

# Interim report 2/97

*Report of the Board of Directors  
for the first eight months of 1997*

*Environment in practice.*

**MOELVEN**

<b>Profit and Loss Account</b>						
<b>Moelven Industrier ASA</b>				<b>Group</b>		
Total	1st eight months			1st eight months		Total
1996	1996	1997		1997	1996	1996
(Amount in NOK mill.)						
0.0	0.0	<b>0.0</b>	External turnover	<b>1,496.9</b>	1,284.4	2,152.1
18.6	11.9	<b>14.4</b>	Other operating revenues	<b>30.4</b>	36.6	44.1
18.6	11.9	<b>14.4</b>	Total operating revenues	<b>1,527.3</b>	1,321.0	2,196.2
22.6	15.5	<b>17.6</b>	Operating costs	<b>1,400.4</b>	1,255.5	2,062.8
3.7	2.2	<b>2.3</b>	Ordinary depreciation	<b>45.8</b>	44.3	71.4
26.3	17.7	<b>19.9</b>	Total operating costs	<b>1,446.2</b>	1,299.8	2,134.2
-7.7	-5.8	<b>-5.5</b>	Operating profit/loss	<b>81.1</b>	21.2	62.0
3.2	1.3	<b>-0.2</b>	Share of profit/loss in associated companies	<b>-1.2</b>	0.9	2.8
-3.5	-4.0	<b>-5.1</b>	Financial items	<b>-22.8</b>	-21.0	-35.6
-8.0	-8.5	<b>-10.8</b>	Pre-tax profit/loss	<b>57.1</b>	1.1	29.2
0.0	0.0	<b>0.0</b>	Taxes	<b>-6.0</b>	0.0	-0.5
-8.0	-8.5	<b>-10.8</b>	Net profit/loss	<b>51.1</b>	1.1	28.7

<b>Balance Sheet</b>						
31 Dec.	31 August			31 August		31 Dec.
1996	1996	1997		1997	1996	1996
23.3	32.0	<b>15.5</b>	Current assets	<b>615.7</b>	569.3	627.3
555.9	536.9	<b>381.4</b>	Financial investments	<b>109.9</b>	107.0	106.6
31.9	30.0	<b>32.4</b>	Fixed assets	<b>417.1</b>	402.5	397.5
611.1	598.9	<b>429.3</b>	Total assets	<b>1,142.7</b>	1,078.8	1,131.4
175.3	169.7	<b>19.7</b>	Current liabilities	<b>346.8</b>	344.2	409.3
116.0	159.4	<b>100.0</b>	Long-term liabilities	<b>450.3</b>	454.0	423.2
291.3	329.1	<b>119.7</b>	Total liabilities	<b>797.1</b>	798.2	832.5
352.7	352.7	<b>352.7</b>	Share capital (70,544,318 shares of NOK 5.00)	<b>352.7</b>	352.7	352.7
-32.9	-82.9	<b>-43.1</b>	Other share capital and reserves	<b>-7.1</b>	-72.1	-53.5
319.8	269.8	<b>309.6</b>	Total share capital and reserves	<b>345.6</b>	280.6	299.2
611.1	598.9	<b>429.3</b>	Total liabilities and share capital and reserves	<b>1,142.7</b>	1,078.8	1,131.7
-155.0	-150.0	<b>-110.0</b>	Net interest-bearing debt	<b>-425.0</b>	-490.0	-410.0

<b>Key Figures</b>			
	1st eight months		Total
	1997	1996	1996
Net operating margin (in %)	<b>5.3%</b>	1.6%	2.8%
Gross operating margin (in %)	<b>8.3%</b>	5.0%	6.1%
Return on equity (in %)	<b>12.6%</b>	5.1%	7.3%
Earnings per share (in NOK)	<b>0.72</b>	0.02	0.41
Investments in fixed assets (NOK mill.)	<b>64.0</b>	37.5	69.0
Equity ratio (in %)	<b>30.2%</b>	26.0%	26.4%
Total turnover outside Norway (NOK mill.)	<b>900.0</b>	770.0	1,295.0
Export from Norwegian companies (NOK mill.)	<b>180.0</b>	150.0	260.0
Number of employees	<b>1,646</b>	1,715	1,640
Number of shareholders	<b>3,964</b>	3,373	3,567

## Boards' report

### Operating revenues and profit/loss - The Group

The group's operating revenues for the first and second four-month periods of 1997 were NOK 1,527 million compared to NOK 1,321 million in 1996, an increase of 15 percent. The growth has mainly been in the Timber Industry division which has both increased its turnover and obtained better prices than last year. The other business areas have also increased turnover compared to last year.

