

# Interim report 2/99

*Report of the Board of Directors for  
the 2<sup>nd</sup> Quarter 1999*

| (Amount in NOK mill.)                        | <b>Profit and Loss Account</b>         |              | <b>The Group</b> |              |             |  |
|--|--|--------------|------------------|--------------|-------------|--|
|  | <b>1<sup>st</sup> six month period</b> |              | <b>Total</b>     |              |             |  |
|  | <b>1999</b>                            | <b>1998*</b> | <b>1997</b>      | <b>1998*</b> | <b>1997</b> |  |
| Operating revenues                           | 1,751.7                                | 1,402.6      | 1,207.2          | 3,027.3      | 2,377.5     |  |
| Depreciation                                 | 55.3                                   | 42.8         | 34.5             | 93.0         | 71.7        |  |
| Operating cost                               | 1,658.1                                | 1,333.9      | 1,099.9          | 2,881.6      | 2,180.4     |  |
| Operating profit/loss                        | 38.3                                   | 25.9         | 72.8             | 52.7         | 125.4       |  |
| Share of profit/loss in associated companies | 0.8                                    | 1.4          | 0.9              | 3.7          | 44.8        |  |
| Net financial items                          | -23.3                                  | -20.6        | -17.2            | -33.6        | -32.4       |  |
| Pre-tax profit/loss                          | 15.8                                   | 6.7          | 56.5             | 22.8         | 137.8       |  |
| Taxes  | 4.4                                    | 1.8          | 15.7             | 3.9          | 26.6        |  |
| Minority interests                           | 0.7                                    | 0.0          | 0.0              | 0.2          | 0.0         |  |
| Net profit/loss                              | 12.1                                   | 4.9          | 40.8             | 19.1         | 111.2       |  |

Comparative figures for 1998 and 1997 have been adjusted to account for transactions that would have influenced the profit and balance statement in relation to the new Accounting Law of 1999. Adjusted figures are preliminary and subject to a final audit in the course of 1999. The annual result for 1988 has been adjusted to account for exchange gains of NOK 6 million, which had not been posted at 31.12.98 in compliance with the earlier accounting law. Other changes in the size of the Group's figures are due to the inclusion in the balance of a deferred tax benefit of NOK 45 million at 31.12.98.

\*) Including Westwood AB (Group) and Notnäs AB from 1 May 1998.

**Pro-forma, as if Westwood AB (Group) and Notnäs AB had belonged to the Group in 1998 and 1997.**

|   |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| Operating revenues                                      | 1,752 | 1,717 | 1,702 | 3,341 | 3,389 |
| Depreciation (Depreciation of goodwill is not included) | 55    | 54    | 46    | 94    | 106   |
| Operating cost  | 1,659 | 1,664 | 1,590 | 3,221 | 3,163 |
| Operating profit/loss                                   | 38    | -1    | 66    | 26    | 120   |
| Net operating margin (in %)                             | 2.2%  | -0.1% | 3.9%  | 0.8%  | 3.5%  |
| Gross operating margin (in %)                           | 5.3%  | 3.1%  | 6.6%  | 3.6%  | 6.7%  |

