Press release

Oxenøen, 5 august 2010

Second quarter 2010:

Continued weak results and challenging market

Norske Skog reported gross operating earnings (EBITDA) of NOK 275 million in the second quarter of 2010, equal to the first quarter but NOK 293 million lower than the same period in 2009.

Excluding non-recurring items in the first quarter, gross operating earnings for second quarter are somewhat better than in the previous quarter, due to a slight increase in sales volumes and a weaker Norwegian krone.

Capacity utilisation increased from 85 per cent in the first quarter to 89 per cent in the second quarter. However, the results continue to be affected by very low price levels in Europe, combined with high input factor prices.

“All parts of the organisation are contributing, but we have to acknowledge that the second-quarter results are far below an acceptable level of profitability. Further debt reduction remains a top priority, and we are planning several additional initiatives in 2010,” says CEO Sven Ombudstvedt.

In June this year, Norske Skog agreed to sell the company’s excess power in southern Norway to Elkem for NOK 800 million.

Key figures, second quarter 2010 (million NOK)

	Q2 2010	Q1 2010	Q2 2009
Revenue	**4 577**	**4 455**	**5 160**
Gross operating earnings (EBITDA)	**275**	**275**	**568**
Gross operating margin (%)	6,0	6,2	11
Gross operating earnings after depreciation (EBIT)	**-226**	**-252**	**- 98**
Value changes, energy portfolio *	-404	-954	886
Restructuring costs and other special revenues and expenses	-17	40	0
Impairments	6	-198	- 291
Operating earnings – IFRS	**-641**	**-1 364**	**- 651**
Financial items and profit share of profit in associated companies	-534	-241	- 153
Taxes	303	453	76
Result	**-872**	**-1 153**	- 461
Net cash flow from operations	**-153**	**101**	**- 538**

* Including loss on sale of excess power of NOK 382 million.

Operating earnings (IFRS) improved from a negative result of NOK 1 365 million in the first quarter to a negative result of NOK 641 million in the second quarter. The result was affected by an accounting loss of NOK 382 million on the sale of excess power. There were no material changes in the value of the company’s remaining energy portfolio in the period. The value of the energy portfolio was reduced by NOK 954 million in the first quarter.

There were negative financial items of NOK 524 million in the second quarter, compared with negative financial items of NOK 241 million in the previous quarter. The decrease was mainly caused by negative currency effects from a weaker Norwegian krone in the second quarter. These effects consist of balance sheet translation differences that cannot be charged directly to equity, in addition to unrealised currency effects from cash-flow hedging. A weaker Norwegian krone will affect the operating earnings positively in the long run.

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Cash flow from operations in the quarter was negative by NOK 106 million. The main reason was that more than half of the company's overall interest payments are due in the second quarter.

Net interest bearing debt increased from NOK 9 465 million by the end of first quarter to NOK 10 299 million by the end of the second quarter. The increase was caused by negative translation differences on debt denominated in USD, in addition to negative cash flow after investments. The proceeds from the sale of excess power were paid on 2 August. The gearing ratio by the end of the quarter was 0.98. Pro forma debt ratio after payment of sales proceeds would have been 0.91 by 30 June 2010.

Segment information

Gross operating earnings in the segment Newsprint Europe were practically unchanged in the second quarter, not including non-recurring items recorded as income in the first quarter. Obtained average prices were somewhat lower in the second quarter compared with the first quarter, and prices on recovered paper were around 20 per cent higher compared with the previous quarter. These effects were however neutralised by higher volumes and a weaker Norwegian krone. The result was considerably weaker than in the corresponding period in 2009, primarily because of substantially lower prices and higher input factor costs.

The segment Newsprint outside Europe delivered somewhat better gross operating earnings than in the first quarter. The improvement was caused by increased earnings in Australasia, which constitutes the largest part of the segment. Singburi in Thailand also showed better earnings as a result of higher prices. In Australasia Norske Skog has signed new contracts with the largest clients in the region. The contracts last until 1 July 2015 and will lead to somewhat higher prices in the second half of 2010.

Not including non-recurring items recorded as income in the first quarter, gross operating earnings for the segment Magazine paper was unchanged compared with the previous quarter. Compared with the corresponding period in 2009, the results were considerably weaker, primarily because of the decline in prices in the second half of 2009 and the first quarter of 2010.

Outlook for second half of 2010

There are still no clear signs of increased demand for newsprint in Europe and North America. The price level for newsprint in Europe will remain low for the rest of 2010. In other parts of the world, demand is growing and price levels are increasing. A seasonal increase in demand for magazine paper is expected, and there will be a moderate increase in prices for a considerable share of the volume. Prices for key input factors are expected to remain at high levels.

Presentation / conference call

Norske Skog will hold a presentation at Shippingklubben, Haakon VIIs gt. 1 in Oslo today at 08.30 CET. At 13.00 CET, there will be an international telephone conference call. For more information, please visit www.norskeskog.com.

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