

A close-up photograph of a pine branch. The branch is covered in vibrant, light green needles that are densely packed and radiate from the stem. Several young, developing pine cones are visible, appearing as small, bright green clusters of needles. The background is a soft, out-of-focus green, suggesting a forest setting. A dark grey rectangular box is overlaid on the left side of the image, containing white text.

# 2Q17 Presentation

23 August 2017

# Future on paper

- Print advertising still plays key role in the marketing mix
  - Direct mail and leaflet costs significantly reduced with modern print technology
  - Digital ads typically receive no more than a second's attention from consumers
- Online platforms turn to paper
  - Gwyneth Paltrow's wellness brand to create a quarterly print magazine
  - Publisher Condé Nast to distribute the magazine from September 2017
- Print remains the revenue source
  - More than 90% of newspaper revenue come from the print edition\*



\* WAN-IFRA

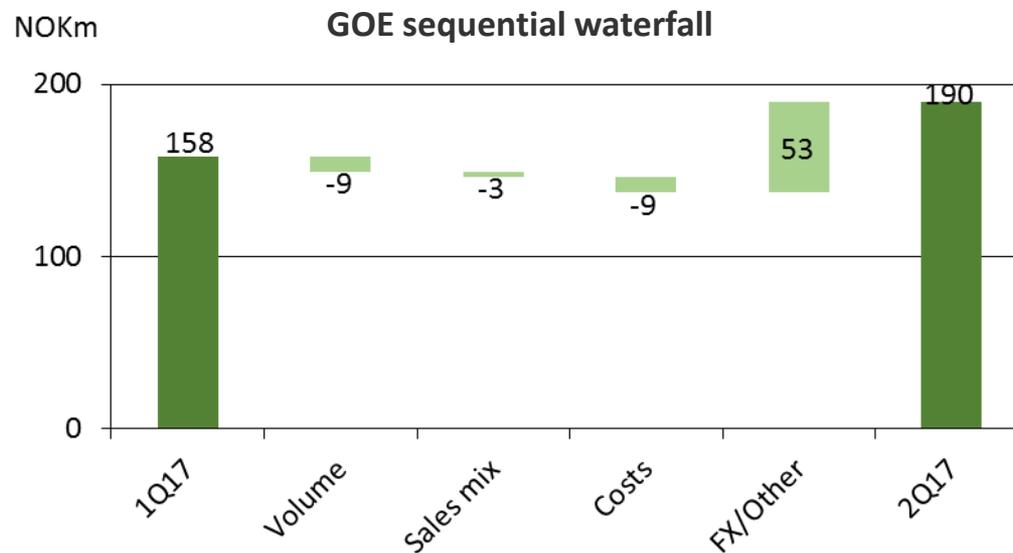
# Improvement Australasia, higher costs Europe

- Gross operating earnings NOK 190m in 2Q17 (NOK 158m in 1Q17)
  - Europe: Higher costs offsetting positive currency effect
  - Australasia: Normal production at Boyer and CO2 compensation at Tasman
- Net debt increased by NOK 180m to NOK 6 579m
  - Negative unrealized currency effect from NOK depreciation to EUR
- Cash flow from operations NOK 226m before net financial items
  - Interest payments amounting to NOK 211m deferred in the quarter
- Loss for the period NOK 546m in 2Q17 (NOK 274m in 1Q17)
  - After depreciation, share of profit in associated companies and financial items
- Norske Skog's balance sheet unsustainable with negative equity of NOK 558m



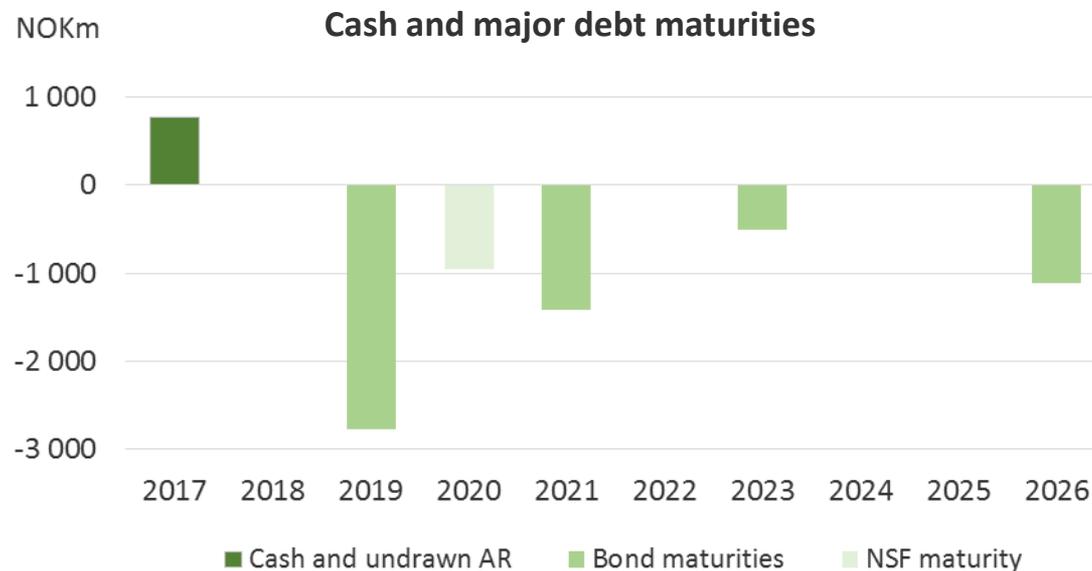
# GOE better with improvement in Australasia

