



Quarterly Report 3/2018

Valla Berså shows that it is possible to build sustainable timber houses with exciting architecture.

Moelven Wood Projekt AB has supplied cedar panel.

Architect: Åhlin & Ekeröth

Photo: Devis Bionaz

MOELVEN®

Amounts in NOK million	Third quarter		9 months		12 months	
	2018	2017	2018	2017	2017	2016
Operating revenues	2,494.0	2,440.6	8,267.3	8,059.5	10,768.4	10,309.7
EBITDA	204.1	126.3	653.8	518.9	716.1	601.6
Gross operating margin/EBITDA in per cent	8.2 %	5.2 %	7.9 %	6.4 %	6.6 %	5.8 %
Depreciation and impairment	74.5	88.1	215.3	223.2	295.7	306.6
Operating profit	129.6	38.2	438.5	295.7	420.4	295.0
Net operating margin/EBIT in per cent	5.2 %	1.6 %	5.3 %	3.7 %	3.9 %	2.9 %
Value change of financial instruments to fair value	15.1	9.9	65.1	9.0	-4.7	14.6
Profit before tax	134.7	46.6	441.4	269.5	373.6	252.5
Earnings per share	0.78	0.26	2.60	1.59	2.26	1.41
Cash flow from operational activities, in NOK per share	2.80	2.67	3.71	4.01	5.22	3.25
Equity *	110.4	14.8	2,253.4	1,979.6	2,092.5	1,813.4
Equity ratio (i %) *	3.0 %	3.5 %	42.4 %	39.7 %	41.5 %	38.0 %
Total assets *	-118.7	-438.9	5,314.3	4,989.4	5,044.6	4,766.8
Investments *	99.8	87.4	291.2	236.8	357.0	275.2
Return on capital employed in per cent, 12 month rolling *	2.9 %	-0.9 %	18.6 %	10.8 %	14.2 %	7.2 %
Capital employed *	-78.2	-255.5	3,023.2	2,862.2	2,884.4	2,846.9
Net interest bearing liabilities *	-279.4	-260.0	644.8	777.1	761.7	1,026.9
Operating working capital *	-181.0	-337.2	2,363.8	2,182.9	2,071.5	2,082.2
Total number of employees *	-32	-27	3,516	3,531	3,546	3,492
Sick leave percentage *	-0.2 %	0.0 %	5.5 %	5.6 %	5.6 %	5.6 %
Lost Time Injury Frequency rate, rolling LTI-rate *	-0.7	0.1	12.3	11.5	12.4	12.8
Number of shareholders	901	934	901	934	901	934
Average number of shares (mill)	129.5	129.5	129.5	129.5	129.5	129.5

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

- Operating revenues in the third quarter increased to NOK 2,494.0 million (2,440.6) and operating income increased to NOK 129.6 million (38.2)
- Costs related to structural measures are included in the operating income for the quarter with NOK 16.0 million in 2018 and 46.2 in 2017.
- Return on capital employed on a 12 month basis improved to 18.6 per cent (10.8)
- The Project for building a new bio-energy plant and a pellets factory at Sokna outside Hønefoss has started
- Good international demand for sawn timber products.
- Delivery volumes to the builders merchants trade in Scandinavia somewhat below normal
- Satisfactory activity level for Building Systems
- Preventive safety work further intensified

In brief

The Group's three divisions have had varied demand for their products and services in the third quarter. For the Timber division market activities and demand have been good, driven by a good level of activity in the world economy and broad interest in wood as a material. For the Wood division the warm and dry summer, as well as somewhat reduced building activity in Scandinavia, caused demand to drop somewhat compared to the same period in 2017. For the Building Systems companies the Swedish market has been characterised by slow economic development and tough competition, while the Norwegian market has a higher level of activity and infrastructure projects the contribute to overall demand to a greater degree. Overall, access to sawlogs was good in the quarter. However, great risk of forest fires in the first part of the quarter led to an increase in access to spruce rather than pine,

and resulted in a challenging supply situation in certain locations. With somewhat more precipitation as the quarter progressed, the risk of forest fires decreased and led to a normalisation of the supply situation. Sawlogs inventories at the end of the quarter were at a good level. Prices for both sawlogs and chip products were higher in the quarter than in the corresponding period of 2017.

Following a decision by the Group board in June 2018, the project to build a new pellet factory and a new bio-energy facility at Sokna near Hønefoss started up in the third quarter. The project is employing groundbreaking solutions, where energy and chip products from Moelven's sawmills in the region will be used for pellet production. Enova is supporting the bio-energy effort with NOK 66 million. The investment has an overall budget of NOK 270 mill. When the factory is ready in early 2020, it will provide 8-10 new jobs and result in a doubling of pellet production in Norway. The factory will be unique in that it is the first pellet factory in Norway that is fully integrated in a sawmill in terms of energy. A major proportion of the overall investment is a brand new bio-energy plant that will both supply Soknabruket and the pellet factory with energy. This means that the energy that otherwise would go to waste from production at Soknabruket is used in the production of white pellets. Estimates show that by doing this, one may reduce energy consumption in pellet production by up to 37 per cent. For Moelven it is important to manage the sawlogs optimally, and when almost half of the log is turned into fibre products, this is a very sustainable and profitable manner in which to exploit the residual raw material.