The operating profit after depreciation was NOK 81 million against NOK 21 million in 1996. Ordinary depreciation for the first and second four-month periods together was NOK 46 million, as in 1996. This gives a positive cash flow of approx. NOK 120 million before investments and financial items. Net financial items were NOK 23 million and the profit before tax was

NOK 57 million. The profit before tax at the same time last year was NOK 1 million.

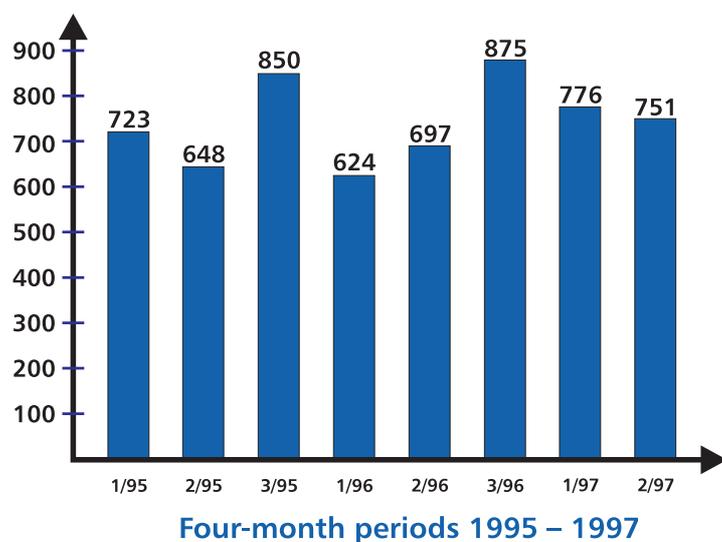
The group's tax position is such that the Norwegian and Danish companies will not have to pay tax in 1997. The Swedish companies have an estimated tax liability of NOK 6 million at the end of the second four-month period.

The group's operating profit at the end of the second four-month period corresponds to a net operating margin of 5.3 percent, in line with stated requirements and expectations. The profit at this point in the year is better than the group has had in any previous year. The development from 1996 and through the first and second four-month periods of 1997 has been positive for the majority of the group's subsidiaries.

The Group's business areas					
(Amount in NOK mill.)	2nd four-month period		1st eight months		Total
	1997	1996	1997	1996	1996
<b>Operating revenues</b>					
Timber Industry	393.8	329.9	825.0	665.7	1,076.8
Interior Layout	122.3	123.6	258.4	243.7	397.9
Laminated Timber	149.4	172.6	278.3	265.0	430.6
Construction and Contracting	100.6	98.4	197.3	191.5	342.7
Other, incl. the Parent Company	11.9	9.6	27.4	19.0	41.9
- internal operating revenues	-26.7	-37.1	-59.1	-63.9	-93.7
<b>Total - Group</b>	<b>751.3</b>	<b>697.0</b>	<b>1,527.3</b>	<b>1,321.0</b>	<b>2,196.2</b>
<b>Operating profit/loss</b>					
Timber Industry	27.4	-2.0	58.1	0.7	11.7
Interior Layout	8.9	5.8	17.9	9.5	25.0
Laminated Timber	1.3	11.0	1.5	7.5	15.6
Construction and Contracting	5.4	9.7	14.8	10.9	26.2
Other, incl. the Parent Company	-4.7	-1.3	-11.2	-7.4	-16.5
<b>Total - Group</b>	<b>38.3</b>	<b>23.2</b>	<b>81.1</b>	<b>21.2</b>	<b>62.0</b>
<b>Profit/loss after financial items</b>					
Timber Industry	23.7	-5.9	51.2	-6.2	0.7
Interior Layout	11.7	9.1	23.8	16.3	34.7
Laminated Timber	0.0	9.3	-1.0	5.8	12.0
Construction and Contracting	4.5	9.2	13.8	10.5	26.1
Other, incl. the Parent Company	-14.4	-11.0	-30.7	-25.3	-44.3
<b>Total - Group</b>	<b>25.5</b>	<b>10.7</b>	<b>57.1</b>	<b>1.1</b>	<b>29.2</b>

