
Financial instruments	-17,1	29,1	-60,1	32,7
Interest and other financial income	14,9	1,4	15,6	8,8
Interest and other financial expenses	-9,4	-15,2	-80,1	-52,4
Operating result before tax	**-14,3**	**-19,9**	**-112,4**	**229,9**
Estimated tax cost	1,3	-5,8	-30,8	61,4
Net profit	**-15,6**	**-14,1**	**-81,6**	**168,5**
Minority share	-1,0	-1,1	-2,6	-1,4
Majority share	-14,6	-13,0	-79,0	169,9
Earnings per share (in NOK)	-0,12	-0,11	-0,63	1,30

Balance sheet

NOK mill.	Change in 4th Quarter 2011	Change in 4th Quarter 2010	Per 31.12 2011	Per 31.12 2010
Intangible assets	2,6	2,1	58,1	54,8
Tangible assets	55,4	17,6	1 672,7	1 539,8
Financial assets	1,3	1,8	17,7	14,3
Total fixed assets	**59,3**	**21,5**	**1 748,5**	**1 608,9**
Stocks	77,8	103,7	1 343,9	1 309,6
Receivables	-142,1	-129,4	1 220,3	1 223,0
Deposits	-71,1	-19,5	13,2	26,2
Total current assets	**-135,4**	-45,2	**2 577,4**	**2 558,8**
Total assets	**-76,1**	**-23,7**	**4 325,9**	**4 167,7**
Share capital*	0,0	0,0	647,7	647,7
Other equity and capital	-51,6	-53,2	904,5	1 107,7
Total equity	**-51,6**	-53,2	**1 552,2**	**1 755,4**
Long-term liabilities	-86,2	-26,4	1 383,3	1 114,8
Current liabilities	61,7	55,9	1 390,4	1 297,5
Total liabilities	**-24,5**	29,5	**2 773,7**	**2 412,3**
Total equity and liabilities	**-76,1**	**-23,7**	**4 325,9**	**4 167,7**

*129.542.384 shares at NOK 5.-, adjusted to account for 1 100 own shares

Key figures

NOK mill.	4th Quarter 2011	4th Quarter 2010	Total 2011	Total 2010
Net operating margin / EBIT (in %)	-0,1 %	-1,9 %	0,2 %	3,4 %
Gross operating margin / EBITDA (in %)	2,9 %	1,1 %	3,0 %	6,3 %
Earings per share (in NOK)	-0,12	-0,11	-0,63	1,30
Cash flow from operations per share (in NOK)	1,19	-0,05	2,40	-0,94
* Equity ratio (in %)	-0,5 %	-1,0 %	35,9 %	42,1 %
Investments	110,3	71,5	386,6	258,4
Return on capital employed	-0,3 %	-5,3 %	0,5 %	10,2 %
* Capital employed	-173,2	-19,7	2 652,4	2 671,1
* Net interest bearing debt	-50,6	52,2	1 086,9	888,6
* Net working capital	-286,5	-78,5	1 730,9	1 771,5
* Number of employees	34	83	3 482	3 270
Sickness absence rate	5,1 %	5,6 %	5,2 %	5,5 %
Number of injuries with absence	16,6	16,6	16,4	19,3
Number of shareholders	956	961	956	961
Average number of shares	129,5	129,5	129,5	129,5

* Table for 3rd quarter shows changes compared to last quarter

Directors' report

- The operating income for the fourth quarter was NOK 2,011.5 million (NOK 1,885.2 million) and the operating result was negative at NOK -2.0 million (NOK -35.2 million).
- In total, operating income for the year amounted to NOK 8,059.9 million (NOK 7,184.5 million) with an operating result of NOK 12.9 million (NOK 243.1 million).
- Building Systems has seen good activity and a satisfactory result for the quarter in a challenging market.
- The Timber division has been affected by weak market activity and falling prices in the most important export markets due to the debt crisis in Europe.
- The building products division Wood has had normal activity for the season in Norway and Sweden, but falling activity in Denmark.
- With effect from 31/12/2011, the accounting principles for consolidated reports have been changed to IFRS. The accounting principles are described on www.moelven.com.
- Non-cash items relating to the assessment of the fair value of unrealised financial instruments for hedging currency, interest rate and electric power risk are included in the net financial items in the quarter at minus NOK 17.1 million (NOK plus 29.1 million)
  Accumulated investments for the year totalled NOK minus 60.1 million (NOK plus 32.7 million).

Highlights

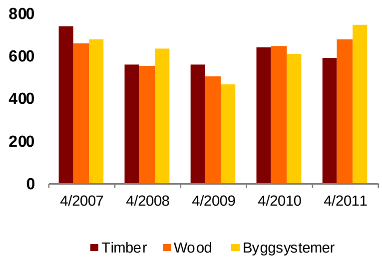
Demand for the group's products and services from theNorwegian and Swedish markets has been normal for the season.
In the group's most important international markets, the debt crisis in Europe has had a marked effect in keeping market activity at a low level. This has particularly affected the Timber division. The overall availability of industrial timber has been high, even though production was reduced somewhat towards the end of the year. This has had a negative effect on prices, which has not been accompanied by a comparable fall in raw material costs, which has led in turn to unusually low gross margins for several units. The gross margins, especially for the more export-oriented Swedish sawmills, have therefore fallen to unacceptable levels. Availability of raw materials has been satisfactory.
The building products division Wood is much less exposed than Timber to the European market for industrial timber and has seen satisfactory demand for the season, with the exception of the Danish market.
After a weak third quarter for profits, the Building System division had good activity this quarter and a satisfactory result. It is chiefly the Modular Buildings and Modular System Interiors activities that have contributed to the good results. Orders in hand have reduced somewhat since the end of the third quarter, which is the normal trend for the season.