On 4 September 2018 the final glulam beam was hoisted into place in the world's tallest wooden building – Mjøstårnet in Brumunddal. The total height came to 85.4 metres. Mjøstårnet has attracted significant international attention, not only due to the record as the world's tallest wooden building, but also because of climate-smart construction methods. This does not only concern the use of sustainable wood materials produced from local raw materials. To Moelven a climate-smart construction method means both that the CO₂ burden is reduced through the use of wood as a building material, and that no more materials than necessary are used. The Trä8 system used in the slabs between the floors has been developed precisely with this in mind. Trä8 was developed by Moelven Töreboda AB and was introduced to the market in 2009. The elements used in Mjøstårnet have been produced by a local manufacturer. Mjøstårnet will open in the first quarter of 2019. Then the building's 18 floors will house offices, a hotel, a restaurant, apartments and an indoor swimming pool.

In September it was decided to close operations at Moelven Are AS in Spydeberg. The closure is a necessary measure to strengthen the Wood division's overall competitive ability, but does unfortunately mean that 21 employees lose their jobs. According to plan, the closure will be completed by the turn of the year. Moelven Are AS has acted as a distribution centre in the Wood division with the Oslo fjord region as its market. The company also has a planing mill and a painting and impregnating facility. Operations at Moelven Are AS will be transferred to other units in the Wood division, among them Moelven Langmoen AS. Moelven Langmoen AS is the division's main distribution centre, and has in recent years invested significantly in a new and modern distribution and logistics system.

On 4 September Moelven launched a new website for the Group. Moelven.com has a new and modern appearance that focuses on providing all of our target groups with clear and efficient information on what they are looking for.

In the beginning of September there was a discharge of paint to the Brumunda river from Moelven Langmoen AS in Brumunddal. In connection with hosing the floors in the surface treatment section, washing water mixed with primer residues ran into the river. The discharge happened through a pipe that had been cut in connection with the municipality's work on flood prevention in the area. No harm to the environment has been determined as a result of the discharge, but action has been taken to eliminate the possibility of similar incidents.

Operating revenues and results

Operating revenues in the quarter increased compared to the third quarter in 2017. The backdrop is increased finished goods prices for both sawn timber and processed wood products. Sawn timber is the main product of the Timber division, and increased prices are an important cause of improved revenue for both the Group and the division itself. Sawn timber is an important input for many of the companies in Wood and Building Systems, and price developments for sawn timber are thus also one of the causes for increased raw material costs in these divisions. Operating result for the third quarter 2018 has been charged with NOK 16.0 million as a result of the decision to close down operations at Moelven Are AS.

The operating result for the third quarter of 2017 includes a charge of NOK 46.2 million related to the closing of operations at the Timber company Moelven Norsälven AB, as well as a resolved dispute 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 27.2 million in the quarter (15.0) and NOK 69.0 million (25.7) year to date. The items do not have any impact on cash flow.

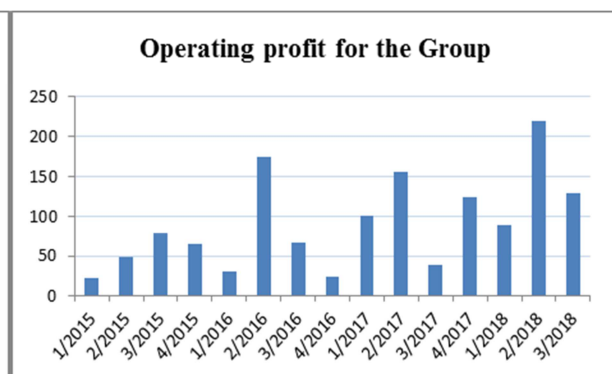
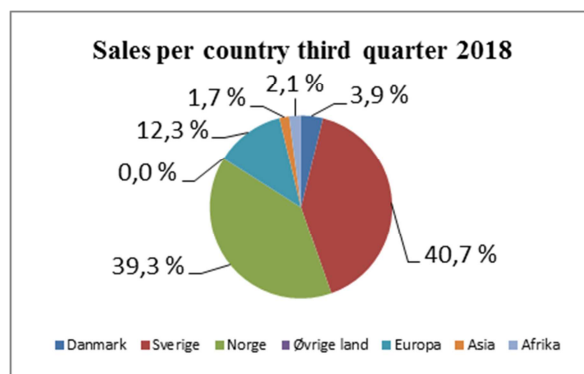
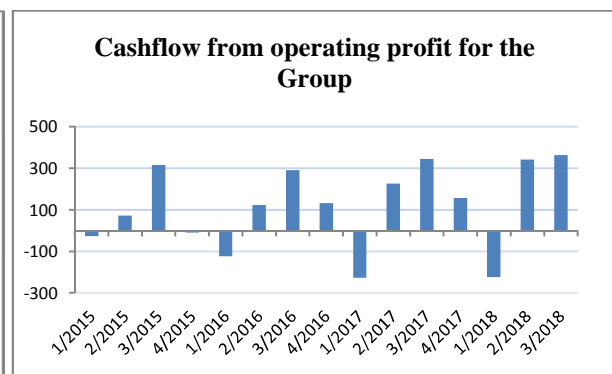
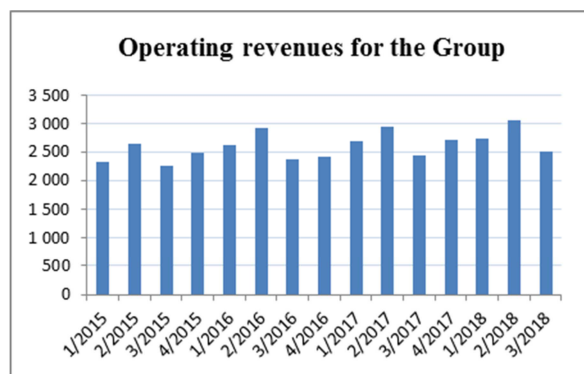
The Group employs financial instruments as a hedge against short-term fluctuations in foreign exchange rates, interest rates and power prices. Non-cash items related to fair value assessments on unrealised financial instruments totalled NOK 15.1 million (NOK 9.9 million) for the quarter and NOK 65.1 million (NOK 9.0 million) for the year. For the quarter the amounts include basis swap effects of NOK -3.1 million (7.5 million) and year to date NOK 23.3 mill (1.5 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.

