

Press release

Improved cash flow and operating conditions

Norske Skog's gross operating earnings (EBITDA) in the fourth quarter of 2015 were NOK 260 million, up from NOK 163 million in the third quarter. The EBITDA improved from the third quarter due to higher sales volume and lower costs. Higher sales and release of working capital in the quarter resulted in a cash flow of NOK 363 million from operating activities before financial items. The exchange offer launched on 5 January has been extended to 26 February 2016.

The net loss of NOK 304 million in the fourth quarter of 2015 was significantly impacted by negative non-cash, unrealised foreign exchange losses amounting to NOK 119 million on foreign denominated debt due to a depreciation of NOK. A total cash interest in excess of NOK 250 million were paid in the quarter. In addition, the last NOK 200 million of the USD 2015 bond was repaid. Net interest-bearing debt increased by NOK 0.1 billion in the quarter to NOK 8.5 billion due to unfavourable foreign exchange effects. Cash flow from operating activities before net financial items was NOK 363 million (NOK 2 million in Q3 2015). The working capital was seasonally reduced by NOK 170 million in the fourth quarter.

- We are satisfied with higher sales, the improved cost- and cash flow developments in the quarter, especially for the Norwegian units. The weakening of the Norwegian krone has improved the operations for the Norwegian units but has a negative effect on the net interest bearing debt, says Sven Ombudstvedt, President and CEO of Norske Skog.

Exchange and consent solicitation offer have been extended to February 26

Norske Skog has extended the exchange offer launched on 5 January 2016 to 26 February 2016. The exchange offer is to holders of the notes due in 2016 and 2017 into a mix of new unsecured notes, perpetual notes, qualified securitization financing notes (QSF) and equity rights.

The content of the exchange offer will remain unchanged. The reason for the extension is a court order of 2 February 2016 in New York State (USA) for a temporary restraining order (TRO) on the closing of the exchange offer until conclusive court hearings are made on 24 February 2016. The TRO was requested by Citibank on behalf of certain 2019 bond holders. A detailed stock exchange notice regarding the extended exchange offer was published yesterday.

- Norske Skog will defend its position vigorously, and we see no merit in the allegations made by the plaintiff in the court proceedings. Our exchange offer to bondholders will benefit all the company's stakeholders, said Mr. Sven Ombudstvedt, President and CEO of Norske Skog.

Market and segments

Europe

Operating revenue increased from the previous quarter with higher sales volumes. Publication paper prices were relatively flat in the two periods. Gross operating earnings improved quarter-over-quarter reflecting the higher volumes and an enhanced competitive position for the Norwegian mills as NOK depreciated.

Variable costs increased with the higher volumes, while fixed costs were up partly due to NOK depreciation. Demand for newsprint and magazine paper in Europe decreased by 6% and 5% respectively through November last year, compared to the same period the year before.

Australasia

Operating revenue increased from the previous quarter with a combination of somewhat favourable pricing, sales volume and NOK depreciation. Variable costs increased with higher volumes and NOK depreciation.

Fixed costs declined due to a reversal of environmental provisions, but were negatively impacted by NOK depreciation. Gross operating earnings improved quarter-over-quarter with favourable capacity utilization and the one-off cost reduction.

Demand for newsprint in Australasia decreased by around 9% in the first eleven months of the year compared to the same period last year, while demand for magazine paper was relatively stable.

Active capacity management

Total annual production capacity for the group is 2.7 million tonnes. In Europe the group capacity is 2.0 million tonnes, while in Australasia the capacity is 0.7 million tonnes. Capacity utilization for the group in the fourth quarter was 89%, compared to 85% in the third quarter.

The market balance for newsprint and magazine paper in Europe has improved, reinforced by newly announced capacity closures in the industry. Capacity utilisation in Europe improved seasonally to 86% in the period. Capacity utilisation in Australasia was seasonally high at 96% in the period compared to 92% in third quarter of 2015.

- We have been successful in pursuing an active capacity management policy to enhance cash generation and improved the market balance. After a temporary market curtailment, we restarted the third machine at Skogn to take advantage of a considerable cost advantage, derived from a weakened Norwegian krone, says Sven Ombudstvedt, President and CEO of Norske Skog.

Key figures, fourth quarter of 2015 (NOK million)

	Q4 2015	Q3 2015	Q4 2014	2015	2014
Operating revenue	3 087	2 779	3 208	11 538	12 150
Gross operating earnings (EBITDA)	260	163	190	753	801
Gross operating margin (%)	8.4	5.9	5.9	6.5	6.6
Gross operating earnings after depreciation	67	-27	2	-14	66
Restructuring expenses	-32	-2	-7	-53	-4
Other gains and losses	26	43	29	-86	39
Operating earnings	61	13	24	-153	102
Share of profit in associated companies	-18	-7	-4	-41	1
Financial items	-376	-782	-858	-801	-1 357
Income taxes	29	33	-178	40	-223
Loss for the period	-304	-742	-1 017	-955	-1 477
Cash flow from operations before net financial items	363	2	640	66	947

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 Skogn and Golbey.

Wood pellets in New Zealand

Nature's Flames pellets production has reached an annual capacity of 40 000 tonnes. Norske Skog considers to expand the production of pellets, given the considerable competitive export advantage. Pellets brings significant environmental benefits replacing fossil fuels.

Outlook

The market balance for newsprint and magazine paper in Europe improved during the autumn of last year with the effects from capacity closures in the industry. This has led to high operating rates into 2016 and improved pricing across all publication paper grades. The domestic prices in Australasia are stable, while Asian newsprint prices have increased somewhat.

Favourable energy costs for our European mills and efficiency measures at all mills are expected to reduce variable costs by 2-3% per ton in 2016. Fixed costs initiatives continue at all mills towards a run-rate group level of NOK 600 million per quarter by year-end 2016.

The growth initiatives announced last year will start to contribute to gross operating earnings this year, and is expected to reach full run-rate contribution within a timeframe of 3-4 years.

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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