After a construction period of just under a year, the bioenergy plant "Langmoen Energisentral" in Brumunddal opened in December. The new plant has been tailor made to be able to supply the food processing industry with pure process steam, but it will also supply Moelven Langmoen AS and other nearby industry with thermal energy. The plant has an output of 10 megawatts, plus a gas-fired back-up/peak load system of 14 megawatts.
Moelven Töreboda AB will supply a laminated wood bridge for heavy traffic over the Nissan at Gislaved. This will be the largest wooden arched bridge in Sweden, with a free span of 47 m, a width of 10.5 m and a laminated wood volume of about 420 m³ .

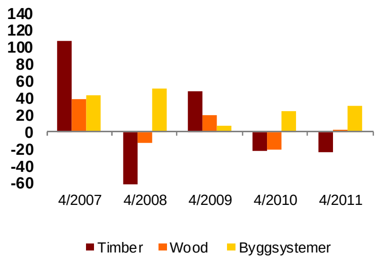
Operating revenues and results

Operating income and operating profit for the group in the fourth quarter were NOK 2,011.5 million (1,885.2 million) and NOK minus 2.0 million (minus 35.2 million) respectively.
Cumulative operating income amounted to NOK 8,059.9 million (NOK 7,184.5 million) with an operating profit of NOK 12.9 million (NOK 243.1 million). The accumulated operating profit for 2010 includes entry of reduced pension commitments of NOK 22 million as income.
The ordinary result before tax for the year as a whole was NOK minus 11 2.4 million (NOK plus 229.9 million).

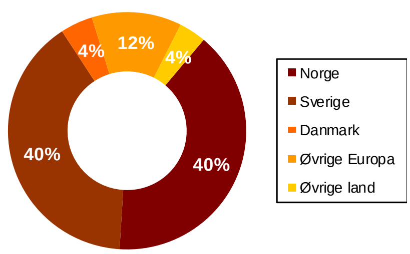
Operating revenues
NOK mill.



Operating profit
NOK mill.



Sales by market area 3 quarter



Financial costs increased considerably compared with last year. The main reason is the unrealised loss on financial hedging instruments that are used to hedge exchange rates, interest rates and electric power prices. Non-cash items connected to such hedging instruments amounted to NOK minus 17.1 million (plus 29.1 million) for the quarter and NOK minus 60.1 million (plus 32.7 million) cumulatively. Result after tax and minority interests was NOK minus 75.9 million (plus 169.9 million).

Investments, balance sheet and financing

Investments made in the fourth quarter total NOK 110.3 million (NOK 71.5 million). Accumulated investments totalled NOK 386.6 million(NOK 258.4 million). The business of the plywood manufacturer Vänerply AB and window component manufacturer H Profil AS were bought in the second and fourth quarter respectively. The remaining investment activity in 2011 is linked to upgrading and maintenance of existing operations.

The acquisition of the Vänerply AB business led to an increase in fixed assets of NOK 39 million. The acquisition of H Profil AS business in the fourth quarter led to a corresponding increase of NOK 33 million. The acquisition of Sør-Tre Bruk AS, Granvin Bruk AS and Eco Timber AS in 2010 involved a capitalisation of goodwill of NOK 13.3 million, an increase in other intangible assets of NOK 26.3 million and an increase in fixed assets of NOK 52 million.

At year end, the group's total assets were reported as NOK 4,328.9 million (NOK 4,167.7 million). The increase generated by completed acquisitions amounts to NOK 175.6 million (168.8 million). Otherwise the main reason for the increase is the transfer of the business of the partly-owned Weda Skog AB to Moelven Skog AB.

Cash flow from operating activities for Q4 was NOK 153.9 million (NOK minus 6,2million), corresponding to NOK 1,2 per share (Minus 0,05) In total, cash flow from operating activities was NOK 311,0 million (NOK minus 121,2 million), corresponding to NOK 2,40 per share (NOK minus 0,9). Cash flow from result items has gone down in 2011, while cash flow from working capital items contributed to an improvement in cash flow from operational activities compared with last year. It is also due to positive effects as a result of integration of the operations of Moelven Sør-Tre AS and Moelven Granvin Bruk AS, and a reduction of operating capital tied up in receivables, warehouse stocks and projects in hand for the group's other companies.

Net interest-bearing liabilities were NOK 1,086.9 million (888.6 million) at the end of the fourth quarter and the liquidity reserve was NOK 603.7 million (988.5 million). Financial leasing is included in net interest-bearing liabilities at NOK 54.1 million. An agreement was entered into in May for long term financing of NOK 300 million for five years in the form of a drawing facility similar to the existing NOK 1,050 million from 2010. The additional financing has been made with corresponding documentation and the same default clauses as the existing finance, but at a price that reflects the market prices at the start of the second quarter, which gives lower borrowing costs.

Equity at the end of the fourth quarter was NOK 1 552,2 million (NOK 1,755.4 million). This corresponds to NOK 11.98 (13.55) per share and an equity ratio of 35.9 per cent (42.1). Part of the group's equity is connected with ownership of foreign subsidiaries, mainly in Sweden, and is therefore exposed to fluctuations in the exchange rate. The extent and consequences of probably exchange rate fluctuations are within reasonable risk levels. In the fourth quarter of 2011, these exchange rate variations led to an unrealised increase in equity of NOK 15.5 million (minus 8.9 million). Cumulatively for 2011, there has been an unrealised reduction of NOK 0.5 million (increase of NOK 44.1 million).