The financial results for 2017 are positively impacted by NOK 9.6 million as a result of a reversal of previously allocated warranty costs.

Amounts in NOK million	Third quarter		9 months		12 months	
	2018	2017	2018	2017	2017	2016
Operating revenues						
Timber	692.6	666.5	2,405.0	2,293.9	3,118.2	3,020.6
Wood	999.0	971.8	3,035.6	2,964.1	3,805.6	3,529.9
Building Systems	797.2	794.8	2,807.1	2,824.7	3,856.4	3,616.8
Other businesses	755.9	719.8	2,605.8	2,554.1	3,414.6	3,388.9
<i>Internal</i>	-750.8	-712.3	-2,586.2	-2,577.3	-3,426.4	-3,246.5
The Group	2,494.0	2,440.6	8,267.3	8,059.5	10,768.4	10,309.7

EBITDA						
Timber	90.4	30.5	307.1	173.4	266.9	181.1
Wood	76.3	62.8	225.1	214.4	265.7	274.5
Building Systems	36.8	36.6	137.6	148.1	206.7	166.3
Other businesses	0.6	-3.6	-16.0	-17.1	-23.2	-20.3
The Group	204.1	126.3	653.8	518.9	716.1	601.6

Operating Profit						
Timber	66.5	-12.8	234.4	79.8	146.7	53.5
Wood	42.9	34.3	137.8	131.4	154.8	160.6
Building Systems	22.6	23.1	91.5	109.6	153.9	115.1
Other businesses	-2.4	-6.4	-25.3	-25.1	-34.9	-34.2
The Group	129.6	38.2	438.5	295.7	420.4	295.0



Investments, balance sheet and funding

Investments totalling NOK 99.8 million (NOK 87.4 million) were made during the third quarter, and NOK 291.2 million (NOK 236.8 million) year to date. The increase in the investment rate is taking place in accordance with investment programme in the Group's long-term strategy. Depreciations were NOK 74.5 million (NOK 88.1 million) in the quarter and NOK 215.3 million (NOK 223.2 million) year-to-date. For 2018, depreciations in the quarter include NOK 6.5 million related to the closure of Moelven Are AS in 2018. In 2017 NOK 17.4 million is included related to the closure of Moelven Norsälven AB. At the end of the third quarter, the book value of the Group's total assets was NOK 5,314.3 million (NOK 4,989.4 million).

Cash flow from operating activities in the third quarter was NOK 362.8 million (NOK 345.5 million), corresponding to

NOK 2.80 per share (NOK 2.67). Year to date, the cash flow from operating activities was NOK 480.4 million (NOK 520.0 million), which corresponds to NOK 3.71 per share (NOK 4.01). The change compared to last year is due to natural fluctuations in working capital items. Cash flow from working capital items was NOK 180.1 million in the third quarter (NOK 227.4 million) and NOK -70.2 million year to date (NOK 72.7 million).

Net interest-bearing liabilities were NOK 644.8 million (NOK 777.1 million) at the end of the third quarter. Financial leases are included in net interest-bearing liabilities in the amount of NOK 13.6 million (NOK 18.8 million). The liquidity reserve was NOK 1,235.0 million (NOK 1,135.4 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 2,253.4 million (NOK 1,979.6 million), equivalent to NOK 17.40 (NOK 15.28) per share. The equity ratio was 42.4 per cent (39.7 per cent). The dividend for the previous year of NOK 0,68 (0.48) per share, totalling NOK 88.1 million (62.2), 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 8.0 million (NOK -17.8 million). Year to date the change was NOK -90.0 million (23.2 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	
	2018	2017	2018	2017	2017	2016
Sales to external customers	546.0	539.1	1,954.9	1,828.2	2,499.5	2,410.6
Sales to internal customers	146.6	127.4	450.2	465.7	618.8	610.0
Operating revenues	692.6	666.5	2,405.0	2,293.9	3,118.2	3,020.6
Depreciation and impairment	23.9	43.3	72.7	93.6	120.3	127.6
Operating profit	66.5	-12.8	234.4	79.8	146.7	53.5
Operating margin in per cent *	-0.1 %	-2.2 %	9.7 %	3.5 %	4.7 %	1.8 %
Net operating capital (% of operating revenues) *	0.3 %	-0.1 %	16.8 %	16.9 %	17.5 %	16.3 %
Total assets *	88.2	-72.4	1,599.4	1,471.1	1,545.5	1,567.1
Equity *	78.0	-28.1	947.6	816.1	752.7	787.8
Capital employed *	55.5	-32.3	1,124.4	1,041.1	988.6	1,093.7
Return on capital employed in per cent, 12 month rolling*	7.4 %	-1.2 %	29.0 %	7.6 %	14.3 %	4.6 %
Investments *	43.8	28.8	85.8	71.7	99.2	64.2
Total number of employees *	1	6	623	657	650	674

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

Market activity and demand in the division's main markets remained good in the third quarter. Internationally, demand is seeing a positive impact from activity levels in the global economy in general. In addition to being a good building material that is in more and more demand, wood is also widely used for packaging. The good demand for all qualities and assortments, in combination with low inventories in the production stage, resulted in a further increase in prices for sawn timber. This is the main cause of the increase in operating revenues compared to the third quarter in 2017. The low finished goods inventories are also an important reason that delivery volumes were somewhat lower than in the same period last year. The figures for 2017 also include activities at Moelven Norsälven AB, where operations were discontinued at the end of the fourth quarter 2017.