| <b>Balance Sheet</b>                             | <b>30 June</b> |             | <b>31 Dec.</b> |             |             |
|--|----------------|-------------|----------------|-------------|-------------|
|  | <b>1999</b>    | <b>1998</b> | <b>1997</b>    | <b>1998</b> | <b>1997</b> |
| Intangible assets                                | 65.3           | 82.2        | 69.6           | 59.0        | 51.4        |
| Tangible assets                                  | 762.8          | 692.8       | 418.0          | 762.8       | 438.2       |
| Financial assets                                 | 122.7          | 106.7       | 97.7           | 110.3       | 92.1        |
| Fixed assets                                     | 950.8          | 881.7       | 585.3          | 932.1       | 581.7       |
| Stocks   | 609.8          | 542.0       | 378.8          | 501.3       | 361.7       |
| Receivables and deposits                         | 495.7          | 536.9       | 333.6          | 463.5       | 292.8       |
| Current assets                                   | 1,105.5        | 1,078.9     | 712.4          | 964.8       | 654.5       |
| Total assets                                     | 2,056.3        | 1,960.6     | 1,297.7        | 1,896.9     | 1,236.2     |
| Share capital (92.642.384 shares of NOK 5.00)    | 463.2          | 463.2       | 352.7          | 463.2       | 356.7       |
| Other equity and reserves                        | 195.7          | 120.4       | 54.8           | 166.6       | 82.2        |
| Total equity and reserves                        | 658.9          | 583.6       | 407.5          | 629.8       | 438.9       |
| Long-term liabilities                            | 823.2          | 690.3       | 420.3          | 739.4       | 441.3       |
| Current liabilities                              | 574.2          | 686.7       | 469.9          | 527.7       | 356.0       |
| Total liabilities                                | 1,397.4        | 1,377.0     | 890.2          | 1,267.1     | 797.3       |
| Total liabilities and share capital and reserves | 2,056.3        | 1,960.6     | 1,297.7        | 1,896.9     | 1,236.2     |
| Net interest bearing debt                        | 845            | 815         | 530            | 675         | 380         |
| Capital employed                                 | 1,504          | 1,399       | 937            | 1,305       | 819         |
| Working capital                                  | 739            | 683         | 478            | 547         | 404         |

| <b>Key Figures</b>   | <b>1<sup>st</sup> six month period</b> |              | <b>Total</b> |              |             |
|--|--|--------------|--------------|--------------|-------------|
|  | <b>1999</b>                            | <b>1998*</b> | <b>1997</b>  | <b>1998*</b> | <b>1997</b> |
| Net operating margin (in %)                                | 2.2%                                   | 1.8%         | 6.0%         | 1.7%         | 5.3%        |
| Gross operating margin (in %)                              | 5.3%                                   | 4.9%         | 8.9%         | 4.8%         | 8.3%        |
| Return on capital employed (in %)                          | 5.3%                                   | 4.4%         | 26.0%        | 5.0%         | 16.3%       |
| Earnings per share (in NOK)                                | 0.13                                   | 0.06         | 0.58         | 0.22         | 1.57        |
| Cash flow per share (in NOK)                               | 0.73                                   | 0.62         | 1.07         | 1.31         | 2.59        |
| Investments in fixed assets, excl. acquisition (NOK mill.) | 27                                     | 33           | 52           | 104          | 104         |
| Equity ratio (in %)  | 32.0%                                  | 29.8%        | 31.4%        | 33.2%        | 35.5%       |
| Total operating revenue outside Scandinavia (in %)         | 35%                                    | 25%          | 30%          | 32%          | 32%         |
| Number of employees  | 2,346                                  | 2,306        | 1,640        | 2,298        | 1,759       |
| Number of shareholders                                     | 4,434                                  | 4,650        | 3,950        | 4,548        | 4,065       |
| Average number of shares                                   | 92 642 384                             | 77 457 110   | 70 544 318   | 85 630 678   | 70 744 380  |

# Boards' report

## Report of the Board of Directors for 2<sup>nd</sup> Quarter 1999

### OPERATING REVENUES AND PROFIT – THE GROUP

In the first six months of the year, the companies in the Group's business areas Interior Layout and Construction & Contracting have performed well. The companies in the Group's business areas Sawmills, Timber Processing and Laminated Timber have also developed favourably as a result of a number of restructuring measures. The sawmill business, however, has been hard pressed the first six months of the year due to the small margins between finished product prices and raw material costs. Yet there were signs toward the end of the period indicating a likely improvement.

Operating revenue for the Group the first six months of the year was NOK 1751.7 million (1402.6). After allowing for depreciations of NOK 55.3 million (42.8), the Group had a profit of NOK 38.3 million (25.9). The net operating margin

was 2.2 per cent (1.8). Compared to the corresponding figures for the first six months of 1998 — which include the figures for the acquired companies Westwood and Notnäs — profits increased by NOK 39 million and the net operating margin improved by 2.3 per cent. Net financial items were negative at NOK -23.3 million (20.6) and the profit before extraordinary items was NOK 15.8 million (6.7). The yield per share for the first six months of the year was NOK 0.13 (0.06).