- Negative volume effect with lower production
- Higher costs due to more maintenance work
- Positive currency effect with NOK depreciation in 2Q17
- Recurring CO2 compensation at Tasman



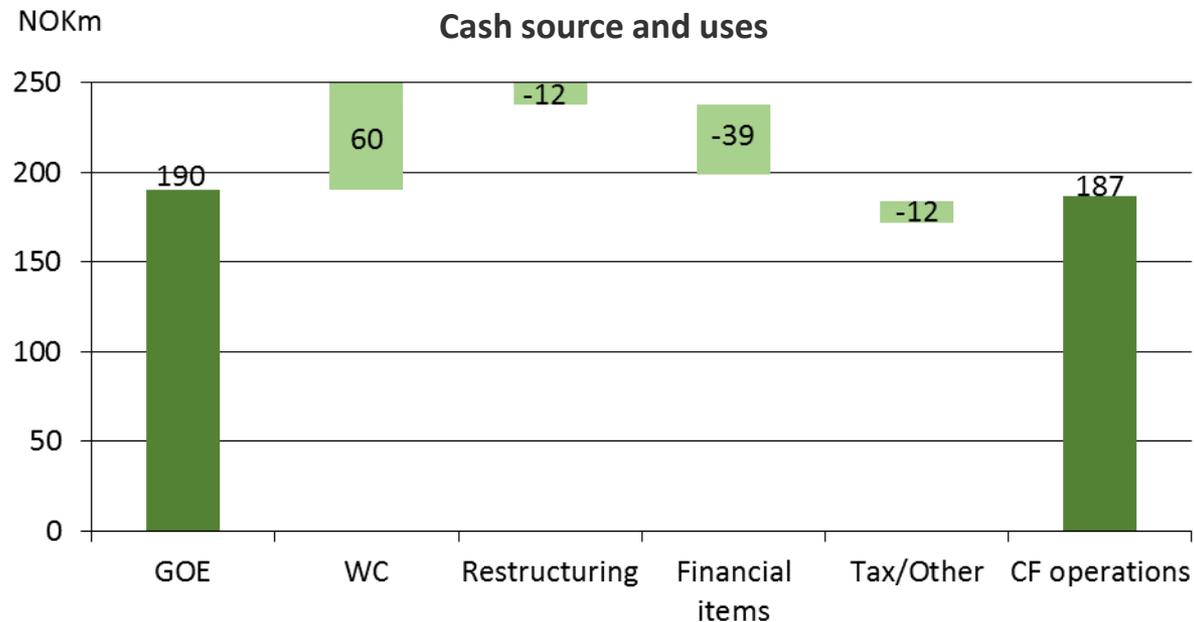
# Norske Skog's debt is far too high

- Net debt increased by NOK 180m in the quarter to NOK 6 579m
- Debt need to be equitized for the group to continue as a going concern
  - No free cash flow after interest payments and needed capital expenditures



# Interest payments have been deferred

- Working capital release more than offset restructuring payments related to cost reduction initiatives
- Cash interest payments amounting to NOK 221m were deferred in the quarter
  - Deferred interest payment to support the operating business



# Group equity negative and trending lower

- Group book equity negative NOK 558m at end 2Q17
- Depreciation and financial items (NOK 350m) result in reduced equity every quarter
  - Depreciation NOK 150m and interest NOK 200m
    - Financial items also include FX on debt and effects from refinancing
    - Quarterly GOE has averaged just above NOK 200m in recent years
- Recapitalization to address equity situation is required