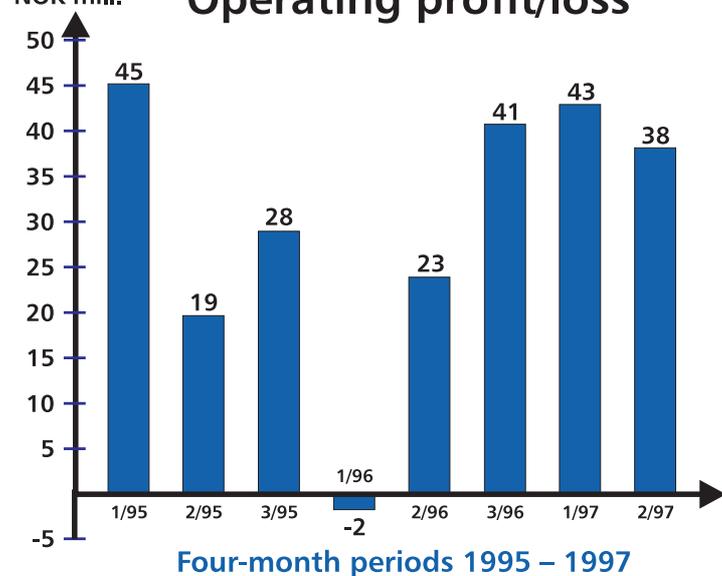
NOK mill.

## Operating revenues



NOK mill.

## Operating profit/loss



## Timber Industry

The Timber Industry division has greatly improved its results compared to the same period last year. Production capacity has been fully utilised except for some disturbances due to changes made to the production facilities at Moelven Dalaträ AB, and sales prices have been maintained at a satisfactory level to the end of August.

The supply of logs to all sawmills is satisfactory. Local suppliers in both Norway and Sweden have generally maintained good deliveries. In addition, approx. 150,000 m<sup>3</sup> of logs have been brought home from Russia, of which 100,000 m<sup>3</sup> have been sold.

There has been some change in the pricing pattern for the sale of the Timber Industry division's products on the international market this autumn. Demand in August was weaker than some of the larger actors had anticipated and large production volumes in Sweden and Finland have put pressure on the market. The prices realised for the third and fourth quarter on the most important European markets and in Japan are lower than the prices achieved in the first half of the year. Somewhat lower margins are therefore anticipated for the third four-month period than obtained up to the end of August.

The division's processing companies have had varying terms of trade. Three of the companies have had a normal rate of production and satisfactory profitability. One company which has a significant proportion of Japanese customers has slowed down. Timber Industry's operating profit to the end of the second four-month period was NOK 58 million, corresponding to a net operating margin of seven percent.

## Interior Layout

The Interior Layout division has continued the favourable profit trend from the previous year and the first four-month period of this year. Business in Norway has been good throughout the summer and in Sweden there has also been a cautious advance.

The Interior Layout division's total operating profit for the two four-month periods to date was NOK 18 million. The nature of the company's operations produces financial income as a result of the timing of invoicing in relation to the completion of projects. This has brought in a financial income of NOK 6 million in the period. Financial income is therefore treated as operating income and gives the group an overall profit of NOK 24 million.

Operating revenues in the period were NOK 258 million, on which the corresponding profit margin is 9.2 percent.

## Cash Flow Statement for the Group

(Amount in NOK mill.)	1st eight months		Total 1996
	1997	1996	
Net cash flow from operations	-21.0	-26.0	74.2
Cash flow from/to investments	-67.3	-68.3	-78.2
Cash flow from/to financing	22.7	11.2	-18.3
Net cash flow for the period	-65.6	-83.1	-22.3
Liquid funds	13.1	17.6	78.7
Unutilized drawing rights	110.0	150.0	180.0
Available liquid funds	123.1	167.6	258.7

## Laminated timber

The Laminated Timber division has not had satisfactory results so far this year. Operating revenue was NOK 278 million, at the same level as last year, without it being possible to take out satisfactory margins. The operating profit by the end of the second four-month period was NOK 1.5 million.

