Norske Skog

26 April 2017

Press release

Stable in Europe, weak in Australasia

Norske Skog's gross operating earnings (EBITDA) in the first quarter 2017 were NOK 158 million, a seasonal decrease from 221 million in the fourth quarter 2016. The European units contributed to gross operating earnings as expected; whereas, the Australasian units had lower than expected gross operating earnings due to more low-margin export sales to Asia and production problems at the Boyer mill.

Operating earnings in the first quarter was NOK 2 million compared to negative operating earnings of NOK 73 million in the fourth quarter of 2016. Net loss in the first quarter was NOK 274 million compared with a net loss of NOK 124 million in the fourth quarter 2016. Cash flow from operating activities before net financial items seasonally decreased from NOK 232 million in Q4 2016 to NOK 175 million in Q1 2017. Despite a higher production volume than sales volume, working capital was released through cash flow optimization measures. The cash balance at the end of the quarter was NOK 466 million.

- In 2017, we will continue to make our units more competitive and robust through cost reductions and realizing new growth initiatives. A comprehensive cost reduction and efficiency program will be launched with an aim to improve the annual performance with NOK 500 million, further details will be disclosed in connection with the release of the Q2 results. On the pricing side, we have raised our export prices to Asia beginning from Q2, and the market balance for newsprint and SC magazine paper in Europe is also encouraging, says Sven Ombudstvedt, CEO of Norske Skog.

Net interest bearing debt increased by NOK 0.1 billion from the end of the fourth quarter to NOK 6.4 billion, as a result of a weaker Norwegian. The equity was NOK 39 million at the end of the first quarter compared to NOK 184 million at the end of the fourth quarter.

- We are in a very demanding industry. The high leverage and high financing costs challenge the fulfillment of our growth initiatives in 2020 and long term sustainability. We will explore every available opportunity to improve the operating and financial position of the group in the months to come. The aim is eventually to construct a balanced proposal acceptable for all investors, and remove a major obstacle for a long needed European consolidation, says Sven Ombudstvedt, President and CEO of Norske Skog.

Key figures, first quarter of 2017 (NOK million)

	Q1 2017	Q4 2016	Q1 2016	2016
Operating revenue	**2 693**	**3 061**	**2 980**	**11 849**
Gross operating earnings (EBITDA)	**158**	**221**	**242**	**1 049**
Gross operating margin (%)	5.9	7.2	8.1	8.9
Gross operating earnings after depreciation	**8**	**71**	**52**	**367**
Restructuring expenses	-	-20	-	-67
Impairment	-	-	-	-1 238
Other gains and losses	-7	-125	-12	-127
Operating earnings	**2**	**-73**	**40**	**-1 065**
Share of profit in associated companies	-6	-6	2	-211
Financial items	-260	-364	-34	1 044
Income taxes	- 10	318	4	538
Profit/loss for the period	**-274**	**-124**	**11**	**306**
Cash flow from operations before net financial items	**175**	**232**	**285**	**953**
Net interest bearing debt	**6 399**	**6 302**	**8 043**	**6 302**

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Outlook

The market balance for publication paper in Europe is supported by industry capacity closures and conversions. This has resulted in a high operating rate for newsprint and SC magazine paper. The LWC magazine segmented however remains oversupplied.

Norske Skog increased newsprint export prices to Asia by 5-10% with effect from the second quarter. Domestically in Australasia the group has margin protection through long-term customer contracts, but the business is exposed to a secular decline in demand.

Group sales volumes are expected to be on level with last year in 2017. Fixed cost initiatives target a group run rate of NOK 600 million per quarter by year-end.

New green businesses beyond publication paper will contribute to gross operating earnings this year, with the biogas facility at Saugbrugs in Norway now on stream and the completion of the biogas facility at Golbey in France by year-end.

The board of directors recognizes the challenging industry Norske Skog operates in and the group's high leverage and interest expenses. Although the group has no bond maturities until 2019, it remains unlikely that those bonds maturing in 2019 can be satisfied simply from group cash generation. There is significant uncertainty as to whether a refinancing of this maturity will be available or achievable.