Divisions

Timber

Operating income and operating profit for the Timber division in the fourth quarter were NOK 588.7 million (636.9 million) and NOK minus 23.6 million (minus 22.6 million) respectively. Cumulatively, operating income amounted to NOK 2,394.1 million (NOK 2,436.4 million) with an operating loss of NOK 52.4 million (NOK plus117.3 million). The accumulated operating profit for 2010 includes entry of reduced pension commitments of NOK 5 million as income.

The export markets are mainly served from the group's Swedish units. The debt crisis in Europe has meant that activity and demand in these markets have been lower than normal during the fourth quarter. This has led to falling prices for industrial timber, while at the same time the Euro has weakened, which has in turn weakened the competitiveness of manufacturers outside the Euro zone. Strong competition on the raw materials market in Sweden has slowed the reduction in raw material prices from their all-time high in the fourth quarter of 2010. The net result has been negative margins for some of the Swedish units.

It has not been possible to carry out efficiency measures to compensate for the reduced gross margins. As a result of this, the group's production of industrial timber in the fourth quarter was adjusted downward from the planned volume. Apart from some losses of efficiency as a result of the reduced volume, the fourth quarter has been a normal period operationally.

Demand in the Scandinavian market has been better than in the export markets. Because of their lower export volumes, the situation for the Norwegian units of the Timber division has been better overall than for the Swedish companies in the division.

The integration of the business of Moelven Profil AS is proceeding as planned.

Wood

Operating income for the Wood division in the fourth quarter was NOK 677.7 million (NOK 642.2 million) with a loss for Q4 of NOK 2.4 million (NOK 21.6 million). In total, operating income amounted to NOK 2,932.4 million (NOK 2,683.9 million) with an operating result of NOK 57.6 million (NOK 96.3 million). The accumulated operating profit for 2010 includes entry of reduced pension commitments of NOK 9 million as income.

The fourth quarter 2010 included costs of NOK 5 million for the demolition of an obsolete building.

Increased building activity compared with the previous year and a mild early winter period helped to reduce the seasonal reduction in market activity that normally occurs in November in Norway and Sweden. Demand has been particularly good for products with a high degree of finishing, such as surface-treated products.

Denmark has been greatly affected by the debt crisis in Europe, and during the quarter activity in the Danish market for building products fell even further from its already low level. Operations have been good for the division as a whole and have contributed to the improved results.

The new saw line at Moelven Granvin AS came onstream during the quarter. This investment will streamline operation

of the saw line and will enable Moelven Granvin AS to continue to process local raw material.
The newly-formed company Moelven Lovene AB started production of interior boards in its new factory during the fourth quarter. This production was previously handled by an external supplier. The new factory will enable better control of quality and facilitate product development.

Building Systems

Operating income and operating profit for the Building Systems division in the fourth quarter were NOK 743.9 million (605.6 million) and NOK 31.4 million (24.8 million) respectively. Cumulative operating income amounted to NOK 2,665.8 million (NOK 2,171.5 million) with an operating profit of NOK 50.8 million (NOK 92.1 million). The cumulative operating profit for 2011 includes losses of NOK 42 million on four major Electrical projects, which were in the third quarter entered. The accumulated operating profit for 2010 includes entry of reduced pension commitments of NOK 7 million as income.
Activity for the division as a whole has been good during the quarter, with an acceptable operating profit in current market conditions.

A mild start to the winter helped to maintain a good level of activity for laminated wood. Combined with better operations, this helped to improve results compared with the previous year.
In Electrical, the fourth quarter focused on stabilising activity at a satisfactory level from the point of view of scope and profitability.
Most of the improved results compared with the previous year came from building modules. There was activity on the Swedish market for both construction modules and public buildings in the health and care sector.
The modular building interior companies focused strongly on efficiency measures during a period of demanding market conditions. Activity has been better in the Swedish market, and also improved for the Norwegian operations towards the end of the year.

Other businesses

This area includes Moelven Industrier ASA, with the joint services innovation, finance, insurance, ICT, communications and HR. Timber supply and sales of chips and energy products are part of Moelven's industrial service activities through the companies Moelven Skog AB, Moelven Virke AS and Vänerbränsle AB.

Divisions		4th Quarter		Total	
	NOK mill.	2011	2010	2011	2010
Operating revenues					
Timber		**588,7**	**636,9**	**2 394,1**	**2 436,4**
Wood		**677,7**	**642,2**	**2 932,4**	**2 683,9**
Builiding systems		**743,9**	**605,6**	**2 665,8**	**2 171,5**
Laminated Timber		127,3	129,6	470,7	467,9
Electrical installations		125,7	126,3	497,4	412,2
Modular Builidings		336,7	207,9	1 138,8	740,4
Modular System Interiors		173,6	149,9	605,6	581,7
Others		**746,8**	**473,1**	**2 677,2**	**1 756,0**
Eliminations		**-745,6**	**-472,6**	**-2 609,6**	**-1 863,3**
The Group		**2 011,5**	**1 885,2**	**8 059,9**	**7 184,5**
Operating profit/loss					
Timber		**-23,6**	**-22,6**	**-52,4**	**94,7**
Wood		**2,4**	**-21,6**	**57,6**	**96,3**
Builiding systems		**31,4**	**24,8**	**50,8**	**92,1**
Laminated Timber		2,4	2,2	4,3	12,9
Electrical installations		-5,8	-3,0	-46,6	3,1
Modular Builidings		18,9	5,6	59,0	33,7
Modular System Interiors		15,7	20,0	34,0	42,5
Others		**-12,2**	**-15,8**	**-43,1**	**-40,0**
The Group		**-2,0**	**-35,2**	**12,9**	**243,1**
Operating margin					
Timber		**-4,0 %**	**-3,5 %**	**-2,2 %**	**3,9 %**
Wood		**0,4 %**	**-3,4 %**	**2,0 %**	**3,6 %**
Builiding systems		**4,2 %**	**4,1 %**	**1,9 %**	**4,2 %**
Laminated Timber		1,9 %	1,7 %	0,9 %	2,8 %
Electrical installations		-4,6 %	-2,4 %	-9,4 %	0,8 %
Modular Builidings		5,6 %	2,7 %	5,2 %	4,5 %
Modular System Interiors		9,0 %	13,3 %	5,6 %	7,3 %
Others		**-1,6 %**	**-3,3 %**	**-1,6 %**	**-2,3 %**
The Group		**-0,1 %**	**-1,9 %**	**0,2 %**	**3,4 %**

