

Press release

Demand drop due to corona pandemic

Norske Skog's EBITDA in the second quarter of 2020 was NOK 138 million, a decrease from NOK 379 million in the first quarter of 2020, mainly due to national restrictions on movement of goods and people following the outbreak of the corona pandemic. The restrictions had severe negative impact on operations due to a sudden and considerable drop in demand for publication paper.

- The corona pandemic had significant negative effects on demand in all of our markets. We have handled the challenging market conditions by adapting production to demand on all of our sites except for normal pellets operations at the Taupo plant in New Zealand. The work to convert two newsprint machines to packaging grades at our Bruck and Golbey plants has high priority. Our strong financial platform will be important in our strategy to continue the transformation of our traditional publication paper operations into packaging and new green growth initiatives, says Sven Ombudstvedt, CEO of Norske Skog.

Operating earnings in the second quarter of 2020 were NOK -122 million compared to operating earnings of NOK 90 million in the first quarter of 2020 impacted by impairment recognized in the quarter. Net loss in the quarter was NOK 59 million compared to a net loss of NOK 374 million in the previous quarter. The previous quarter was impacted by unrealised currency loss that was only partially reversed in the second quarter as NOK was stronger at the quarter end.

Cash flow from operations was NOK -109 million in the quarter compared to NOK 470 million in the previous quarter. The first quarter was to a large degree positively impacted by CO2-compensation, the sale of CO2-allowances and currency gain from the completion of the Albury sale. The second quarter was negatively impacted by payment of income taxes mainly at Golbey. Net interest-bearing debt was NOK 329 million at the end of the second quarter, with an equity ratio of 52%.

Key figures, second quarter of 2020

NOK MILLION (unless otherwise stated)	Q2 2020	Q1 2020	Q2 2019	YTD 2020	YTD 2019
INCOME STATEMENT					
Total operating income	2 167	2 771	3 316	4 938	6 423
EBITDA	138	379	444	517	873
Operating earnings	-122	90	1 150	-32	1 403
Profit/loss for the period	-59	-374	1 032	-433	1 184
CASH FLOW					
Net cash flow from operating activities	-109	470	225	361	531
Net cash flow from investing activities	241	408	-88	649	-180
OPERATING MARGIN AND PROFITABILITY (%)					
EBITDA margin	6.4	13.7	13.4	10.5	13.6
Return on capital employed (annualised)	0.8	20.2	26.8	11.1	26.6
Capacity utilisation (Production / capacity %)					
	69	86	90	78	89

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Reindustrialisation of Norway

Norske Skog plans to invest and convert two newsprint machines at respectively Bruck and Golbey. The significant drop in demand for publication paper is not expected to be fully recaptured, and may at some point in the near future also impact the operations at Norske Skog's six publication paper machines in Norway.

- The corona pandemic has ignited a call for a speedy transformation of our Norwegian publication paper operations to other segments within the pulp and paper industry. We have several promising on-going projects within biocomposites and –chemicals, and we are reviewing the opportunity to produce bleached chemi-thermomechanical pulp in Norway. A Norwegian investment decision will depend on long-term, stable market and political conditions within energy, logistics and climate policy. Securing a robust operating environment with strong political support would be the first step in a green re-industrialisation of the entire energy processing industry in Norway, says Sven Ombudstvedt, CEO of Norske Skog.

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 decreased from the previous quarter due to lower sales volumes mainly caused by reduced demand. Sales prices remained relatively stable throughout the quarter. Variable cost per tonne decreased in the quarter due to an underlying reduction in demand for input factors. In Norway, Norske Skog was forced to resell unused energy contract volumes at prices substantially below contract prices. Fixed costs were lower due to periodic temporary lay-offs caused by machine down time. According to Eurograph, demand for newsprint in Europe decreased by 21% through May compared to the same period in 2019. SC magazine paper demand decreased by 15%, while demand for LWC magazine paper declined by 21%. Our capacity utilisation was 70% in the quarter, down from 86 % in the previous quarter.

Australasia

Sales volume and operating income decreased from the previous quarter due to market effects caused by reduction in demand. Due to a sudden drop in the Australasian demand for publication paper, the export to low priced Asian market increased from the previous quarter. Total income includes gain from the sale of the Tasmanian forest. Variable cost per tonne decreased in the quarter due to an underlying reduction in demand for input factors. Fixed costs were down in the quarter due to temporary lay-offs. According to official trade statistics, demand for newsprint in Australasia declined by 24% through June compared to the same period in 2019. Demand for magazine paper declined by 19%. Capacity utilisation was 65% in the period, down from 85% in the previous quarter.

Outlook

The continued softening of the national restrictions caused by the global coronavirus pandemic, is expected to have a positive effect on the demand for publication paper as the retail trade in general will increase. The closure of several printed publications globally may indicate that at least part of the demand for publication paper will not return to the market. The market uncertainty and low capacity utilisation may have a negative impact on sales prices in the short run. However, lower sales prices in the second half of 2020 will to some degree be offset by a decrease in input costs from energy, pulpwood and recovered paper.

The group will continuously monitor and evaluate the impact of the corona situation on the company's operations and business outlook. The health and safety of the group's employees are top priority under the circumstances. Further operational as well as long-term structural measures could be implemented at future dates.

In light of these unprecedented and challenging circumstances, Norske Skog remains committed to become a leading European producer of renewable packaging, improve and optimise publication paper cash flows, and diversify and innovate within fibre and energy.

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 of which two 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 exciting 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

There will be no live presentation by the company. The CEO 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.

Investors are invited to participate in a video conference at 10:00 CET, in which Sven Ombudstvedt and Rune Sollie (CFO) will be available to address questions. The conference call will be held in English. Please register your video conference participation through the following email address: ir@norskeskog.com. Video connection details will be distributed prior to the conference to registered participants.

Norske Skog
Communications and Public Affairs

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