

Press release

Capacity adjustments

Norske Skog's EBITDA in the third quarter of 2020 was NOK 73 million, a slight increase from NOK 52 million in the second quarter of 2020 when excluding the gain of NOK 86 million from the sale of the Tasmanian forest. Although, there are modest signs of demand improvement, the markets have not returned to pre-COVID-19 levels. Norske Skog Saugbrugs (Norway) will permanently cease production at one of their SC-machines (PM5/100 000 tonnes) during the fourth quarter.

- The corona restrictions have had a severe negative impact on operations due to a sudden and considerable drop in demand for publication paper. To ensure future profitability and competitiveness, we will adjust our production capacity to the prevailing market conditions; thus, we will close one SC-machine at Saugbrugs. In close dialogue with the employees, we will start a process to adapt the Saugbrugs organisation to a two-machine site. We will also identify new industrial opportunities at our mills in a response to the falling publication paper demand, says Sven Ombudstvedt, CEO of Norske Skog.

Operating earnings in the third quarter of 2020 were NOK -31 million compared to operating earnings of NOK -122 million in the second quarter of 2020, mainly driven by a modest sales volume increase. Net loss in the quarter was NOK 89 million compared to a net loss of NOK 59 million in the previous quarter. So far this year, Norske Skog in Norway recorded a net loss of about NOK 45 million due to sale of excess energy. The market downtime due to corona pandemic had a considerable effect on the costs as the mills had to sell unused energy at a substantially lower market energy price than the contractual price.

- The Norwegian government implemented several Covid-19 related compensation schemes, but failed to compensate the power-intensive industry for the considerable extra costs related to the sale of excess energy as a result of market downtime. The low economic activity due to Covid-19 triggered a sharp decline in energy market prices; thus, leaving the industry to sell excess energy at prices far below contractual prices at huge losses. At the same time, the government controlled Statnett decided to increase the future grid tariffs. We are a green company with renewable input factors and recyclable end products; nevertheless, these manoeuvres by the Norwegian government are incomprehensible in the context of the green shift, says Sven Ombudstvedt, CEO of Norske Skog.

Cash flow from operations was NOK 115 million in the quarter compared to NOK -109 million in the previous quarter, mainly due to a reduction of inventory and lower paid taxes. Net interest-bearing debt was NOK 628 million at the end of the third quarter, with an equity ratio of 51%.

Status projects

Norske Skog plans to invest and convert two newsprint machines at respectively Bruck and Golbey to recycled containerboard. The conversions at Golbey and Bruck will introduce 765,000 tonnes of competitive containerboard capacity to meet the growing demand for renewable packaging. The final investment decision is expected in H1 2021. Following the conversions, both mills will have access to renewable energy and will have reduced their carbon footprints to become among the best performers in the industry. The approximately EUR 350 million investment is expected to be financed with partial export credit agency (ECA) guarantees and cash on balance.

Norske Skog actively work to realise and develop value from the infrastructure assets and industry competence. Norske Skog sold the Albury mill at the end of 2019, and the Tasmanian forest in June. The scale-up of pellets production capacity in New Zealand at the start of 2020 was successfully delivered. The installment of a 50 MW

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renewable waste to energy boiler in Austria is progressing according to plan. Detailed engineering for the containerboard projects in Austria and France are on track for final investment decision in the first half of 2021. Norske Skog is the largest shareholder in Circa, which recently received a EUR 12 million EU Flagship Grant for the production of a first-of-its-kind 1,000 tonnes bio chemicals plant in France.

- We now have several promising on-going projects within biocomposites and biochemicals, and we are also reviewing the opportunity to produce bleached chemi-thermomechanical pulp (BCTMP) both in New Zealand and Norway. Our fibre projects like CEBINA, FibreMatrix and Cyrene, indirectly through our ownership in Circa, also demonstrate promising progress, says Sven Ombudstvedt, CEO of Norske Skog.