Divisions

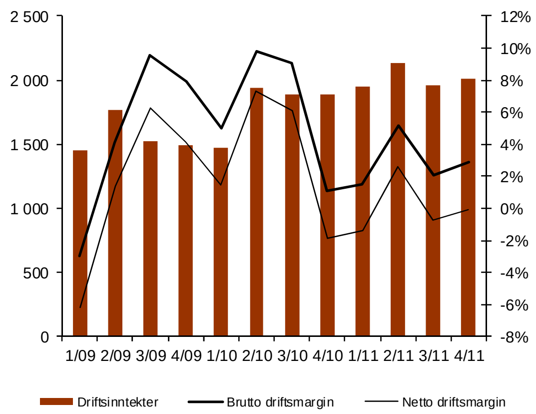
	4th Quarter		Total	
	2011	2010	2011	2010
Depreciation				
Timber	**23,3**	**21,9**	**90,3**	**85,9**
Wood	**24,6**	**22,5**	**89,6**	**83,5**
Builiding systems	**9,0**	**9,0**	**36,0**	**34,9**
Others	**3,0**	**1,9**	**10,0**	**7,9**
The Group	**59,9**	**55,3**	**225,9**	**212,2**
Operating profit before depreciation	0,0	0,0	0,0	0,0
Timber	**-0,3**	**-0,7**	**37,9**	**180,6**
Wood	**27,0**	**0,9**	**147,2**	**179,8**
Builiding systems	**40,4**	**33,8**	**86,8**	**127,0**
Others	**-9,2**	**-13,9**	**-33,1**	**-32,1**
The Group	**57,9**	**20,1**	**238,8**	**455,3**
Investments	0,0	0,0	0,0	0,0
Timber	**60,7**	**32,0**	**144,2**	**112,0**
Wood	**31,6**	**23,3**	**169,5**	**66,3**
Builiding systems	**16,7**	**13,9**	**38,1**	**58,9**
Others	**1,3**	**7,0**	**34,7**	**18,0**
The Group	**110,3**	**76,2**	**386,5**	**255,2**
Capital employed			0,0 %	0,0 %
Timber			**1 189,7**	**1 144,8**
Wood			**1 364,0**	**1 271,9**
Builiding systems			**522,1**	**629,1**
Others			**0,0**	**0,0**
The Group			**2 650,8**	**2 671,1**
Return on capital employed			0,0	0,0
Timber			**-4,3 %**	**9,1 %**
Wood			**4,5 %**	**8,5 %**
Builiding systems			**10,1 %**	**17,3 %**
The Group			**0,5 %**	**10,2 %**

Changes in total equity for the Group

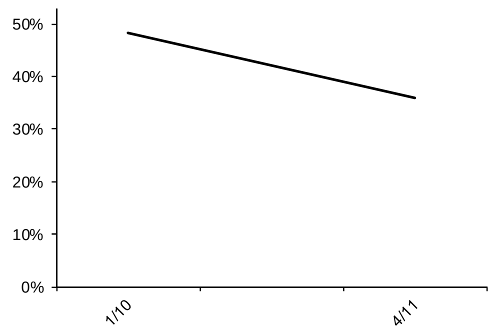
NOK mill.	Change in 4th Quarter		Per 31.12	
	2011	2010	2011	2010
Opening balance	**1 603,9**	**1 808,6**	**1 755,4**	**1 588,9**
Profit / Loss	-15,6	-14,1	-81,6	168,5
Other changes	-51,5	-30,2	-36,8	-25,4
Foreign currency translation	15,5	-8,9	-0,5	44,1
Paid dividends	0,0	0,0	-84,2	-20,7
Changes for year / period	-51,6	-53,2	-203,1	166,5
Total equity	**1 552,3**	**1 755,4**	**1 552,3**	**1 755,4**

Cash Flow Statement	Change in 4th Quarter		Total	
NOK mill.	2011	2010	2011	2010
Net cash flow from operations	153,9	-6,2	311,0	-121,2
Cash flow from operating result	31,8	-39,2	196,2	347,0
Cash flow from working capital	122,1	33,0	114,8	-468,2
Cash flow from / to investments	-106,5	-71,1	-380,5	-342,1
Cash flow from / to financing	-127,1	57,9	53,7	419,0
Net cash flow for the period	**-79,8**	**-19,5**	**-15,8**	**-44,3**
Liquid funds	-79,8	-19,5	10,4	26,2
Unutilised credit facilities	127,9	-86,3	593,3	555,2
Available liquid funds	**48,1**	**-105,8**	**603,7**	**581,4**

Revenues and margins



Equity ratio



Also included in this business area is Moelven Bioenergi AS, whose operations include the new bioenergy plant in Brumunddal. Increased activity at Moelven Skog AB explains the increase in operating revenues and number of employees compared with the same period last year. Operating revenues for this area in the fourth quarter were NOK 746.8 million (NOK 473.1 million) and the operating result was NOK minus 12.2 million (minus -15.8 million). Cumulatively, operating revenues amounted to NOK 2,677.2 million (NOK 1,756.0 million) and the operating result was NOK minus 43.1 million The cumulative operating profit for 2010 includes entry of reduced pension commitments of NOK 1 million as income.

