Press release

Significant effects from foreign exchange on earnings and debt

Norske Skog's gross operating earnings (EBITDA) in the third quarter of 2015 were NOK 163 million, up from 138 million in the second quarter. The EBITDA improved from second quarter due to foreign exchange effects but was somewhat offset by lower sales prices with challenging export markets in Australasia. The weakening of Norwegian krone was the main reason for the NOK 0.9 billion non-cash increase in the net interest bearing debt in the quarter.

The net loss of NOK 742 million in the third quarter of 2015 was significantly impacted by negative unrealised foreign exchange losses amounting to NOK 525 million on foreign denominated debt due to a significant depreciation of NOK. Net interest-bearing debt increased by NOK 0.9 billion from the end of second quarter 2015, from NOK 7.5 billion to NOK 8.4 billion, mainly due to unfavourable foreign exchange effects. Cash flow from operating activities before net financial items was NOK 2 million (NOK 89 million in Q2 2015). The working capital increased by NOK 134 million in the third quarter due to higher sales at Saugbrugs.

- We are satisfied with the cost development in Europe, but we are challenged by low export prices from Australasia. We meet the challenging market for publication paper by a cash driven commercial policy, and continued efforts to cut costs and improve productivity. We are also considering several options for the upcoming bond maturities, says Sven Ombudstvedt, President and CEO of Norske Skog.

Market and segments

Europe

Operating revenue increased slightly despite somewhat lower sales volume. The volume was down due to the deconsolidation of Walsum. A significant depreciation of NOK counterbalanced this volume effect. Underlying publication paper prices were relatively flat.

Gross operating earnings improved significantly quarter-over-quarter mainly due to lower costs, while there was a reduction in selling prices year-over-year due to depressed European price levels for newsprint and magazine paper.

Demand for newsprint and magazine paper in Europe decreased by 7% and 4% respectively through August of 2015, compared to the same period last year. Capacity utilisation improved to 82% in Q3 2015 from a historically low level in the previous quarter. One machine at Skogn remained out of operation throughout the quarter for commercial reasons.

Australasia

Operating revenue declined with more export sales at low prices, AUD depreciation and discontinuation of the two-year amortisation of the old contract break-fee compensation. The Asian newsprint price remained at historical low levels.

Variable costs increased somewhat with higher production, while fixed costs were slightly lower due to ongoing cost improvement programs. Gross operating earnings improved slightly year-over-year, but were markedly down quarter-over-quarter. Domestic demand for newsprint and the Asian price level are challenging.

Demand for newsprint in Australasia decreased by around 10% in the first eight months of the year compared to the same period last year, while demand for magazine paper was relatively stable. The capacity utilization was 92% compared to 89% in Q2 2015.

Active capacity management

Total annual production capacity for the group is 2.8 million tonnes. In Europe the group capacity is 2.1 million tonnes, while in Australasia the capacity is 0.7 million tonnes. Capacity utilization for the group in the third quarter was 85%, compared to 82% in the second quarter.

The market balance for newsprint and magazine paper in Europe has improved following capacity closures in the industry. This has led to improved LWC prices. The SC market has firmed up with higher operating rate in Europe. Newsprint prices are again down to cash cost, last seen in 2010, which tend to drive high cost capacity out of the market. Following the deconsolidation of Walsum and ongoing tissue conversion at Bruck, Norske Skog only has prime capacity left in the portfolio.

- We will continue to pursue an active capacity management policy to support cash generation and improved market balance, says Sven Ombudstvedt, President and CEO of Norske Skog.

Key figures, third quarter of 2015 (NOK million)

	Q3 2015	Q2 2015	Q3 2014	2014
Operating revenue	**2 779**	**2 786**	**3 057**	**12 150**
Gross operating earnings (EBITDA)	**163**	**138**	**208**	**801**
Gross operating margin (%)	5.9	5.0	6.8	6.6
Gross operating earnings after depreciation	**-27**	**-53**	**22**	**66**
Restructuring expenses	-2	-15	5	-4
Other gains and losses	43	-276	-33	39
Operating earnings	**13**	**-343**	**-6**	**102**
Share of profit in associated companies	-7	-9	0	1
Financial items	-782	-244	-138	-1 357
Income taxes	33	25	-124	-223
Loss for the period	**-742**	**-571**	**-267**	**-1 477**
Cash flow from operations before net financial items	**2**	**89**	**47**	**948**

Update on new growth opportunities

Biogas at Saugbrugs

The NOK 150 million biogas project at Saugbrugs is on schedule for completion at the year-end 2016. The biogas facility will be at full run-rate contribution to gross operating earnings in 2017. Norske Skog is currently considering replicating the project at its other mills.

Tissue production at Bruck

Norske Skog has formalized a joint venture structure with the Italian producer and tissue distributor Roto-cart for converting the newsprint site at Bruck in Austria to tissue production.

Outlook

The newsprint export business out of Australasia is an increasing challenge as the domestic market declines and the Asian prices remain historically low. Consumption of input factors are set to decrease with ongoing efficiency projects at all mills. Quarterly fixed costs should trend towards NOK 600 million in coming quarters.

The growth investments beyond paper, are on track and will contribute to gross operating earnings from 2016. Full run-rate potential will be achieved within a timeframe of 3-4 years.

The capital structure of the group was improved through enhanced liquidity, immediate de-leveraging and an extended maturity profile following the transactions completed in February 2015.

The challenging market environment for both price and volumes have reduced gross operating earnings and cash flows. The industry consensus is, however, for improved pricing for all grades into 2016. LWC prices have increased this autumn, and high operating rates across all graphic paper grades support higher prices into 2016 for all the company's product.

The leverage remains high and requires improved profitability and/or changes in the capital structure. The company has full focus on the improving profitability, cash flow as well as upcoming bond maturities in June 2016 and June 2017. The company is considering several options that addresses both the near term maturities and addressing the high financial leverage of the group.

Presentation and quarterly material

A recorded CEO presentation, the quarterly financial statements and the presentation package are available on www.norskeskog.com.

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