Key figures, third quarter of 2020

NOK MILLION (unless otherwise stated)	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019
INCOME STATEMENT					
Total operating income	2 199	2 167	3 187	7 136	9 610
EBITDA	73	138	505	590	1 378
Operating earnings	-31	-122	1 113	-63	2 516
Profit/loss for the period	-89	-59	1 018	-522	2 202
CASH FLOW					
Net cash flow from operating activities	115	-109	150	476	681
Net cash flow from investing activities	-131	241	-1	518	-181
OPERATING MARGIN AND PROFITABILITY (%)					
EBITDA margin	3.3	6.4	15.8	8.3	14.3
Return on capital employed (annualised)	-7.3	0.8	30.2	5.2	27.4
Capacity utilisation (Production / capacity %)	71	69	88	75	89

Segment information

Total annual production capacity for the group is 2.3 million tonnes. In Europe, the capacity is 1.9 million tonnes, while in Australasia the capacity is 0.4 million tonnes.

Europe

Operating income increased from the previous quarter due to higher sales volumes. Sales prices decreased moderately. Variable cost per tonne decreased in the quarter due to lower fibre and energy prices. In Norway, Norske Skog was forced to sell excess energy contract volumes at prices substantially below contract prices. Fixed costs were lower due to lower employee benefit expenses and maintenance. According to Eurograph, demand for newsprint in Western Europe decreased by 23% through July compared to the same period in 2019. SC magazine paper demand decreased by 15%, while demand for LWC magazine paper declined by 23%. Our capacity utilisation was 72% in the quarter, up from 70 % in the previous quarter.

Australasia

Operating income decreased from the previous quarter due to a gain of NOK 86 million recognised in the previous quarter from the sale of the Tasmanian forest. Sales volumes increased compared to the previous quarter. Despite favourable AUD exchange rates to USD for export sales, weak export prices impacted the EBITDA margin negatively. Variable costs per tonne were in line with the previous quarter. Fixed costs were slightly down in the quarter. According to official trade statistics, demand for newsprint in Australasia declined by 24% through September compared to the same period in 2019. Demand for magazine paper declined by 24%. Capacity utilisation was 69% in the period, up from 65% in the previous quarter.

Outlook

Although some improvement has been seen, the near-term market balance for publication paper in Europe is expected to remain weak due to a structural demand shift in light of COVID-19. The continued level of the national restrictions caused by the global coronavirus pandemic, is expected to impact demand development in the coming periods. The significant announced capacity closures are expected to improve the long-term market balance, especially in 2021. As a consequence of the expected continued challenging market, Norske Skog has decided to permanently close one paper machine at Saugbrugs. The closure is expected to give an annual fixed costs saving of NOK 80 million.

Following the significant demand drop for publication paper in the Australasian region due to COVID-19, the region is subject to overcapacity, and exports to lower margin Asian markets have increased. This has led the Australasian region to announce a strategic review of the Tasman mill. The Tasman mill has a newsprint capacity of 150,000 tonnes. The mill is likely to stop production of newsprint in the first quarter of 2021.

The Group will continue to optimise operations in the region as well as seek to realise added value at the facilities beyond the current production of publication paper. Norske Skog will continue its work to improve the core business, convert certain of the Group's paper machines and diversify the business within bioenergy, fibre and biochemicals.

About Norske Skog

Norske Skog is a world leading producer of publication paper with strong market positions and customer relations in Europe and Australasia. The Norske Skog Group operates four mills in Europe, two of which will produce recycled containerboard following planned conversion projects. In addition, the Group operates two publication paper mills and a pellets facility in Australasia. Norske Skog aims to further diversify its operations and continue its transformation into a growing and high-margin business through a range of promising fibre projects. The Group has approximately 2,300 employees in five countries, is headquartered in Norway and listed on the Oslo Stock Exchange under the ticker NSKOG.

Presentation and quarterly material

The company will hold a live presentation today at Continental Hotel (Oslo) at 08:30 for pre-registered participants. There is a link to the webcast on www.norskeskog.com. The presentation, the quarterly financial statements and the press releases are available on www.norskeskog.com and published on www.newsweb.no under the ticker NSKOG. 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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