Norske Skog

23 August 2017

Press release

Stable operating performance

Norske Skog's gross operating earnings (EBITDA) in the second quarter 2017 were NOK 190 million, an increase from 158 million in the first quarter 2017. The European units contributed less to gross operating earnings than in the first quarter; whereas, the Australasian units gross operating earnings improved.

Operating earnings in the second quarter was NOK -52 million compared to positive operating earnings of NOK 2 million in the first quarter of 2017. Net loss in the second quarter was NOK 546 million compared with a net loss of NOK 274 million in the first quarter 2017. Cash flow from operating activities before net financial items seasonally increased from NOK 175 million in the first quarter 2017 to NOK 226 million in the second quarter 2017.

In Europe, a positive currency effect in the quarter was offset by high maintenance costs and inflation of recovered paper prices. Australasia had normal production after some production problems at Boyer in the first quarter. The Board decided to defer interest payment of NOK 211 mill on the existing 2019 senior secured notes (SSN), 2026 senior notes and the 2020 Norwegian Securitization Facility (NSF) to support the operating business, which contributed to the cash balance at the end of the quarter of NOK 496 million.

Net interest bearing debt increased by NOK 0.2 billion from the end of the first quarter to NOK 6.6 billion, as a result of a weaker Norwegian krone against the euro. The equity was negative NOK 558 million at the end of the second quarter compared to positive NOK 39 million at the end of the first quarter.

Norske Skog has received a commitment letter for a EUR 16 million liquidity facility from the majority holders of the SSN bond and the NSF loan to support operational business. Norske Skog plans to launch a revised recapitalization proposal to improve the liquidity, equity and debt position of the group. In addition, Norske Skog has introduced a cost reduction program for all operating units, which is targeted to add to an annual improvement of NOK 500 million from 2019. The program intends to realize margin improvements throughout the entire value chain, including both revenue and variable costs enhancing measures, and some targeted fixed cost initiatives, offsetting underlying inflation.

- We *continue to make our units more competitive and robust through a new comprehensive cost reduction programs. At the same time, there are significant progress in realizing the new growth initiatives. All these measures will be effectuated simultaneously but further progress depends on a successful outcome of the on-going recapitalization process*, says Lars P.S. Sperre, CEO of Norske Skog.

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Key figures, second quarter of 2017 (NOK million)

	Q2 2017	Q1 2017	Q2 2016	2016
Operating revenue	**2 848**	**2 693**	**2 891**	**11 849**
Gross operating earnings (EBITDA)	**190**	**158**	**335**	**1 049**
Gross operating margin (%)	6.7	5.9	11.6	8.9
Gross operating earnings after depreciation	**32**	**8**	**149**	**367**
Restructuring expenses	-10	-	-46	-67
Impairment	-	-	-1 238	-1 238
Other gains and losses	-75	-7	-10	-127
Operating earnings	**-52**	**2**	**-1 146**	**-1 065**
Share of profit in associated companies	-46	-6	-204	-211
Financial items	-445	-260	1 359	1 044
Income taxes	-3	- 10	220	538
Profit/loss for the period	**-546**	**-274**	**229**	**306**
Cash flow from operations before net financial items	**226**	**175**	**321**	**953**
Net interest bearing debt	**6 579**	**6 399**	**6 353**	**6 302**

Outlook

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

Higher energy costs, cost inflation for recovered paper and NOK appreciation are headwinds for the group. Continued weak newsprint price in Asia are a challenge due to higher export volumes from Australasia reflecting a structural decline in domestic demand.

Norske Skog's identified green growth diversification strategy is in need of funding to be executed. In ongoing considerations around the recapitalization of the group, updated projected full year 2017 gross operating earnings for the group is around NOK 800 million. The downward revision from earlier outlook statements largely reflects external factors such as negative currency effects with a stronger NOK and a weaker USD, higher energy costs, increased exports to lower-margin Asian markets and continued weakness in the LWC market.

The board of directors recognizes the severity of the financial position and has called for an extraordinary general meeting on 24 August 2017 to provide the shareholders with, amongst other things, an update on the financial situation of the group. The board of Norske Skogindustrier ASA has decided to use the 30-day interest payment grace periods on its exchange notes due in 2021 and 2023 and, thereby postponing interest payments of about EUR 8.3 million, to support the operating business.

Markets and segments

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 second quarter was 91% compared with 93% in the first quarter.

Europe

Operating revenue increased from the previous quarter with somewhat higher sales volumes and a weaker Norwegian krone to euro and British pound. Variable costs increased per tonne due to recovered paper inflation and NOK depreciation. Fixed costs were higher due to higher maintenance costs. Gross operating earnings declined as higher costs offset the positive revenue effect. Demand for newsprint paper decreased by 6% through May compared to the same period in 2016. Demand for SC magazine paper increased by 2%, while LWC dropped 5%. Capacity utilisation was high at 91% in the period (94% in the first quarter 2017).

Australasia

Operating revenue and gross operating earnings increased from the previous quarter due to higher LWC sales volume. Both variable cost per tonne and fixed costs remained stable in the quarter. Demand for newsprint and magazine paper in Australasia decreased respectively by 17% and 9% through May compared to the same period last year. Demand development is addressed by more low-margin export sale to Asian markets. Capacity utilisation was high at 93% in the period (91% in the first quarter 2017).

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 already contributes fully to gross operating earnings. 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 2018. The newsprint machine may 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 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. If you want to receive future Norske Skog press releases, you will have to subscribe to the press release through the website of Oslo Stock Exchange www.newsweb.no.

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