The Group's operating revenue for the second quarter totalled NOK 939.9 million, compared to NOK 826.3 million for the same period last year. This increase is due both to the acquisition of companies and growth in existing businesses. Operating profit amounted to NOK 20.4 million (19.9), and net financial items for the second quarter were negative at

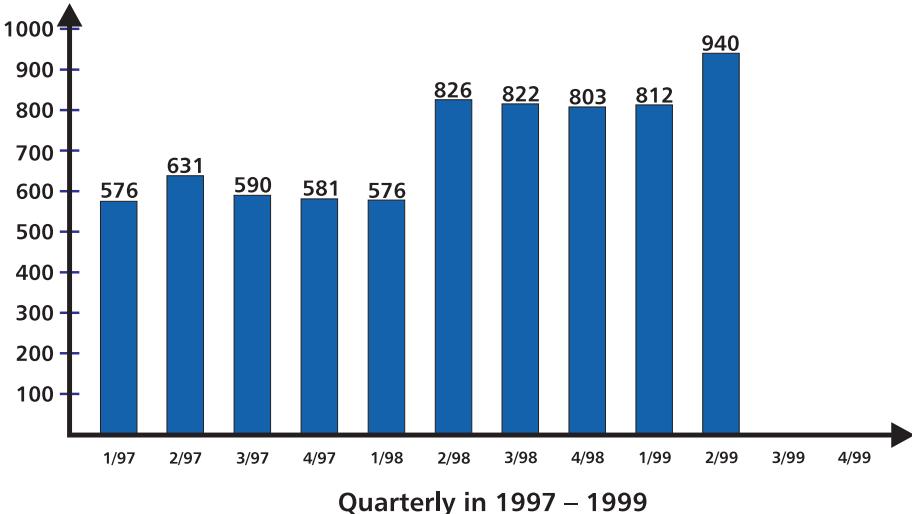
\*) Including Westwood AB (Group) and Notnäs AB from 1 May 1998.

| Group's business areas        |                         |       |       |                                  |         |         |                |         |
|-------------------------------|-------------------------|-------|-------|----------------------------------|---------|---------|----------------|---------|
| (Amount in NOK mill.)         | 2 <sup>nd</sup> Quarter |       |       | 1 <sup>st</sup> six month period |         |         | Total          |         |
| Operating revenues            | 1999                    | 1998* | 1997  | 1999                             | 1998*   | 1997    | 1998*          | 1997    |
| EuroTimber - sawmill          | <b>407.3</b>            | 330.5 | 280.5 | <b>808.9</b>                     | 551.0   | 532.5   | <b>1,309.0</b> | 1,043.3 |
| EuroWood - timber process.    | <b>166.9</b>            | 142.7 | 96.0  | <b>304.9</b>                     | 237.2   | 204.0   | <b>547.4</b>   | 347.1   |
| Interior Layout               | <b>127.4</b>            | 124.3 | 105.7 | <b>245.8</b>                     | 236.8   | 205.5   | <b>476.9</b>   | 417.7   |
| Laminated Timber              | <b>139.7</b>            | 121.3 | 119.5 | <b>241.1</b>                     | 204.3   | 212.8   | <b>434.6</b>   | 421.9   |
| Construct. and Contracting    | <b>126.4</b>            | 150.7 | 80.0  | <b>278.6</b>                     | 266.3   | 156.2   | <b>557.2</b>   | 343.5   |
| Other, incl. the Parent Comp. | <b>31.6</b>             | 22.0  | 9.5   | <b>47.1</b>                      | 32.7    | 21.0    | <b>79.2</b>    | 39.7    |
| - internal operating revenues | -59.4                   | -65.2 | -60.0 | -174.7                           | -125.7  | -124.8  | -377.0         | -235.7  |
| <b>Total - Group</b>          | <b>939.9</b>            | 826.3 | 631.2 | <b>1,751.7</b>                   | 1,402.6 | 1,207.2 | <b>3,027.3</b> | 2,377.5 |
| Operating profit/loss         |                         |       |       |                                  |         |         |                |         |
| EuroTimber - sawmill          | <b>0.5</b>              | -1.5  | 27.2  | <b>1.5</b>                       | 1.3     | 48.5    | <b>4.5</b>     | 66.4    |
| EuroWood - timber process.    | <b>4.0</b>              | 3.3   | 3.5   | <b>6.0</b>                       | 6.0     | 5.3     | <b>15.0</b>    | 11.4    |
| Interior Layout               | <b>8.7</b>              | 8.6   | 7.7   | <b>18.6</b>                      | 15.9    | 13.2    | <b>42.1</b>    | 37.2    |
| Laminated Timber              | <b>4.0</b>              | 2.7   | 1.2   | <b>2.7</b>                       | -3.3    | 1.3     | <b>-0.4</b>    | 5.3     |
| Construct. and Contracting    | <b>7.2</b>              | 5.6   | 5.3   | <b>21.1</b>                      | 12.2    | 13.6    | <b>19.2</b>    | 22.9    |
| Other, incl. the Parent Comp. | <b>-4.0</b>             | 1.2   | -2.5  | <b>-11.6</b>                     | -6.2    | -9.1    | <b>-27.7</b>   | -17.8   |
| <b>Total - Group</b>          | <b>20.4</b>             | 19.9  | 42.4  | <b>38.3</b>                      | 25.9    | 72.8    | <b>52.7</b>    | 125.4   |

