

Press release

Performance impacted by currency

Norske Skog's gross operating earnings (EBITDA) in the third quarter 2017 were NOK 143 million, a decrease from NOK 190 million in the second quarter 2017. Gross operating earnings declined despite an increase in sales volume in Europe due to NOK appreciation, and less domestic demand in Australasia resulted in more low-margin export sales.

Operating earnings in the third quarter was NOK 73 million compared to negative operating earnings of NOK 52 million in the second quarter of 2017. Net loss in the third quarter was NOK 9 million compared to a net loss of NOK 546 million in the second quarter 2017, mainly due to non-cash currency effects on debt and changes in the valuation of power contracts. Cash flow from operations declined to a negative NOK 162 million in the quarter from a positive NOK 187 million in the second quarter. Net interest-bearing debt increased by NOK 459 million to NOK 7 038 million in the third quarter, reflecting a negative cash flow for the period and unpaid interest costs related to the ongoing recapitalization process. At the end of the third quarter, the group had a negative book equity of NOK 689 million.

As part of the ongoing recapitalization process, the board has decided not to pay interest on the group's outstanding debt. The cash balance at the end of the third quarter was NOK 426 million and is sufficient to support the operations until a recapitalization solution takes place. Norske Skog's board and administration continue discussions with the creditors to launch as soon as possible a new and broadly supported offer for converting debt to equity and a new bond.

- We are very pleased with the high production efficiency at the mills considering the difficult financial position of the group. Rising input factor costs combined with an improved market balance, reflecting significant capacity closures and conversions in the industry this year, demands higher publication paper price into 2018, says Lars P.S. Sperre, CEO of Norske Skog.

Key figures, third quarter of 2017 (NOK million)

	Q3 2017	Q2 2017	Q3 2016	2016
Operating revenue	2 911	2 848	2 918	11 849
Gross operating earnings (EBITDA)	143	190	251	1 049
Gross operating margin (%)	4.9	6.7	8.6	8.9
Gross operating earnings after depreciation	-11	32	95	367
Restructuring expenses	-2	-10	-1	-67
Impairment	-	-	-	-1 238
Other gains and losses	85	-75	20	-127
Operating earnings	73	-52	114	-1 065
Share of profit in associated companies	-	-46	-3	-211
Financial items	-75	-445	84	1 044
Income taxes	-8	-3	-5	538
Profit/loss for the period	-9	-546	190	306
Cash flow from operations	-162	187	19	230
Net interest bearing debt	7 038	6 579	6 172	6 302
Capacity utilization rate (%)	94 %	91 %	93 %	93 %

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Outlook

Higher input factor costs are headwinds for Norske Skog into 2018. The market balance for publication paper in Europe is supported by capacity closures and conversions in the industry. The resulting high operating rate as well as cost pressure from raw materials lead to price increase expectations for 2018.

A structural demand decline domestically in Australasia is a challenge, while higher export prices for newsprint to low-margin markets in Asia offset some of this decline. Both Norske Skog's margin improvement program and the diversification strategy can not be fully implemented before the group's recapitalization is in place.

The board of directors and the management are still working to bring together the creditors to find a joint recapitalization solution for the group.

Segment information

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 third quarter was 94% compared with 91% in the second quarter.

Europe

Operating revenue increased from the previous quarter with higher sales volumes more than offsetting headwind from NOK appreciation. Both variable costs per tonne and fixed costs were relatively unchanged in the quarter. Despite an increase in volume, gross operating earnings declined due to NOK appreciation. Demand for newsprint in Europe decreased by 7% through August this year compared to the same period last year. SC magazine paper demand increased by 1%, while demand for LWC magazine paper declined by 3%. Capacity utilisation was 94% in the period.

Australasia

Operating revenue decreased from the previous quarter despite flat sales volumes, partly reflecting relatively more export sales to Asia at lower prices compared to domestic prices. USD depreciation further impacted the exports negatively as Asian prices are in USD.

Both variable cost per tonne and fixed costs were relatively unchanged in the quarter. Gross operating earnings declined as the previous quarter included a CO2 compensation and due to less domestic demand resulting in more export sales at lower margins. Demand for newsprint in Australasia declined by 17% through August this year compared to the same period last year. Demand for magazine paper declined by 6%. Capacity utilisation was 94% in the period.

Margin improvement program

Norske Skog has initiated a margin improvement program, "Formula 18", for a range of ongoing and a number of new initiatives across the group. The program focuses on profitability enhancements in the paper operations. The various initiatives add up to an annual gross operating earnings contribution of around NOK 500 million, all other equal, from 2019. The program includes both revenue enhancing measures and cost reduction efforts. Realized margin improvements will be sensitive to currency movements, sales prices and input factor costs. As investments amounting to around NOK 200 million is required to realize the full potential of all initiatives. The program can not be fully implemented before the recapitalization takes place.

Diversification beyond publication paper

Norske Skog has identified related new business with a potential to generate more than 25% of the group's gross operating earnings. The identified projects include green investments like biogas and wood pellets in addition to production of tissue paper. Norske Skog is also involved in research and development to enhance the use of renewable biomass in replacing existing fossil based products. This includes both new building materials and biosolvents for pharmaceutical and agricultural industries. As these new business require substantial funding, the implementation of the diversification strategy has been negatively impacted by the ongoing recapitalization process.

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, please subscribe through the website of the Oslo stock exchange www.newsweb.no.

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