# Margin improvement program in need of funding

- Umbrella program for a number of existing and new improvement initiatives
  - Profitability enhancements for paper operations in conjunction with the diversification strategy
- Far reaching program, realizing margin improvements throughout the value chain
  - Revenue enhancing measures through product and market optimization
  - Cost reductions through productivity enhancements, energy efficiency and improved logistics
- Ongoing and identified initiatives add to an annual improvement of NOK 500m from 2019
  - Actual performance however very sensitive to FX, sales prices and input factor costs
  - Investments of around NOK 200m needed to realize all initiatives but depending on successful recapitalization

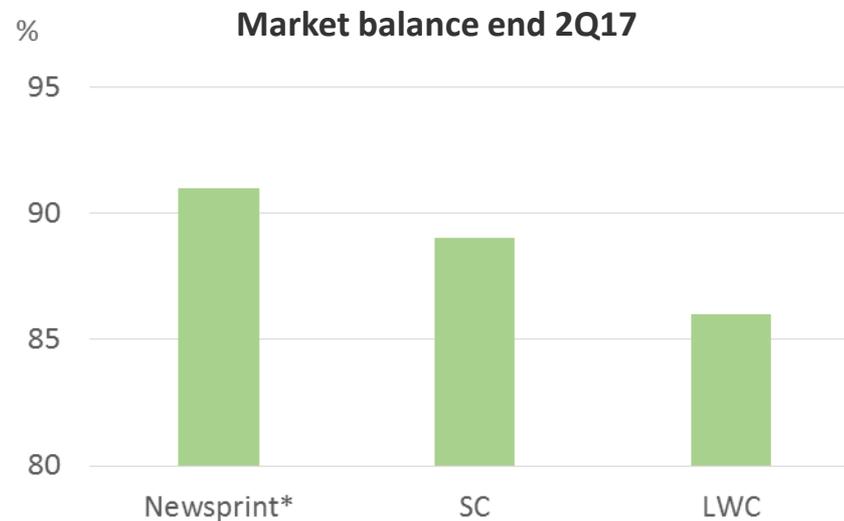
# Diversification strategy in need of recapitalization

- Identified green growth projects with potential to contribute 25% of GOE by 2020
  - Investments in biogas, wood pellets, tissue paper and R&D to enhance use of biomass alternatives
  - However, currently no funding available to facilitate the diversification strategy
- The tissue project at Bruck in Austria has been delayed due to the unsustainable financial position
  - Closure of the outdated newsprint machine from 1953 postponed by one year to end 2018



# Newsprint and SC in balance, LWC oversupplied

- Newsprint and SC magazine paper utilization rates favorable at around 90%
  - Capacity closures / conversions to retain relatively high utilization rate throughout 2017
- LWC magazine paper has a too low utilization in the mid 80s
  - No capacity has been announced closed / converted