| Pro-forma, as if Westwood AB (Group) and Notnäs AB had belonged to the Group in 1998 and 1997. |                         |      |      |                                  |       |       |              |       |
|--|-------------------------|------|------|----------------------------------|-------|-------|--------------|-------|
|  | 2 <sup>nd</sup> Quarter |      |      | 1 <sup>st</sup> six month period |       |       | Total        |       |
| Operating revenues   | 1999                    | 1998 | 1997 | 1999                             | 1998  | 1997  | 1998         | 1997  |
| EuroTimber - sawmill   | <b>407</b>              | 408  | 465  | <b>809</b>                       | 761   | 868   | <b>1,519</b> | 1,556 |
| EuroWood - timber process.   | <b>167</b>              | 191  | 194  | <b>305</b>                       | 342   | 367   | <b>652</b>   | 667   |
| Other business areas   | <b>366</b>              | 307  | 255  | <b>638</b>                       | 614   | 467   | <b>1,170</b> | 1,166 |
| <b>Total - Group</b>   | <b>940</b>              | 906  | 914  | <b>1,752</b>                     | 1,717 | 1,702 | <b>3,341</b> | 3,389 |
| Operating profit/loss (Depreciation of goodwill is not included)                               |                         |      |      |                                  |       |       |              |       |
| EuroTimber - sawmill   | <b>0.5</b>              | 0    | 20   | <b>1.5</b>                       | -17   | 40    | <b>-14</b>   | 60    |
| EuroWood - timber process.   | <b>4.0</b>              | 4    | 6    | <b>6.0</b>                       | 8     | 8     | <b>17</b>    | 12    |
| Other business areas   | <b>15.9</b>             | 8    | 12   | <b>30.8</b>                      | 8     | 19    | <b>23</b>    | 48    |
| <b>Total - Group</b>   | <b>20.4</b>             | 12   | 38   | <b>38.3</b>                      | -1    | 67    | <b>26</b>    | 120   |

NOK mill.

## Operating revenues



NOK -11.4 million (12.2), giving a profit before extraordinary items of NOK 9.6 million (6.2).