Employees

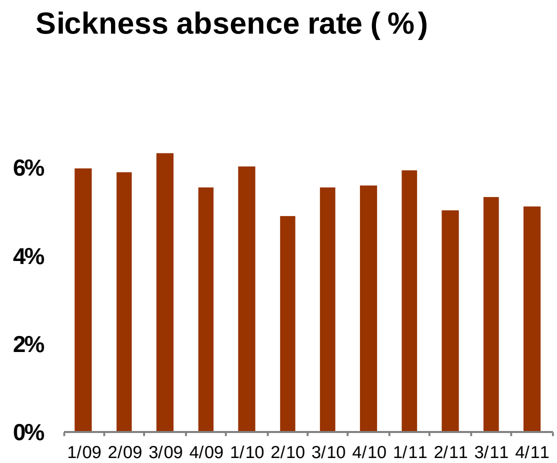
Total sick leave in the fourth quarter was 5.1 per cent (5.56). Cumulative sick leave for the year was 5.2 per cent (5.50), 2.46 per cent (2.52) of which is long term. Sick leave was thus reduced during the quarter and cumulatively is at a lower level than at the same time last year. Action is continually being taken to reduce the sick leave percentage, with a target of maximum 5 per cent. The H1 value (the number of personal injuries causing absence per million hours worked) is still at an unacceptably high level and a great deal of work is therefore going into reducing the injury frequency. The group's target is that the H1 value shall be lower than 10. Efforts are being directed at areas such as attitude-creation, investment in safer machinery and equipment, HSE training for managers and better safety rules and routines.
The number of personal injuries resulting in sick leave during the quarter was 25 (24) and 89 (98) for the year in total. This corresponds to an H1 value for the quarter of 16. 6 (16.6) and for the year as a whole 16.4 (19.3). At the end of the year, the group had a total of 3,482 (3,270) employees. In total, 1,790 (1,780) of these are employed within Norwegian companies, 1,635 (1,434) in Swedish companies, 42 (44) in Danish companies and 12 (12) in other countries. The employees comprise 407 (321) women and 3,075 (2,949) men.

International accounting standards

A decision had been taken earlier to change the group's accounting reports from NGAAP to IFRS. The accounts as at 31/12/2011 are the first after the introduction of IFRS. The note to the quarterly report shows the transition effect on the opening balance for 2010 and- on the results and balance sheet for 2010.

Sickness absence rate in %	Per 31.12 2011	Per 31.12 2010
Timber	4,09 %	4,25 %
Wood	5,20 %	5,31 %
Building Systems	5,95 %	6,38 %
Others	3,09 %	2,70 %
The Grouop	5,24 %	5,50 %

H1 Value	Per 31.12 2011	Per 31.12 2010
Timber	20,8	17,8
Wood	13,9	23,7
Building Systems	17,8	18,3
Others	0	0
The Grouop	16,4	19,3



Employees	Per 31.12.11				Per 31.12.10			
	Male	Female	% Female	Total	Male	Female	% Female	Total
Timber	600	92	15,3 %	692	574	69	12,0 %	643
Wood	936	178	19,0 %	1114	829	123	14,8 %	952
Building Systems	1435	107	7,5 %	1542	1445	97	6,7 %	1542
Others	104	30	28,8 %	134	101	32	31,7 %	133
The Grouop	3075	407	11,69 %	3482	2949	321	9,82 %	3270

Outlook

In spite of the unsatisfactory results for 2011, normal activity is planned for 2012. Prospects are mixed however, and there are therefore contingency plans for reorganisation and adapting capacity for all three divisions. The most internationally-oriented parts of the group, in particular the sawmills in the Timber division, have already had to adapt to lower demand and reduced prices during the second half of 2011. Streamlining and reorganisation measures have therefore already been introduced in some units. The further development of the debt crisis in Europe could have a major effect on demand. There is therefore considerable uncertainty relating to market development. For the Wood companies, activity in the Norwegian and Swedish markets is expected to remain at an acceptable level especially in the RME segment, which accounts for a great deal of turnover. The Danish part of the operation is greatly affected by the weak activity in Europe. Orders in hand for Buildings Systems will ensure good, normal activity in the first quarter. This division is mainly exposed to the building and construction market in Norway and Sweden. The board considers that the group has satisfactory solidity and sufficient long term liquid reserves to be able to perform the necessary operational reorganisation. Preparations have been made for a certain reduction of the investment level, which will be implemented during the course of 2012 if market conditions do not improve. In total, the Board of Directors expects the results in 2012 to be slightly better than those for 2011.

Reconciliation of transition effects to IFRS

These are the company's first consolidated accounts presented in accordance with international accounting standards (IFRS).The accounting principles described in note 3 have been applied in the preparation of the company's consolidated accounts for 2011, for comparable figures for 2010 and to prepare the IFRS opening balance as at 1 January 2010, which is the group's conversion date from Norwegian accounting principles (NGAAP) to IFRS. In connection with the preparation of the IFRS opening balance, the group has made some adjustments of accounting figures compared with what had earlier been reported in accordance with NGAAP. The effect of the transition from NGAAP to IFRS on the group's financial position, consolidated results and consolidated cash flow is explained in more detail in this note.