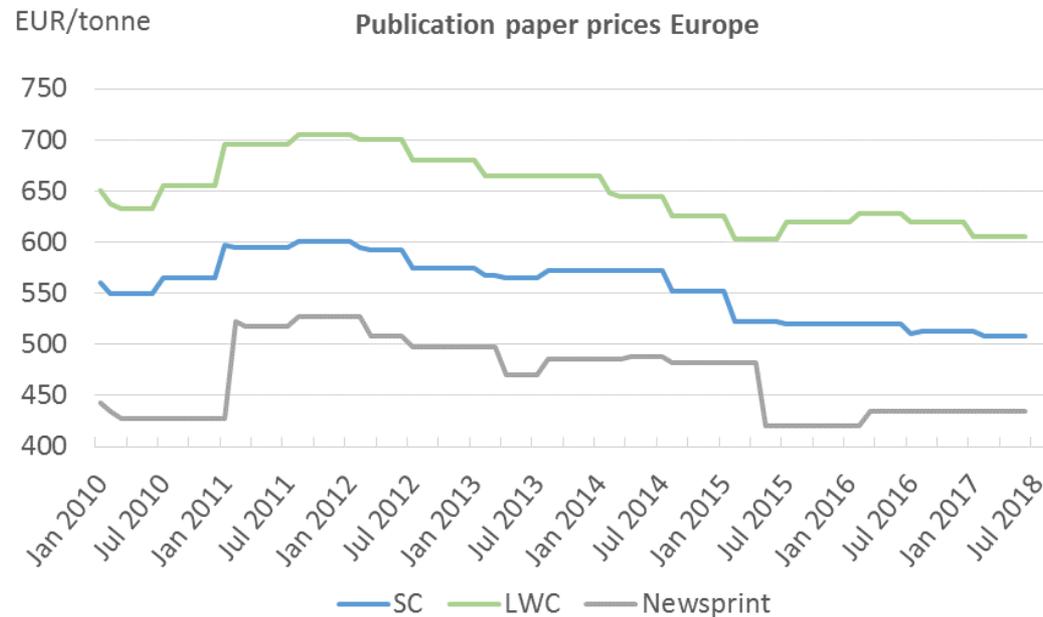


Euro-Graph, June 2017

\* Including improved

# Utilization rates supporting prices in 2 of 3 segments

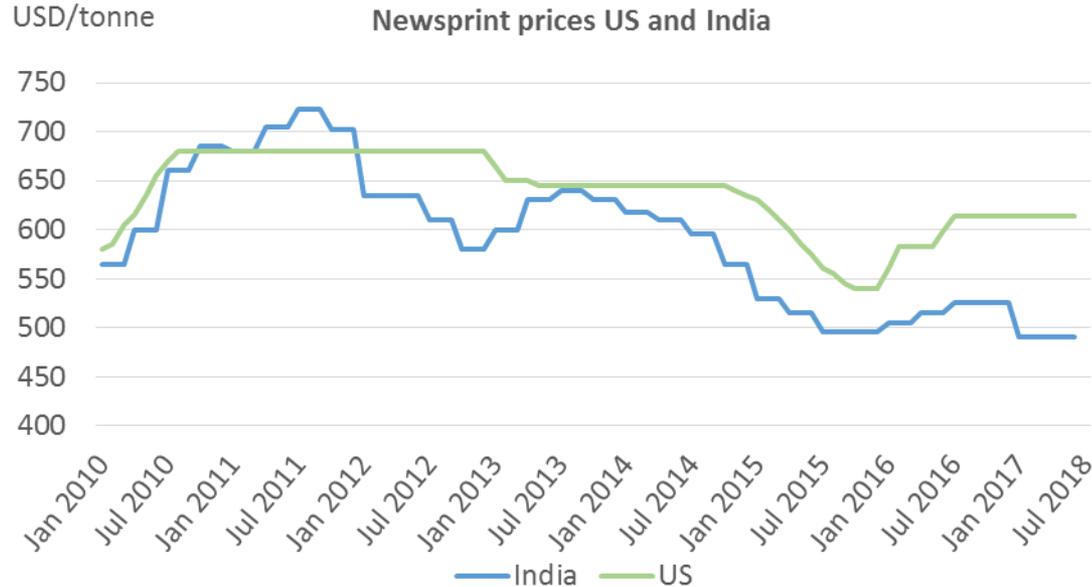
- European newsprint and SC magazine segments supported by industry closures / conversions
- LWC magazine segment in Europe is oversupplied, resulting in downward price pressure



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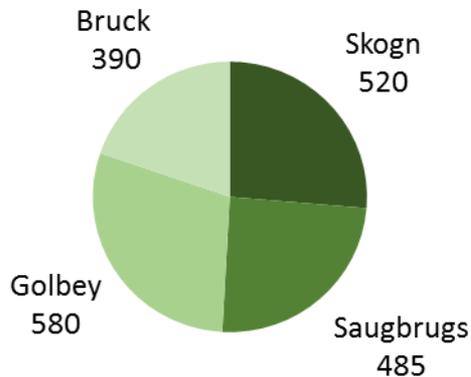
# Newsprint prices in India and US historically correlated