Although both NOK and SEK have made gains with regard to the key export currencies EUR and GBP, exchange rate conditions are still making a positive contribution to competitive ability in the export markets.

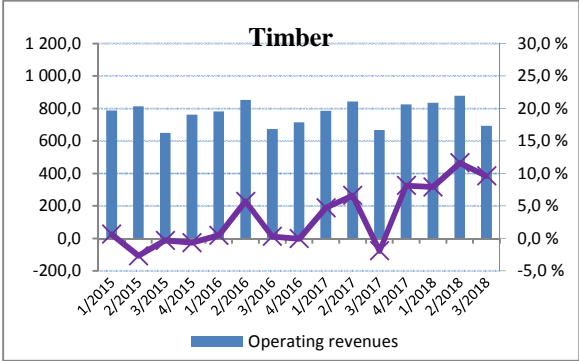
Operating conditions were good in the quarter, and in combination with internal improvement measures they contributed to an improvement in processing costs. For the division as a whole, market developments, currency conditions and the implementation of internal improvement measures are the main explanations for significant improvements in result and cash flow.

Due to price developments the profits for the third quarter have seen a positive effect of a price adjustment to inventories totalling NOK 4.9 million. The corresponding adjustment in the third quarter of 2017 was NOK 4.4 million. Year to date the price adjustments comprised NOK 12.1 million (NOK 8.0 million).

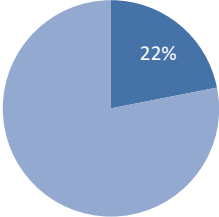
Overall, access to sawlogs has been good in the quarter. However, great risk of forest fires in the first part of the quarter led to an increase in access to spruce rather than pine, and resulted in a challenging supply situation in certain locations. With somewhat more precipitation as the quarter progressed, the risk of forest fires decreased and led to a normalisation of the supply situation. Sawlogs inventories at the end of the quarter were at a good level. Prices for both sawlogs and chip products were higher in the quarter than in the

corresponding period of 2017.

The result for the third quarter of 2017 includes impairments and cost provisions related to the closing of Moelven Norsälven AB totalling NOK 29.0 million.



Timber's share of the Groups sale to external customers



Wood

Amounts in NOK million	Third quarter		9 months		12 months	
	2018	2017	2018	2017	2017	2016
Sales to external customers	955.6	936.3	2,898.5	2,829.6	3,623.9	3,359.7
Sales to internal customers	43.5	35.5	137.1	134.5	181.7	170.2
Operating revenues	999.0	971.8	3,035.6	2,964.1	3,805.6	3,529.9
Depreciation and impairment	33.4	28.5	87.3	83.0	110.9	113.8
Operating profit	42.9	34.3	137.8	131.4	154.8	160.6
Operating margin in per cent *	-0.1 %	-0.4 %	4.5 %	4.4 %	4.1 %	4.5 %
Net operating capital (% of operating revenues) *	-5.1 %	-7.4 %	28.1 %	25.7 %	27.4 %	27.6 %
Total assets *	-49.3	-104.0	2,514.6	2,457.7	2,413.9	2,151.6
Equity *	47.1	15.9	1,112.0	1,086.9	1,033.4	932.0
Capital employed *	-57.8	-103.0	1,706.0	1,667.7	1,627.4	1,493.8
Return on capital employed in per cent, 12 month rolling*	0.5 %	-0.7 %	9.6 %	9.5 %	9.3 %	10.3 %
Investments *	32.7	18.4	126.7	62.7	119.9	114.7
Total number of employees *	-13	-4	1,101	1,065	1,079	1,039

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

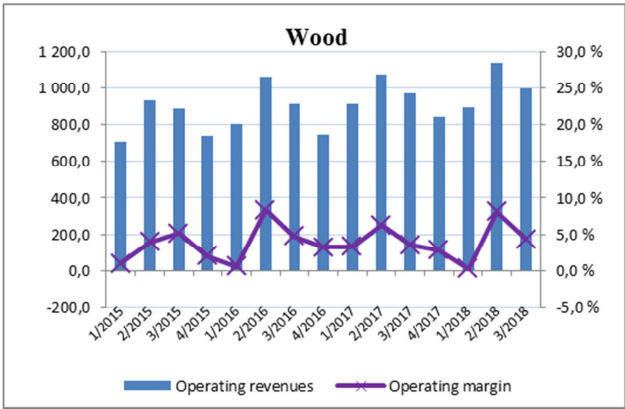
A very dry and warm summer reduced activity and demand for building materials in July. In August demand picked up in the normal fashion, but at the end of the quarter levels were still somewhat lower than for the corresponding period last year. Delivery volumes thus ended somewhat below the third quarter of 2017, but operating revenues were nevertheless higher due to higher prices. Year to date the delivery volumes at the end of the quarter were also somewhat lower than at the same time last year.

Operating conditions were good in the quarter, and in combination with internal improvement measures they contributed to an improvement in processing costs. The planing mills in the division use mainly sawn timber as raw material. Due to the price increase for sawn timber internationally, which has been greater and proceeded more rapidly than has been possible to compensate through increased market prices for processed goods, these units have higher pressure on their margins than the timber consuming units. The return on capital employed for the division as a whole remains below the target level, and all companies are facing demands for improvements and rationalisation. This work entails substantial investments at certain facilities, but also structural changes. In September it was decided to close operations at Moelven Are AS in Spydeberg before year-end. Unfortunately the decision means that 21 employees will lose their jobs, but it is a necessary measure to ensure Moelven's long-term competitiveness. Moelven Are AS has acted as a distribution centre in the Wood division with the Oslo fjord region as its market. The company also has a planing mill and a painting and impregnating facility. Operations at Moelven Are AS will be transferred to other units in the Wood division, among them Moelven Langmoen AS. Moelven Langmoen AS is the division's main distribution centre, and has made significant investments in the past year in a new and modern distribution and logistics system. In connection with the decision to close Moelven Are AS, operating income has been charged with a total of NOK 16.0 million.