The result is characteristic of the way the laminated timber industry has developed in recent years with major expansion of capacity in Europe and bigger supply than demand. The result is also affected by the running-in of the new production line by the division's company in Norway, Moelven Limtre AS. The rate of production to date has been satisfactory and as expected, and the third four-month period will be better for the Norwegian company.

The divisions's Swedish subsidiary, Moelven Töreboda Limträ AB, has had satisfactory results so far this year. With a constrained market situation in Europe, Töreboda has sent large deliveries to Japan, and the temporary recession in the Japanese market will give Töreboda smaller margins for the rest of the year.

In Denmark the newly acquired company, Moelven Øresø Limtræ AS, still has a negative effect on the results, but for the two Danish companies together the development has been positive by comparison with the start of the year, and an increase in profitability is expected in the last four-month period.

In the short term the group is concentrating on improving competitiveness by implementing cost-saving measures and it will maintain its market share which is proportional to the company's production capacity.

## Construction and Contracting

In the Construction and Contracting business area, Moelven Hako AS and Moelven Engineering AS have had plenty of work during the year and the total operating revenues by the end of the second four-month period was NOK 197 million. The operating profit was NOK 15 million which corresponds to a net operating margin of nearly 8 percent. The companies' order book position is good and implies full employment to the end of 1997.

The construction of school pavilions for junior school reform has paid Moelven Hako AS well in the second four-month period. The company is now delivering schools for both permanent and temporary use and great importance is attached to developing a design which satisfies the highest demands for good indoor climate. The feedback from the market about these products is very positive.

The company Moelven Nor East AS (Russia) has been very busy in 1997 with the completion of the building expansion project at Luga, Russia, in September. The project is a good advertisement for the company's further work in Russia and has produced a good financial result. The company will also import nearly 250,000 m<sup>3</sup> of logs this year in co-operation with Nor East Timber AS.

## Other activities

The group's other activities, including common services and R&D activities, amount to a total net cost of approx. NOK 11 million by the end of the second four-month period, which is at the same rate as in 1996.

## Financial position

The group's net interest-bearing debt at the end of the second four-month period was NOK 425 million compared to NOK 490 million at the same time in 1996. The group's total assets was NOK 1,142 million. The fall in interest-bearing debt from NOK 515 million at the end of the first four-month period was due to somewhat lower working capital, a positive operational cash flow, and the sale of the Byggeland business.

The building materials store Byggeland which Moelven owned jointly with the Varner Group was sold to the Maxbo chain in August 1997. The immediate effect of the sale on liquidity is approx. NOK 50 million. The final assessment of the sale had not been undertaken by the end of the second four-month period and the profit on the sale has not been taken into the accounts.

The subsidiaries' stock of goods have, as expected, been gradually reduced through the summer and the stocks and receivables now correspond to approx. 25 percent of annual income. The group's share capital and reserves is now NOK 346 million which is equivalent to the group's share capital.

The equity capital ratio is 30.2 percent, an improvement from 26 percent at the end of the second four-month period in 1996.

Total investment in plant and equipment so far this year has been NOK 64 million. This includes the new production line at Moelven Limtre AS.

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## Outlook

The Norwegian home market has been strong and the outlook for the rest of the year is good. The Japanese market is very important for two of the group's companies. The situation here has not been satisfactory in 1997 and there will be a lower level of activity than the companies had anticipated. Demand is expected to remain stable in volume on the European market, but at a persistently lower price level for laminated timber and with some uncertainty for sawn timber. Market signals for the fourth quarter indicate a falling price curve. It will not be possible to maintain the margins the sawmills have had in the first half of the year, and great efforts are now being made to achieve some corresponding adjustment in raw material costs in the course of the last quarter.

In the longer term, supply and demand seem to be in balance on the international timber market. It should be possible to stabilise the short term disturbances, which are largely related to reduced construction activity in Japan and overproduction in Sweden and Finland, during the course of the first half of 1998. The strong activity in the American construction market draws off major exports from Canada which again reduces pressure on Japan.

Moelven's subsidiaries have good order books and the third four-month period will be satisfactory for all business areas. The companies will be in a strong competitive position at the beginning of 1998. The group's financial position is good.

*Moelv, 24 September 1997*

**The Board of Directors  
of Moelven Industrier ASA**