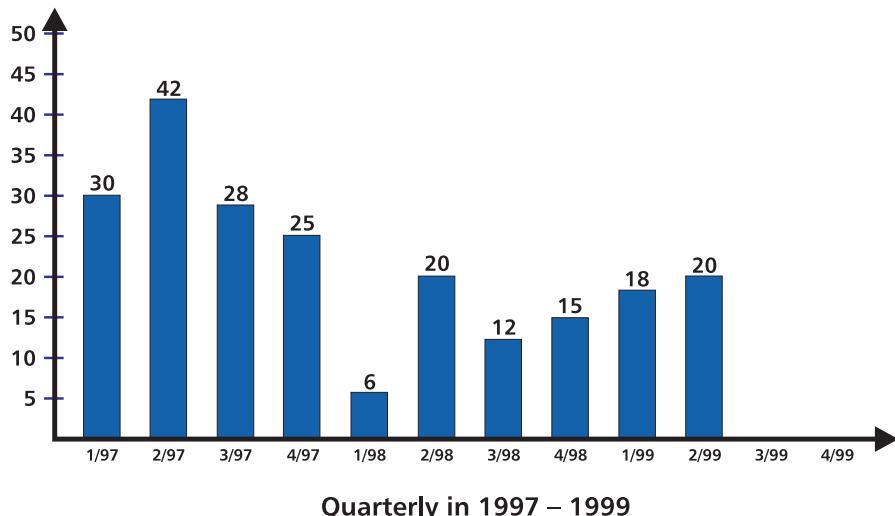
The amount of capital employed at the end of the second quarter was NOK 1504 million (1399) and the total capital was NOK 2056 million (1961). As much as NOK 60 million of the increase was a result of adjustments to new accounting procedures in relation to the new Accounting Law of 1999, while the rest was due to a somewhat larger inventory than usual for this time of year. The profitability on capital employed was 5.3 per cent (4.4).

Net interest bearing debt was NOK 845 million (815), and liquid reserves - including unutilised drawing rights - amounted to 273 million (171).

The Group's share capital and reserves was NOK 659 million (584), giving an equity ratio of 32.0 per cent (29.8). The amount of share capital and reserves per share was 7.11 (7.53). In the first six months, the cash flow totalled NOK 67.4 million (47.7), corresponding to NOK 0.73 per share (0.62). Investments in machinery amounted to NOK 27 million (33).

NOK mill.

## Operating profit/loss



## BUSINESS AREAS

### Sawmills - EuroTimber

Operating revenue for the second quarter was NOK 407.3 million (330.5), giving a profit of NOK 0.5 million (-1.5). The small profit is the result of the disproportionately low prices for finished goods compared to the high raw material costs of spruce and pine. Operating revenue for the first six months was NOK 808.9 million (551.0) and the operating profit was NOK 1.5 million (1.3). Compared with corresponding figures for the previous year – which include revenues from the acquired companies Westwood and Notnäs – operating revenue has increased by NOK 48 million and the operating profit has increased by NOK 19 million. The full integration of the acquired companies into the division is essentially completed, and this should lead to even further improvements with respect to the results in the course of the second half of the year.

### Timber Processing - EuroWood

Operating revenue for the second quarter was NOK 166.9 million (142.7)

## Cash Flow Statement for the Group

| (Amount in NOK mill.)         | 1 <sup>st</sup> six month period |       |       | Total         |        |
|-------------------------------|----------------------------------|-------|-------|---------------|--------|
|                               | 1999                             | 1998  | 1997  | 1998          | 1997   |
| Net cash flow from operations | <b>-104.8</b>                    | -69.7 | -71.3 | <b>78.8</b>   | 98.9   |
| Cash flow from/to investments | <b>-29.1</b>                     | -43.7 | -54.7 | <b>-105.1</b> | -110.7 |
| Cash flow from/to financing   | <b>114.3</b>                     | 111.8 | 57.0  | <b>49.9</b>   | -54.3  |
| Net cash flow for the period  | <b>-19.6</b>                     | -1.6  | -69.0 | <b>23.6</b>   | -66.1  |
| Liquid funds                  | <b>16.6</b>                      | 11.0  | 9.7   | <b>36.2</b>   | 12.6   |
| Unutilized drawing rights     | <b>256.0</b>                     | 160.0 | 130.0 | <b>345.0</b>  | 150.0  |
| Available liquid funds        | <b>272.6</b>                     | 171.0 | 139.7 | <b>381.2</b>  | 162.6  |

## Additional net investments as a result of acquisitions and sales:

|                            |      |       |   |       |      |
|----------------------------|------|-------|---|-------|------|
| Liquid funds               | 2.4  | 2.8   | - | 2.8   | 1.9  |
| Current assets             | 5.9  | 335.1 | - | 335.1 | 31.5 |
| Fixed assets               | 15.2 | 386.0 | - | 386.0 | 12.2 |
| Total assets               | 23.5 | 723.9 | - | 723.9 | 45.6 |
| Interest free debt         | 4.7  | 160.8 | - | 160.8 | 25.2 |
| Interest bearing debt      | 14.1 | 338.1 | - | 338.1 | 10.9 |
| Share capital and reserves | 4.7  | 225.0 | - | 225.0 | 9.5  |
| Total balance              | 23.5 | 723.9 | - | 723.9 | 45.6 |

1999: Acquisition of Splitkon AS and Agder Limtre AS and sale of Byggssystem AS.