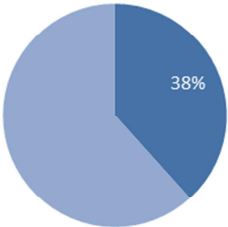
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supply situation. Sawlogs inventories at the end of the quarter were at a good level. Prices for both sawlogs and chip products were higher in the quarter than in the corresponding period of 2017.

Due to price developments the profits for the third quarter have seen a positive effect of a price adjustment to inventories totalling NOK 22.3 million. The corresponding adjustment in the third quarter of 2017 was NOK 9.4 million. Year to date the price adjustments comprised NOK 56.9 million (NOK 17.7 million).



Wood's share of the Groups sale to external customers



Building Systems

Amounts in NOK million	Third quarter		9 months		12 months	
	2018	2017	2018	2017	2017	2016
Sales to external customers	797.0	794.5	2,806.2	2,823.8	3,854.7	3,611.1
Sales to internal customers	0.2	0.3	0.9	0.9	1.7	5.7
Operating revenues	797.2	794.8	2,807.1	2,824.7	3,856.4	3,616.8
Depreciation and impairment	14.2	13.5	46.1	38.6	52.8	51.2
Operating profit	22.6	23.1	91.5	109.6	153.9	115.1
Operating margin in per cent *	-0.2 %	-0.4 %	3.3 %	3.9 %	4.0 %	3.2 %
Net operating capital (% of operating revenues) *	-0.8 %	-1.9 %	12.2 %	10.9 %	11.3 %	12.5 %
Total assets *	-24.8	-80.6	1,659.0	1,643.1	1,808.9	1,653.2
Equity *	27.4	14.8	848.5	810.5	798.0	692.2
Capital employed *	47.5	21.8	901.7	912.1	884.1	775.6
Return on capital employed in per cent, 12 month rolling*	0.0 %	-0.5 %	15.3 %	14.1 %	17.8 %	21.8 %
Investments *	22.0	35.2	69.1	88.7	118.9	84.5
Total number of employees *	-29	-23	1,649	1,679	1,687	1,647

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

For the division as a whole, at the end of the quarter the order backlog was NOK 427 million lower than at the same time last year, but still broadly based and at a satisfactory level. The main cause of the decline is a somewhat hesitant market situation in Sweden.

For Glulam operations demand remains good, largely driven by increasing focus on climate-smart solutions. In Norway there is also significant activity in infrastructure, which in turn results in good demand for glulam bridges. Contracts have been signed for several larger bridges that will ensure a good level of activity through the winter, which is a period ordinarily characterised by somewhat lower activity. In terms of results, business in both Norway and Sweden is characterised by increased raw material prices and cost overruns on individual projects. For business in Sweden, the competition situation is also somewhat more difficult than on the Norwegian side of the border, while challenges related to raw material supplies have additionally led to unsatisfactory utilisation of production capacity.

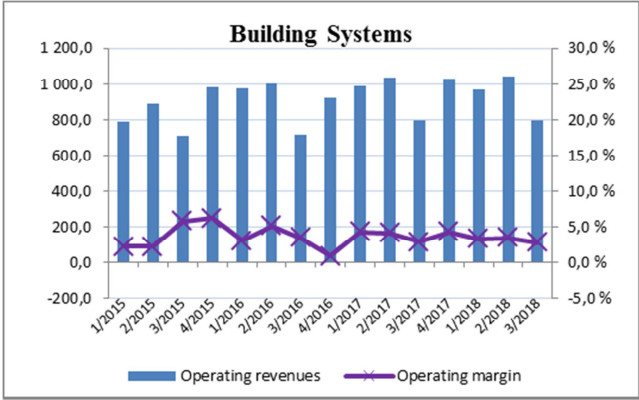
In the Modular Building business, overall activity levels remain good. A somewhat weaker cyclical situation in Sweden is partly compensated by increased interest in building with wood and modules. At the same time, for a period there have been some delays in several projects on the way to market, which combined have made it necessary to reduce capacity utilisation at the plants in Säffle and Sandsjöfors.

In the quarter some business activities have seen unsatisfactory results from ground works at building sites in Norway. This is work that is mainly carried out by subcontractors. An important focus area in the time ahead is therefore to improve expertise in this area, and measures have also been implemented to improve quality assurance of the entire process from planning to final inspection.

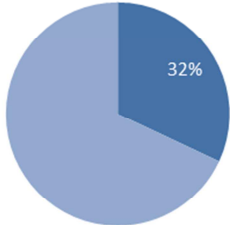
For the System Interiors business – Moelven Modus – demand remains good in the major cities in Norway and Sweden, as well as in southern Norway. Prices are however under pressure, particularly in Sweden where the market is characterised by a somewhat hesitant attitude. After several years of profitable growth, the business is focusing on developing expertise and consolidation of the organisation that has been built.

The division's results in HSE, and in particular the injury rate, has not been satisfactory.

Efforts in HSE work will therefore intensify further, which is also expected to have a positive impact on profitability in general.