In light of the low level of equity, high leverage, high interest cost and with an aim to improve the financial position of the group, the board of directors will continue working to improve all of the mentioned elements further. Based on consistent investor feedback and broad agreement for the desirability to reduce debt, Norske Skog will continue to pursue a recapitalisation proposal with key equity- and bondholders. The aim is to construct a balanced proposal acceptable for all investors.

Any transaction would seek to reduce leverage level by equitizing all unsecured bond debt and enlarge and extend the senior secured bond, reduce interest cost considerably while improving equity levels significantly. In addition, a recapitalisation transactions will be structured to provide a strong financial platform for the company's execution of its growth plan 25% in 2020. Furthermore, a diversified Norske Skog group with a stronger balance sheet could be an attractive consolidation partner for publication paper transactions in Europe.

Markets and segments

Total annual production capacity for the group is 2.7 million. 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 first quarter was 93% compared with 92% in the fourth quarter.

<u>Europe</u>

Operating revenue decreased from the previous quarter with seasonally lower sales volumes. European publication paper prices remained stable outside the UK, where price increases partly compensated for a weaker pound.

Variable costs decreased per tonne due to less high cost LWC magazine production. Fixed costs were lower with ongoing cost reduction initiatives. Gross operating earnings declined slightly as lower costs offset the impact from seasonally lower sales volumes.

Demand for newsprint paper decreased by 6% through February compared to the same period in 2016. Demand for SC magazine paper increased with 3%, while LWC dropped 8%. Capacity utilisation was high at 94% in the period (91% in Q4 2016).

<u>Australasia</u>

Operating revenue decreased from the previous quarter due to production problems at Boyer and a higher share of low margin export sales of newsprint to Asia. Publication paper prices in Australasia remained stable with significant volumes on long term contracts.

Both variable cost per tonne and fixed costs decreased in the quarter. Gross operating earnings declined due to production problems and lower Asian export sales margin.

Demand for newsprint in Australasia decreased by 11% through February compared to the same period the year before. Demand for magazine paper was relatively stable. Capacity utilisation was high at 91% in the period (94% in Q4 2016).

Update on new growth opportunities

Norske Skog is aiming to generate 25% of group GOE from new businesses by 2020, but is in need of financing to achieve that target. The shift will predominantly involve identified investments in new green industries.

Initiatives at Saugbrugs
The NOK 150 million biogas investment at Saugbrugs was officially opened by His Majesty the King Harald V of Norway on April 3. The biogas facility will begin to contribute fully to gross operating earnings from the second quarter this year. Saugbrugs has, in addition, initiated growth projects related to the development of microfibrillated cellulose (MFC), fibreboard and biocarbon for the alloy industry.

Initiatives at Golbey
The Golbey biogas plant is under construction and is expected to be completed during 2017. The project will be financed locally. The plant will be connected to the biological-chemical treatment plant and be dimensioned to absorb all organic waste from the paper production. At the same time, Golbey is implementing new projects, which will combine synergies from the existing mill and a nearby industrial cluster.

Initiatives at Skogn
A biogas plant is under construction next to the Skogn mill in Norway. Norske Skog Skogn will be the supplier of raw material to this new biogas facility adjacent to the paper site.

Tissue project at Bruck
At the Bruck mill in Austria, Norske Skog intends to close its oldest and least efficient paper machine (125 000 tonnes) towards the end of this year. The old newsprint machine from 1953 may, pending financing, be replaced by a new tissue machine. The 265 000 tonnes LWC machine will continue production.

Biochemicals at Boyer in Australia
The Tasmania based newsprint and magazine facility Boyer has in the first quarter of 2017 started small-scale test production of new bio-based chemicals, applicable for the pharmaceutical industry.

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 and the abundance of fibre available in New Zealand. Wood pellets are a renewable alternative to fossil fuels in the large economies of South-East Asia.

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

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