1998: Acquisition of Westwood AB (Group) and Notnäs AB.

1997: Acquisition of Westwood Byggssystem AB and Byggssystem AS.

and the operating profit was NOK 4.0 million (3.3). Market demand in the Norwegian and Swedish markets was solid toward the end of the period, and there are signs of continued improvement for the Swedish companies and well as for the companies in the division working toward certain export markets. For the first half of the year operating revenue totalled NOK 304.9 million (237.2), while the operating profit amounted to NOK 6.0 million (6.0). The increase in operating revenues was primarily due to the acquisition of new companies. The comparative figures for the same period last year in which Westwood and Notnäs were included show operating revenues at NOK 342 million. The decrease in 1999 in relation to figures from the previous year is in large part due to the reorganisation of Moelven Trekomponenter AS.

## Interior Layout

Operating revenue for the second quarter was NOK 127.4 million (124.3). The demand in the Norwegian market for these products is somewhat weaker now than earlier, but still better than anticipated. The Swedish subsidiary Eurowand AB has shown a clear increase in activity. In general the increase in business activity in Sweden is expected to continue, and will possibly offset somewhat a weaker demand in Norway. Operating revenue for the second quarter was NOK 8.7 million 8.6. In all for the first six months of the year, operating revenue was NOK 245.8 million (236.8) and the operating profit was NOK 18.6 (15.9). Order reserves at the end of the second quarter were at about the same level as the year before.

## Laminated Timber

Operating revenue for the second quarter was NOK 139.7 million (121.3), and this figure includes 100% of the division's companies in Norway and Sweden and a 40% share of Limtre Danmark AS. Demand is solid, particularly in the Japanese, Swedish, German and Italian markets; however, the international price level for glulam is still quite low. Operating profit for the second quarter was NOK 4.0 million (2.7). Operating revenue for the Norwegian companies during the first six months was NOK 241.1 million (204.3) and the operating profit was NOK 2.7 million (-3.3).

## Construction & Contracting

Operating revenue for the second quarter was NOK 126.4 million (150.7). The decrease was due to the sale of the

module production unit at Hurdal, the restructuring of a production line at Moelven Hako AS and the decrease in activity at Moelven Hako Nord AS. Operating profit amounted to NOK 7.2 million (5.6), and the improved result was largely due to increased profits at Moelven Byggsystem AB in Säffle. For the first six months operating revenue was NOK 278.6 million (266) and the operating profit was NOK 21.1 million (12.2). Production facilities in both Norway and Sweden are very flexible and adaptable, and are well suited for deliveries to both markets. The companies are well positioned to meet a shift in demand from the Norwegian to the Swedish markets. The order situation at the end of the second quarter is satisfactory.

## Other operations

Included here is the Group's parent company as well as a number of smaller businesses, including R&D efforts. Moelven FireGuard AS and Moelven NorEast AS are the largest single companies. Operating revenue for the second quarter totalled NOK 31.6 million (22.0) and the operating profit was NOK -4.0 million (1.2). For the first half of the year, operating revenue amounted to 47.1 million (32.7) and the operating profit was NOK -11.6 million (-6.2).

## OUTLOOK

The Board expects better profitability for the Group as a whole in the second half of the year. Market conditions for the woodworking industry in general improved during the period, and the integration of the latest acquisitions is nearly complete. New price contracts for timber have been entered into for the Group's Swedish sawmills, and this will guarantee a 5-7 per cent decrease in their raw material costs.

The business areas Interior Layout, Construction & Contracting expect somewhat weaker demand in the Norwegian construction and contracting markets for the last quarter of 1999, but the expected growth in the Swedish market should offset this decrease.

As a result of natural seasonal variations, the working capital as well as total financial costs should decrease for the second half of the year.

The board anticipates that the annual results for 1999 will show an improvement compared to 1998.

Moelv, 19 August 1999

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