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

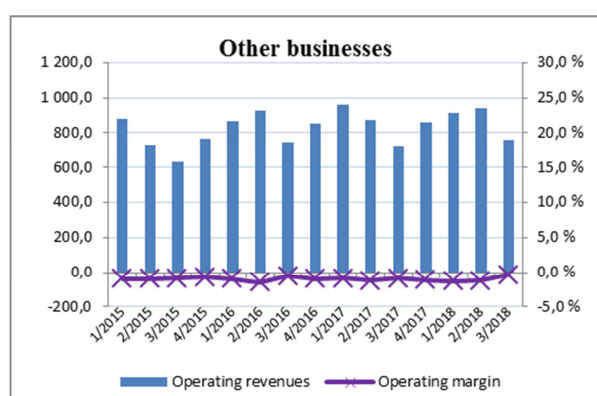


Other Businesses

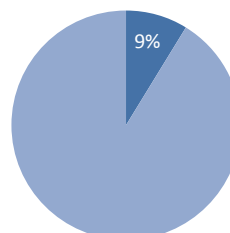
Amounts in NOK million	Third quarter		9 months		12 months	
	2018	2017	2018	2017	2017	2016
Sales to external customers	218.8	191.4	682.7	640.9	875.7	1,006.9
Sales to internal customers	537.0	528.4	1,923.0	1,913.1	2,538.9	2,382.0
Operating revenues	755.9	719.8	2,605.8	2,554.1	3,414.6	3,388.9
Depreciation and impairment	3.0	2.9	9.3	8.0	11.7	13.9
Operating profit	-2.4	-6.4	-25.3	-25.1	-34.9	-34.2
Operating margin in per cent *	0.3 %	0.0 %	-1.0 %	-1.0 %	-1.0 %	-1.0 %
Net operating capital (% of operating revenues) *	3.9 %	3.5 %	6.7 %	7.0 %	1.4 %	4.9 %
Total assets *	-75.8	-165.0	2,302.6	2,293.2	2,398.0	2,453.6
Equity *	-34.7	-3.0	968.8	933.8	1,198.0	1,044.8
Capital employed *	-137.7	-191.1	1,578.7	1,669.0	1,834.9	1,890.5
Return on capital employed in per cent, 12 month rolling*	0.2 %	-0.1 %	-0.4 %	-0.3 %	-0.4 %	-0.2 %
Investments *	1.3	5.0	9.6	13.7	19.1	11.8
Total number of employees *	9	-6	143	130	130	132

* 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. 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, Broberg Skogs AB, Moelven Virke AS, Vänerbränsle AB and Moelven Bioenergi AS. Moelven Pellets AS, which was established in June to manage construction and operation of the new pellet factory, is also included in the area, but as of yet with no result items of significance. Fluctuations in operating revenues in the area of Other Businesses are largely due to the level of activity within timber supply and sales of wood chips and energy products. These are mainly internal sales, which do not materially affect the results within the business area. In order to safeguard the supply of timber and market opportunities for wood chip and energy products in regions without local demand for pulp wood and wood chips, train solutions have been established for transport. The business is based on fixed agreements on both the customer and supplier sides.



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



Employees

Employees	Per third quarter 2018				Per third quarter 2017			
	Male	Female	% Female	Total	Male	Female	% Female	Total
Timber	554	69	11.1 %	623	587	70	10.7 %	657
Wood	924	177	16.1 %	1,101	900	165	15.5 %	1,065
Building Systems	1,537	112	6.8 %	1,649	1,559	120	7.1 %	1,679
Other businesses	109	34	23.8 %	143	97	33	25.4 %	130
Total number of employees	3,124	392	11.2 %	3,516	3,143	388	11.0 %	3,531

Sickness absence rate in %	Per third quarter	
	2018	2017
Timber	4.08 %	4.64 %
Wood	5.03 %	4.98 %
Building Systems	6.56 %	6.61 %
Other businesses	3.60 %	2.95 %
The Group	5.53 %	5.63 %

LTI Value	Per third quarter	
	2018	2017
Timber	9.3	12.6
Wood	9.9	7.2
Building Systems	16.0	14.6
Other businesses	0.0	3.8
The Group	12.3	11.5

Moelven's overall goal in safety work is that no one should be harmed at work. Although developments in injury rates still show a long-term falling trend, the result in the third quarter and so far in 2018 is unacceptably high. 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. In employee surveys conducted in 2017 it emerged that there is a need for even more explicit leadership in safety work. A new group level HSE manager took up position at the end of August and is busy with this important work.

There were 8 (12) personal injuries with subsequent sick leave during the quarter. So far this year there have been 50 lost time injuries (51). The LTI rate (number of personal injuries per million worked hours) calculated on a 12 month rolling basis, increased to 12.3 at the end of the third quarter in 2018, compared to 11.5 at the same time in 2017. Compared to the end of the second quarter of 2018, the LTI rate was reduced by 0.7. The group has decided to strengthen focus on injuries in general and is now setting target figures for the number of injuries with and without absence per million worked hours. This is being done to direct attention at preventive measures in order to avoid overall injuries. It is also essential that we focus more on how we work with undesired incidents, and good causal analyses and preventive measures will be given priority.

In the third quarter, absence due to illness was 5.0 per cent (5.6), where 2.6 per cent (1.7) represents long-term absence. Many of Moelven's businesses have sickness absence levels lower than the maximum target for 2018 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.