Balance sheet

		01.01.2010		
	NOK mill.	NGAAP	Effect of transition to IFRS	IFRS
ASSETS				
Deferred tax assets		7,3		7,3
Goodwill		0,0		0,0
Other intangible assets		6,0		6,0
Total intangible assets		**13,3**		**13,3**
Plots		67,7		67,7
Buildings and other property		312,7		312,7
Machinery and plant	D	912,9	57,2	970,1
Fixtures and fittings, tools, office machinery etc.		43,4		43,4
Total tangible fixed assets		**1 336,7**	**57,2**	**1 393,9**
Investments in associated companies		10,6		10,6
Investments in shares and units		1,0		1,0
Bonds and other receivables		0,2		0,2
Net pension funds	C	33,4	-33,4	0,0
Total financial fixed assets		**45,2**	**-33,4**	**11,8**
Total fixed assets		**1 395,2**	**23,8**	**1 419,0**
Goods inventory		898,6		898,6
Accounts receivable	B	732,5	40,6	773,1
Other receivables		143,1		143,1
Total receivables		**875,6**	**40,6**	**1 814,8**
Financial derivatives		10,3	-3,8	6,5
Bank deposits, cash etc.		70,5		70,5
Total current assets		**1 855,0**	**36,8**	**1 891,8**
Total assets		**3 250,2**	**60,6**	**3 310,8**
LIABILITIES AND EQUITY				
Share capital		647,7		647,7
Own shares		0,0		0,0
Share premium reserve		180,7		180,7
Retained earnings	A,C,E	784,0	-38,1	745,9
Total equity assigned to owners of parent company		**1 612,4**	**-38,1**	**1 574,3**
Non-controlled ownership interests		14,6		14,6
Total equity		**1 627,0**	**-38,1**	**1 588,9**
Pension commitments	C	109,4	41,9	151,3
Deferred tax	A,C	89,0	-22,9	66,1
Other provisions		18,0		18,0
Total provision for commitments		**216,4**	**19,0**	**235,4**
Liabilities to credit institutions		428,5		428,5
Other long term liabilities	D	11,3	57,2	68,5
Total long term liabilities		**439,8**	**57,2**	**497,0**
Liabilities to credit institutions		10,4		10,4
Financial derivatives	A	40,5	2,6	43,1
Liabilities to suppliers		350,6		350,6
Obligations re periodic tax		0,2		0,2
Payable public duties		142,1		142,1
Allocated dividend	E	20,7	-20,7	0,0
Other short term debt	B	402,5	40,6	443,1
Total short term liabilities		**967,0**	**22,5**	**989,5**
Total liabilities		**1 623,2**	**98,7**	**1 721,9**
Total equity and liabilities		**3 250,2**	**60,6**	**3 310,8**

Balance sheet

NOK mill.		31.12.2010 NGAAP	Effect of transition to IFRS	IFRS
ASSETS				
Deferred tax assets		9,6		9,6
Goodwill	F	29,5	-16,2	13,3
Other intangible assets	F	8,3	23,6	31,9
Total intangible assets		**47,4**	**7,4**	**54,8**
Plots		72,4		72,4
Buildings and other property		367,1		367,1
Machinery and plant	D	999,0	59,3	1 058,3
Fixtures and fittings, tools, office machinery etc.		42,0		42,0
Total tangible fixed assets		**1 480,5**	**59,3**	**1 539,8**
Investments in associated companies		13,2		13,2
Investments in shares and units		1,0		1,0
Bonds and other receivables		0,1		0,1
Net pension funds	C	29,6	-29,6	0,0
Total financial fixed assets		**43,9**	**-29,6**	**14,3**
Total fixed assets		**1 571,8**	**37,1**	**1 608,9**
Goods inventory	B	1 342,9	-33,3	1 309,6
Accounts receivable	B	917,3	114,6	1 031,9
Other receivables		168,0		168,0
Total receivables		**1 085,3**	**114,6**	**1 199,9**
Financial derivatives	A	10,6	12,5	23,1
Bank deposits, cash etc.		26,2		26,2
Total current assets		**2 465,0**	**93,8**	**2 558,8**
Total assets		**4 036,8**	**130,9**	**4 167,7**
LIABILITIES AND EQUITY				
Share capital		647,7		647,7
Own shares		0,0		0,0
Share premium reserve		180,7		180,7
Retained earnings	A,C,E,F	908,5	1,6	910,1
Total equity assigned to owners of parent company		**1 736,9**	**1,6**	**1 738,5**
Non-controlled ownership interests		16,9		16,9
Total equity		**1 753,8**	**1,6**	**1 755,4**
Pension commitments	C	85,6	84,1	169,7
Deferred tax	A,C,F	121,4	-26,1	95,3
Other provisions		13,8		13,8
Total provision for commitments		**220,8**	**58,0**	**278,8**
Liabilities to credit institutions		765,3		765,3
Other long term liabilities	D	11,2	59,3	70,5
Total long term liabilities		**776,5**	**59,3**	**835,8**
Liabilities to credit institutions		79,0		79,0
Financial derivatives	A	10,8	14,9	25,7
Liabilities to suppliers		482,1		482,1
Obligations re periodic tax		22,5		22,5
Payable public duties		149,5		149,5
Allocated dividend	E	84,2	-84,2	0,0
Other short term debt	B	457,6	81,3	538,9
Total short term liabilities		**1 285,7**	**12,0**	**1 297,7**
Total liabilities		**2 283,0**	**129,3**	**2 412,3**
Total equity and liabilities		**4 036,8**	**130,9**	**4 167,7**