- Indian newsprint prices weakened in 1Q17 and are lagging far behind US prices

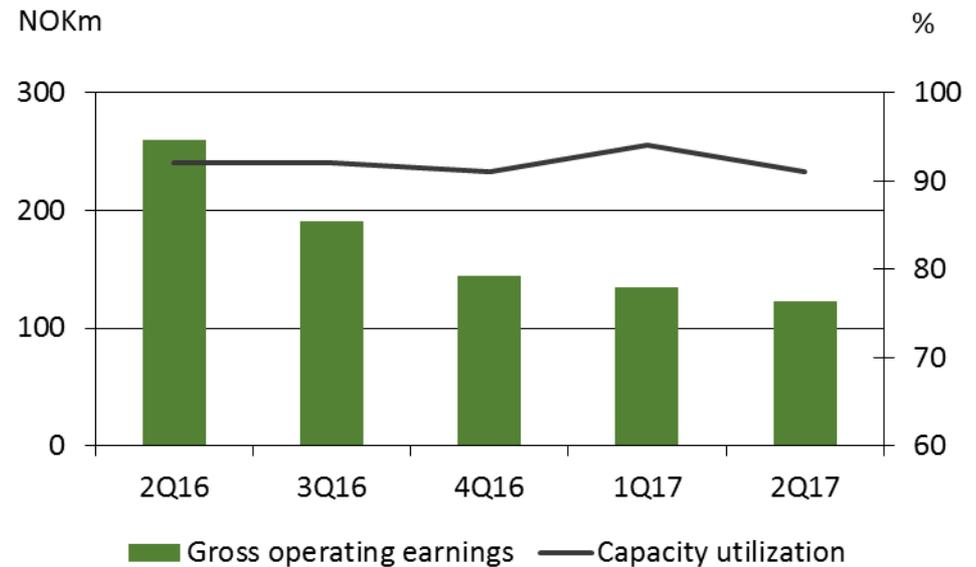


# Publication paper Europe – Higher costs

Mill capacities ('000 tonnes)

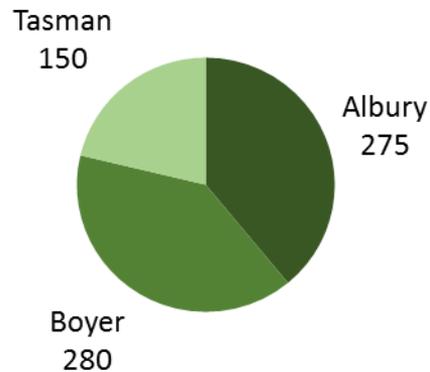


- GOE lower at NOK 123m with offsetting factors
  - Somewhat higher sales volumes and NOK depreciation
  - Recovered paper price inflation and more maintenance work

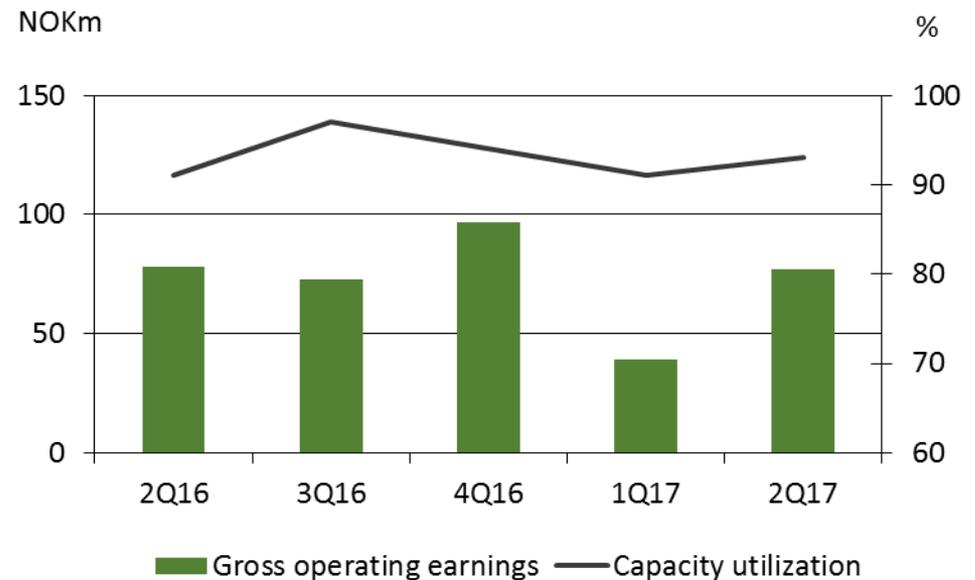


# Publication paper Australasia – Increased revenue

## Mill capacities ('000 tonnes)



- Normal production following disruption at Boyer in 1Q17
  - Increased revenue with more LWC sales and CO2 compensation
  - Flat costs development



# Recapitalization needed

- Group headwinds from higher energy costs, cost inflation for recovered paper and FX
  - Operating environment in Europe supported by industry capacity closures / conversions
  - Less domestic demand and low Asian newsprint price challenge for Australasian business
- Projected full year 2017 GOE of around NOK 800m applied in recent recapitalization considerations
  - Last twelve months GOE performance as of 2Q17 was NOK 820m
- Current financial situation is unsustainable with tight liquidity and negative book equity
  - Group operations currently supported by unpaid interest
  - Group book equity negative NOK 558m
  - Group in need of funding to realize improvement program and diversification strategy
- The board of directors recognizes the severity of the financial position
  - An EGM has been called for 24 August 2017 to give an update on the financial position
- Operating business to be supported by new EUR 16 mill liquidity financing