Outlook

Activity in the world economy remains high, but with a slight increase in uncertainty in connection with certain reasons. In Norway the mainland economy is at a normal level of activity. Activity in Sweden has declined somewhat, although the inflation rate was a positive surprise in September. The rest of Europe continues with a marginal positive growth rate. The Brexit negotiations continue to cause uncertainty about developments in the UK, but market activity is good. 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 nevertheless sees a positive effect from an improved global market balance. Growth in China is declining, while there are indications of higher activity in the rest of Asia. The Middle East and North Africa are important export markets for Moelven, but remain characterised by conditions that complicate international trade. However, the underlying demand is good in the latter markets. Positive and stable developments in the international market for industrial wood are expected.

In Norway demand for processed products is expected to remain on a par with 2017, 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. Activity in the renovation, conversion and extension market remains good. Increased interest for wood as a building material contributes to maintain activity levels. No major changes are expected in the markets, and the Swedish market is also expected to be at the same level as 2017 overall.

Sawlog inventories and access to sawlog at the start of the fourth quarter 2018 are acceptable with regard to the production plans available, and stable prices are expected for sawlogs and chip products.

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. For 2018 the board expects an activity level on a par with 2017 and an improved result from underlying operations. Return on employed capital, calculated on a 12 month rolling basis, was 18.6 per cent at the end of the third quarter. The group has a long-term goal of a return on capital employed of 13 per cent over an economic cycle. Although the result and return on capital employed are looking to be better than for 2017 and thus above the ROI target for the year as a whole in isolation, there is still potential for improvement. 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 strengthened profitability for 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.

Summary quarterly accounts for the Moelven Group for the third quarter 2018

Earnings and comprehensive income

Amounts in NOK million	Third quarter		9 months		12 months	
	2018	2017	2018	2017	2017	2016
Operating revenues	2,494.0	2,440.6	8,267.3	8,059.5	10,768.4	10,309.7
Cost of goods sold	1,578.3	1,608.7	5,165.4	5,168.5	6,799.2	6,552.5
Payroll expenses	453.4	455.5	1,601.2	1,569.5	2,153.3	2,113.2
Depreciation and impairment	74.5	88.1	215.3	223.2	295.7	306.6
Other operating expenses	258.2	250.2	846.9	802.7	1,099.8	1,042.5
Operating Profit	129.6	38.2	438.5	295.7	420.4	295.0
Income from associates	0.0	0.0	0.0	0.0	0.0	0.0
Value change of financial instruments to fair value	15.1	9.9	65.1	9.0	-4.7	14.6
Other financial income	9.3	7.7	21.7	13.8	16.2	32.4
Other financial expenses	19.2	9.2	83.9	49.0	58.3	89.4
Profit before tax	134.7	46.6	441.4	269.5	373.6	252.5
Estimate income tax	34.0	13.3	102.8	63.7	80.7	73.4
Net profit	100.7	33.3	338.6	205.8	293.0	179.1
Non-controlling interest share	0.3	0.3	1.5	0.3	-0.1	-4.1
Owner of parent company share	100.5	33.1	337.1	205.5	293.0	183.1
Earnings per share (in NOK)	0.8	0.3	2.6	1.6	2.3	1.4
Statement of comprehensive income						
Net profit	100.7	33.3	338.6	205.8	293.0	179.1
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	-1.8
Income tax on items that are not reclassified to profit or loss	0.0	0.0	0.0	1.0	-0.2	-0.5
	0.0	0.0	0.0	0.0	-0.7	-1.4
<i>Items that may be reclassified subsequently to profit or loss</i>						
Translation differences	8.0	31.3	-90.0	23.1	41.2	-67.3
Proportion of other income and costs in associated companies	0.0	0.0	0.0	0.0	0.2	0.1
Other changes	1.7	-0.5	0.4	-0.5	7.1	4.4
Income tax on items that may be reclassified to profit or loss	0.0	0.0	0.0	0.0	0.0	0.0
	9.7	30.8	-89.6	22.6	48.5	-62.8
<i>Items that may be reclassified subsequently to profit or loss</i>						
Other comprehensive income, net of tax	9.7	30.8	-89.7	22.6	47.8	64.2
Total comprehensive income for the period	110.4	64.1	249.0	228.4	340.8	243.2
Comprehensive income assigned to:						
Owners of parent company	110.2	63.9	247.4	228.1	340.8	247.3
Non-controlling interests	0.3	0.3	1.5	0.3	-0.1	-4.1

Consolidated balance sheet

Amounts in NOK million	Per 30.09		Per 31.12	
	2018	2017	2017	2016
Intangible assets	74.5	74.7	76.6	72.8
Tangible fixed assets	1,730.1	1,676.8	1,762.5	1,637.2
Financial fixed assets	7.4	8.2	7.9	8.7
Total fixed assets	1,812.1	1,759.7	1,847.1	1,718.7
Inventory	1,467.7	1,418.5	1,524.1	1,464.1
Contract assets	81.2	89.2	139.4	121.8
Receivables	1,784.0	1,608.3	1,493.6	1,446.7
Liquid assets	169.2	113.6	40.4	15.6
Total current assets	3,502.2	3,229.7	3,197.6	3,048.1
Total assets	5,314.3	4,989.4	5,044.6	4,766.8
Share capital*	647.7	647.7	647.7	647.7
Other equity	1,605.7	1,331.9	1,444.8	1,165.7
Total equity	2,253.4	1,979.6	2,092.5	1,813.4
Provisions	317.6	246.7	242.9	180.6
Long term interest-bearing liabilities	762.6	872.5	782.8	910.2
Long term interest-free liabilities	0.9	6.3	6.3	6.5
Total long term liabilities	1,081.0	1,125.6	1,031.9	1,097.4
Short term interest-bearing liabilities	0.0	0.0	0.0	112.4
Contract liabilities	108.9	173.6	167.7	165.8
Short term liabilities	1,871.0	1,710.7	1,752.5	1,577.9
Total short term liabilities	1,979.9	1,884.2	1,920.2	1,856.1
Total liabilities	3,060.9	3,009.8	2,952.1	2,953.4
Total liabilities and equity	5,314.3	4,989.4	5,044.6	4,766.8