Profit and Loss Account

	NOK mill.	2010 NGAAP	Effect of transition to IFRS	2010 IFRS
Sales income		7 155,8		7 155,8
Other operating income		28,7		28,7
Operating income		**7 184,5**		**7 184,5**
Product expenses		4 596,4		4 596,4
Changes in inventory goods under manufacture, finished goods and projects		-81,7		-81,7
Payroll costs	C	1 389,8	-11,4	1 378,4
Depreciation on tangible and intangible fixed assets	F	212,8	-0,7	212,1
Other operating costs	F	824,8	0,5	825,3
Operating costs		**6 942,1**	**-11,6**	**6 930,5**
Operating profit		**242,4**		**254,0**
Financial income	A	38,8	19,4	58,2
Financial costs	A	-52,1	-14,3	-66,4
Net financial items		**-13,3**	**5,1**	**-8,2**
Profit before tax		**229,1**		**245,8**
Tax costs		62,4	3,7	66,1
Annual profit		**166,7**	**13,0**	**179,7**

Composition of comprehensive income

Annual profit	NOK mill.	**166,7**	**13,0**	**179,7**
Other expenses and costs				
Translation differences		40,3	0,0	40,3
Actuarial gains (losses) on defined-benefit pension schemes		0,0	-49,8	-49,8
Tax on other income and expenses		0,0	13,9	13,9
Other income and expenses during the period (after tax)		**40,3**	**-35,9**	**4,4**
Comprehensive income for the period		**207,0**	**-22,9**	**184,1**

The group's report on changes in equity

	NOK mill.	01.01.2010	31.12.2010
Equity as previously reported under NGAAP		1 627,0	1 753,8
Inclusion of power derivatives	A	-6,9	12,5
Inclusion of interest rate derivatives	A	0,6	-13,7
Changes linked to pensions	C	-75,3	-113,7
Reversal of dividend on balance sheet date	E	20,7	84,2
Amended acquisition analysis and depreciation of acquisition	F	0,0	1,0
Total adjustments		**-60,9**	**-29,7**
Tax effect on adjustments	G	22,8	31,3
Total adjustment of equity		**-38,1**	**1,6**
Equity according to IFRS		**1 588,9**	**1 755,4**

Equity ratio	**01.01.2010**	**31.12.2010**
Equity ratio as previously reported under NGAAP	50,1 %	43,4 %
Equity ratio according to IFRS	48,0 %	42,1 %

Explanation of reconciliation of transition effects:

A) Financial instruments
According to IAS 39 "Financial Instruments – Recognition and measurement", all financial instruments shall be accounted for. A reassessment of previously entered financial instruments has been performed. The group uses three different types of financial instruments in the form of derivatives: exchange rate hedging derivatives, interest rate hedging derivatives and power hedging derivatives. Previously, only the exchange rate hedging derivatives and some of the interest rate hedging derivatives were entered in the consolidated accounts, in accordance with NGAAP. The group has also chosen not to use hedge accounting after the introduction of IFRS, while the group previously used hedge accounting under the NGAAP rules. With the transition to IFRS, the remaining interest rate hedging derivatives and the power hedging derivatives have been included in the accounts.

According to IAS 39, all derivatives shall be classified in the category at fair value through profit or loss.

Exchange rate derivatives:
In 2010, all exchange rate derivatives were entered in accordance with NGAAP at fair value on the balance sheet and with value changes from the profit and loss account and there are no transition effects.

Interest rate derivatives:
Moelven has hedged its external bank debt so as to achieve more predictable interest rate costs. In a period of falling interest rates, this has led to a loss on interest rate derivatives for the group. All interest rate derivatives falling due within the period of the loan were entered as hedges in accordance with NGAAP, while under IFRS the group does not use the hedge accounting rules. By including all interest rate derivatives and not using hedge accounting, there was a positive effect on the equity of NOK 0.4 million, an increase in deferred tax of NOK 0.2 million and a reduction in financial liabilities of NOK 0.6 million, as at 01/01/2010. The financial costs increased by NOK 14.3 million in 2010 and gave an increased financial liability of NOK 14.3 million as at 31/12/2010.

Power derivatives:
Moelven has entered into power hedging in both Sweden and Norway. According to NGAAP, these derivatives were defined as being outside the balance sheet requirements for 2010. With the transition to IAS 39 "Financial Instruments – Recognition and measurement", part of the power agreements shall be entered on the balance sheet at fair value, while part of the power contracts shall be outside the balance sheet. Financial liabilities increased by NOK 6.9 million as at 01/01/2010, which reduced equity by NOK 5.0 million. In 2010, Moelven had financial income of NOK 19.4 million on the value change, which also led to a reversal of financial liability of NOK 6.9 million and an financial asset increase of NOK 12.5 million as at 31/12/2010.

B) Projects
Moelven has decided that performed but non-invoiced projects shall be presented not together with inventory but together with accounts receivable. This gives a better presentation of reality. As at 01/01/2010, the group had no performed but non-invoiced projects. As at 31/12/2010, the performed but non-invoiced projects amounted to NOK 33.3 million, which has been moved from inventory to accounts receivable.

According to IAS 11 "Construction contracts", projects shall be presented gross on the balance sheet, while each individual project shall be presented net. On the transition to IFRS on 01/01/2010, this led to an increase in accounts receivable and short term liabilities of NOK 40.6 million, and as at 31/12/2010, an increase in accounts receivable and other short term liabilities of NOK 81.3 million.

