

Third quarter 2010:

# Weak results in an improved market

**Norske Skog reached gross operating earnings (EBITDA), adjusted for non-recurring items, of NOK 276 million in the third quarter of 2010. Currency effects and higher prices on input factors negatively affected the result, which was in line with the second quarter but NOK 366 million lower than in the third quarter of 2009.**

"Market conditions show signs of improvement, with higher volumes and price increases for magazine paper and newsprint outside Europe. At the same time, we have reduced debt and fixed costs in this quarter. Nevertheless, we must acknowledge that neither the market development nor our own efforts are sufficient to compensate for the continued price increases on input factors such as recovered paper, wood and market pulp," says CEO Sven Ombudstvedt.

"We are positioning Norske Skog for an active role in a necessary consolidation of the industry. At the same time, we are working on measures to further reduce net debt and move customers over to shorter-term contracts," says Ombudstvedt. "We are pleased with the positive feedback from the market regarding the quality of our products. One example is IKEA, which recently voted Norske Skog the best supplier of paper for the IKEA catalogue, one of the world's largest printed publications."

Capacity utilization was 90 percent in the third quarter, the highest level since the fourth quarter of 2008.

## Key figures, third quarter 2010 (million NOK)

	Q3 2010	Q2 2010	Q3 2009
<b>Revenue</b>	<b>4 795</b>	<b>4 577</b>	<b>5 033</b>
<b>Gross operating earnings (EBITDA)*</b>	<b>384</b>	<b>275</b>	<b>642</b>
Gross operating margin (%)	8,0	6,0	12,8
<b>Gross operating earnings after depreciation (EBIT) *</b>	<b>-129</b>	<b>-226</b>	<b>- 7</b>
Value changes, energy portfolio **	-175	-404	96
Restructuring costs and other special revenues and expenses	-22	-19	0
Impairments	0	6	- 1 006
<b>Operating earnings – IFRS</b>	<b>-326</b>	<b>-643</b>	<b>- 872</b>
Financial items and profit share of profit in associated companies	50	-534	543
Taxes	34	303	- 88
<b>Result**</b>	<b>-244</b>	<b>-874</b>	<b>- 418</b>
<b>Net cash flow from operations</b>	<b>336</b>	<b>-153</b>	<b>730</b>

\* Includes reversal of environmental provision at Norske Skog Boyer of NOK 108 million

\*\* Including loss on sales of surplus power of NOK 382 million

Operating earnings (IFRS) was minus NOK 326 million in the third quarter, compared with minus NOK 643 million in the second quarter of 2010, and minus 872 million in the third quarter of 2009. Net result in the third quarter was minus NOK 244 million, compared with minus NOK 874 million in the previous quarter and minus NOK 418 million in the third quarter of 2009. The change from the second to the third quarter 2010 was primarily due to currency gains included in the financial items.

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Compared with the first half of 2009, the group's annual fixed costs have been reduced by about NOK 600 million by the end of the third quarter of 2010. Cost reductions totaling NOK 750-900 million from the end of the first half of 2009 is expected to be completed by the end of 2010.

Net interest bearing debt was reduced by NOK 1.3 billion in the third quarter, and amounted to NOK 9 billion by 30 September 2010. The reduction was caused by positive cash flow from operations, settlement for sales of surplus power, and the reduced value in NOK of USD-denominated debt. Average time to maturity of interest-bearing gross debt was 5.3 years at the end of the quarter. Gearing ratio (net interest bearing debt to equity) was 0.89 per September 30, compared with 0.98 at the end of the second quarter.

### **No investment of new capital in Xynergo**

Norske Skog has decided that the group will not invest additional capital in Xynergo, which works with the development of synthetic biofuels from wood. Xynergo is owned by Norske Skog along with several Norwegian forest owners. Earlier this year, Norske Skog contributed with new capital to secure operation while working together with Xynergo in an attempt to find new owners for the company. Despite the establishment of a government-funded program earmarked for second-generation biofuels that came into place this fall, it has not been possible to find investors who have been willing to invest the necessary risk capital.

### **Segment information**

Results in the segment newsprint Europe has been considerably weaker in 2010 than in 2009 due to lower sales prices and higher prices for recovered paper and wood. The market balance in the fall of 2010 was still better at the end of the third quarter than one year before. This was due to increased exports, some reduction in capacity, reduced imports from Canada and somewhat higher demand.

Gross operating earnings in the segment newsprint outside Europe was slightly better in the third quarter than in the previous quarter due to price increases in Australasia and a volume increase at the Norske Skog BioBio mill in Chile, where production is now proceeding as normal after the earthquake in February. Demand for newsprint outside Europe increased considerably during the first nine months of 2010 compared with the corresponding period in 2009. It must be assumed that some of the increase was due to the increases in of customer inventories.

The magazine paper segment, excluding negative currency effects, achieved somewhat improved results in the third quarter due to higher prices. However, the 2010 results have been significantly weaker than in 2009 due to a sharp fall in prices for magazine paper in the beginning of the year and increased prices on market pulp. Overall shipments from the European industry increased by ten percent in the first nine months of 2010.

### **Outlook for the rest of 2010**

There are few clear signs of increased demand for newsprint in Europe and North America, while there is a fairly healthy growth in other parts of the world. Seasonally, newsprint and magazine paper demand can be expected to be slightly higher in the fourth quarter. No significant changes in price level are expected and recovered paper and market pulp prices are expected to remain high.

### **Presentation and conference call**

Norske Skog will host a presentation at DnB NOR's headquarters at Stranden 21 on Aker Brygge in Oslo today at 08:30 CET, followed by an international telephone conference call at 13:00 CET. For more information, please visit [www.norskeskog.com](http://www.norskeskog.com)

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