*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 1.1.2017	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	23.1	23.1	0.0	23.1
Other changes	0.0	0.0	0.0	-3.5	-3.5	3.0	-0.5
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	19.6	19.6	3.0	22.6
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	1,141.1	1,969.5	10.1	1,979.6
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	-90.0	-90.0	0.0	-90.0
Other changes	0.0	0.0	0.0	0.4	0.4	0.0	0.4
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

Consolidated statement of cash flow

Amounts in NOK million

	Per 30.09.	
	2018	2017
CASH FLOW FROM OPERATIONAL ACTIVITIES:		
Net profit	338.6	205.8
<i>Adjustments to reconcile net profit with net cash flow from operations:</i>		
Depreciation	208.9	205.8
Impairment	6.4	17.3
Income from associated companies	0.0	0.0
Tax paid	-40.9	-25.5
Unpaid pension costs entered as costs and unreceived pension funds entered as income	0.6	3.1
Loss (profit) on sale of fixed assets	-0.6	-13.9
Net value change of financial instruments to fair value	-65.1	-9.0
Income tax	102.8	63.7
<i>Changes in operating assets and liabilities:</i>		
Changes in inventory	56.4	45.6
Changes in accounts receivable and other receivables	-232.7	-129.4
Changes in trade accounts payable	-23.6	58.6
Changes in provisions and benefits to employees	74.6	66.1
Changes in short-term liabilities excluding borrowing	55.1	31.8
Cash flow from operational activities	480.4	520.0
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Investment in plant and equipment exc. acquisition	-291.2	-236.8
Net cash outlay on acquisition	0.0	0.0
Receipts from sale of fixed assets	-0.1	14.2
Sale of other long-term investments	0.0	0.0
Acquisition of subsidiary, net of cash	0.0	5.0
Cash flow from investment activities	-291.3	-217.6
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	0.0	-112.4
Purchase of non-controlling interests	0.0	0.0
Change in long term debt (borrowing facility)	-13.3	-34.0
Changes in other long-term liabilities	-5.5	1.7
Payment of leases	-7.1	0.0
Payment of dividend	-88.1	-62.2
Cash flow from financial activities	-113.9	-206.8
Net increase (reduction) in liquid assets during year	75.3	95.5
Liquid assets start of period	30.2	6.6
Effect of exchange rate changes on liquid assets	0.0	0.0
Liquid assets end of period	105.5	102.2
Cash and cash equivalents		
Liquid assets	105.5	102.2
Unused drawing rights	1,129.5	1,033.2
Restricted bank deposits	0.0	0.0
Cash and cash equivalents	1,235.0	1,135.4

Notes to the summary consolidated quarterly financial statements

Note 1 – General information

Moelven Industrier ASA is a public limited liability company, registered in Norway. The company's head office is at Industriveien 2, 2390 Moelv, Norway. The summary consolidated financial statements for the third quarter of 2018 ended 30 September 2018 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 2017 are available at www.moelven.com.

Note 2 – Statement of conformity

The consolidated financial statements for the first quarter of 2018 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 2017. The summary consolidated quarterly financial statements were approved by the Board on 24 October 2018.

Note 3 – Accounting policies

The accounting policies adopted in the quarterly financial statements 2018 are the same as those in the consolidated financial statements for 2017, with the exception of principles relating to IFRS 9 and IFRS 15 implemented 1 January 2018. Changes in accounting policies resulting from IFRS 9 and IFRS 15 are presented in note 3 of the consolidated accounts. 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 2017 and the principal sources of estimate uncertainty are the same when preparing these summary quarterly accounts as for the consolidated accounts for 2017.

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

Amounts in NOK million	Per 30.09.	
	2018	2017
Book value per 1.1	1796.8	1669.7
Acquisitions	291.2	236.8
Business combinations	0.0	0.0
Disposals	0.6	-0.3
Depreciations	-208.8	-205.8
Impairment losses	-6.4	-17.3
Transfers	-36.2	6.3
Translation differences	-77.7	21.9
Book value per 31.03.	1,759.4	1,711.3

Note 8 - Financial instruments

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

Amounts in NOK million	Per 9 months 2017			31.12.2016		
	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	5.6	-1.1	4.5
Interest rate derivatives	0.0	-79.6	-79.6	0.0	-82.6	-82.6
Power derivatives	0.0	-1.4	-1.4	3.4	0.0	3.4
Total	5.4	-84.2	-78.8	9.0	-83.7	-74.8

Note 9 – Operating segments

The divisions are divided in accordance with Moelven's three core activities: Timber (industrial goods), Wood (building products) and Building Systems (projects). There is also a division named "Other" in which the remaining units are placed. The divisions are built up around independent subsidiaries with activities clearly defined within the divisions. All transactions between the divisions are conducted on normal commercial terms. The split into divisions differs from the formal legal ownership structure. See the consolidated financial statements for 2017 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	
	2018	2017
Timber	233.2	68.9
Wood	119.1	113.7
Building Systems	90.7	108.4
Other	-1.6	-21.5
Profit before tax in segments	441.4	269.5
<i>Eliminations</i>	<i>0.0</i>	<i>0.0</i>
Profit before tax in Group Accounts	441.4	269.5

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 43 per cent of Moelven's total purchasing requirement for timber of 4.3 million cubic meters 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 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 about 230 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 37 production companies in Norway and Sweden and has 3,516 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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