C) Pensions
According to IFRS 1 "First-time Adoption of IFRS ", all cumulative actuarial gains and losses shall be recognised against equity on the transition to IFRS. This led to an increase of NOK 75.4 million in pension commitments, a reduction of NOK 54.2 million in equity and a reduction of NOK 21.1 million in deferred tax.

Moelven has chosen to enter all actuarial gains and losses that arise after the transition to IFRS against other income and expence, as they arise. Also, IAS 19 "Employee Benefits" does not permit the use of interest rates other than government bond rates for discounting down in Norway. These two effects led to a reduction of NOK 11.7 million in payroll costs in 2010 and as at 21/12/2010 a further increase in pension commitments of NOK 38.9 million, a reduction in equity of NOK 28 million and a reduction in deferred tax of NOK 10.9 million.

D) Leasing
Moelven's subsidiaries have leased fork lift trucks, timber lifters and some production equipment. This

was previously presented as operational leasing, but in the transition to IFRS it is presented as financial leasing. This means that fixed assets and obligations to the leasing company are included on the balance sheet. As at 01/01/2010, we have included fixed assets and leasing liabilities of NOK 57.2 million and as at 31/12/2010; we have included fixed assets and leasing liabilities of NOK 59.3 million.

E) Dividend

Under IFRS, a dividend is not an obligation until it has been adopted, that is to say on the date of the general meeting. Provision for dividend under NGAAP was NOK 20.7 million as at 01/01/2010 and NOK 84.2 million as at 31/12/2010. This dividend cannot be seen as a liability under IFRS on the balance sheet dates and has therefore been reversed by adding a corresponding amount to equity.

F) Acquisitions

Moelven acquired three companies in 2010, ref. note 8. The added value from these acquisitions was included as goodwill under NGAAP and depreciated over 10 years. Depreciation of goodwill is not permitted under IFRS.

After the transition to IFRS, the analyses of the acquisitions were performed once again and the following changes were made.

Depreciation of goodwill under NGAAP was NOK 3.3 million, while depreciation of the added value under IFRS is NOK 2.6 million. Transaction costs for the acquisition amounting to NOK 0.5 million were also entered in the profit or loss. As at 31/12/2010, goodwill has been reduced from NOK 29.5 million to NOK 13.3 million, other intangible assets has been increased by NOK 23.6 million, deferred tax has been increased by NOK 6.4 million and equity has been increased by NOK 1.0 million.

G) Tax effects

All the IFRS effects have arisen in Norway. The amounts that have been charged to equity have therefore been adjusted for 28% tax. All amounts have had a tax effect with the exception of reversal of deferred dividend.

H) Effects on the cash flow analysis

IFRS 1 requires an explanation of the effects the transition has had on the cash flow statement. The identified IFRS effects have had an insignificant effect on the classification in the cash flow statement. No reconciliation has therefore been made.

I) Exceptions utilised

The basis of IFRS is that all standards shall be used with full retrospective effect. IFRS 1 "First-time Adoption of IFRS» has some exceptions to the main rule. Moelven has utilised the following exceptions:

Acquisitions

IFRS 1 explains that acquisitions that were completed before the transition date (01/01/2010) do not need to be revised in accordance with IFRS 3 "Business Combinations". This exception means that we do not need to produce or recreate relevant data for earlier acquisitions so that these can be incorporated in accordance with IFRS 3.

Pensions

Moelven has made use of the opportunity given by IFRS 1 to zero all cumulative actuarial gains and losses in the opening balance on the transition date to IFRS (01/01/2010.

Currency translation differences

According to IFRS 1, when changing over to IFRS one can choose to either zero all accumulated translation differences or to continue accumulated translation differences. Moelven chose to zero the translation differences on the transition date (01/01/2010). This means that all translation differences that occur after this date are not covered by the zeroing. The zeroing means that the part of equity that is accumulated translation differences is transferred to retained earnings.

Estimates

Where estimates are used in determining the valuation of balance sheet items, these estimates shall not be revised, with the exception of those cases where it is obvious that the estimate was wrong. No estimates were changed as at either 01/01/2010 or 31/12/2010 as a result of the transition to IFRS.

Moelven is organised into three divisions: Timber, Wood and Building Systems. The sawmills of Timber supply sawn timber products to industrial customers in Scandinavia, the rest of Europe, Middle East, Asia and Africa.. These use the products as intermediate products in their own manufacturing. Shaving, chip and bark products are also supplied to the pulp, particle board and biofuel industries. The processing companies of Wood supply the building goods trade in Scandinavia with a wide range of building and interior products. An important competitive advantage for this division is its streamlined apparatus, which can offer customers rapid and exact deliveries of a wide product range. The companies of Building Systems provide flexible system solutions for interior walls, modular buildings, electrical installations and load-bearing structures in laminated wood to projects and contractors, mainly in Norway and Sweden. The division is putting in a strong effort to further develop concepts and systems along with customers and experts on architecture, design and construction. Altogether, the group consists of 50 operational units in Norway, Sweden and Denmark and has 3,482 employees. The Moelven group is owned by Glommen Skog BA (25.1 per cent), Eidsiva Vekst AS (23.8 per cent), Agri MI AS (15.8 per cent), Viken Skog BA (11.9 per cent), Mjøsen Skog BA (11.7 per cent), AT Skog BA (7.3 per cent) and Havass Skog BA (4.0 per cent). Most of the remaining 0.4 per cent is owned by private individuals.

Moelv, 25th January 2012
Board of Moelven Industrier ASA

Quality rooms

More information:
www.moelven.com