

Press release

Profitability normalising in challenging environment

Norske Skog's EBITDA in the fourth quarter of 2021 was NOK 422 million, an increase from NOK 111 million in the third quarter of 2021. Sales prices for all grades increased in the quarter as a necessary consequence of unprecedented high energy costs in Europe and a tightened publication paper market situation following significant capacity closures and post Covid-19 demand recovery. The European mills operated at full capacity during the quarter.

"The substantial price increases in the European markets during the fourth quarter were a direct consequence of the unprecedented volatility and price level in the European energy market, and was necessary following several quarters of low or negative cash flows. Following significant capacity closures in the industry over the past 18 months, the demand for publication paper now exceeds available capacity," says Sven Ombudstvedt, CEO of Norske Skog.

Cash flow from operations was NOK 317 million in the quarter compared to NOK -99 million in the previous quarter, positively impacted by the improved operating margins, change in working capital and sale of CO2-allowances, but negatively impacted by employee redundancy payments at the Tasman mill in New Zealand. Operating earnings in the fourth quarter of 2021 were NOK 479 million compared to operating earnings in the third quarter of 2021 of NOK -565 million.

Net profit in the quarter was NOK 400 million compared to a net loss of NOK 602 million in the previous quarter. Net interest-bearing debt was NOK 1 054 million at the end of the fourth quarter, with an equity ratio of 34%.

Following the end of the quarter, Norske Skog entered into an agreement with Talley's Group, a New Zealand-based food company, to sell the Nature's Flame pellets company for a consideration of NZD 47.8 million, which is approximately NOK 280 million. The transaction is expected to close during the first quarter of 2022.

Status projects

The final investment decisions to convert one newsprint machine both at Golbey and Bruck will add 760 000 tonnes of cost-competitive and low-emission containerboard capacity. The containerboard production will be fully based on recycled fibre, and will utilise green energy generated from the construction of a new waste-to-energy facility at the Bruck industrial site and a new biomass plant at the Golbey industrial site. In the fourth quarter, Norske Skog entered into attractive debt facility agreements, having an average maturity towards the end of 2030, with an aggregate amount of EUR 265 million to finance the EUR 350 million investment into the recycled containerboard projects. The commercial terms support the highly competitive profile of the containerboard projects.

"Despite increasing cost level in Europe, our packaging and energy projects progress on time and budget. The waste-to-energy facility at Bruck is in the commissioning phase, and we will have formal takeover from Valmet during the second quarter. We are proud of being able to both serve the publication paper and the packaging paper markets in a sustainable and profitable manner within year-end," says Ombudstvedt.

Norske Skog actively works to realise value from its industrial sites by developing existing infrastructure and industry competence. The continued development of CEBICO (bio composites) also progressed well in the quarter. The installation of a NOK 25 million extruder, enabling a significant increase in the ability and quality of testing with potential customers, was completed in the fourth quarter of 2021.

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Through the partnerships with Ocean GeoLoop at Norske Skog Skogn and Borg CO2 at Norske Skog Saugbrugs, Norske Skog aims to pursue the opportunity to become CO2 net negative, and to explore economically viable models for utilisation of biogenic CO2.

In addition, Norske Skog aims to eliminate the use of fossil-based means of transportation by 2050. Annually, Norske Skog uses around 2-2.5 million tonnes of recovered paper, wood and wood chips at the European mills.

- A pre-requisite for the implementation of the green transition in European industry and the fulfillment of emission obligations in the Glasgow agreement require that our inbound and outbound transport take place with emission-free transport solutions, for example on rail. This will help us achieve both lower carbon emissions and lower costs, says Sven Ombudstvedt.

Key figures, fourth quarter of 2021

| NOK million (unless otherwise stated) | Q4 2021 | Q3 2021 | Q4 2020 | 2021 | 2020 |
|---|---------|---------|---------|--------|--------|
| Income statement | | | | | |
| Total operating income | 3 092 | 2 642 | 2 476 | 10 315 | 9 612 |
| EBITDA | 422 | 111 | 146 | 662 | 736 |
| Operating earnings | 479 | -565 | -1 276 | -160 | -1 339 |
| Profit/loss for the period | 400 | -602 | -1 363 | -363 | -1 884 |
| Cash flow | | | | | |
| Net cash flow from operating activities | 317 | -99 | 73 | 191 | 549 |
| Net cash flow from investing activities | -326 | -168 | -217 | -891 | 302 |
| Operating margin and profitability (%) | | | | | |
| EBITDA margin | 13.6 | 4.2 | 5.9 | 6.4 | 7.7 |
| Return on capital employed (annualised) | 8.1 | -20.8 | -8.6 | -7.8 | 2.1 |
| Capacity utilisation (Production / capacity %) | 95 | 95 | 81 | 89 | 77 |

Segment information

Total annual publication paper production capacity for the group is 2.1 million tonnes, with 1.8 million tonnes in Europe and 0.3 million tonnes in Australasia. Norske Skog has numerous ongoing fibre and energy activities at all industrial sites.

Europe

Operating revenue increased from the previous quarter due to higher sales prices. The prices increased in the quarter due to higher energy and other raw material costs. Variable cost per tonne increased in the quarter due to significantly higher energy prices. Fixed costs per tonne were in line with previous quarter. According to Eurograph, demand for standard newsprint in Europe decreased by 4% through November compared to the same period in 2020. SC magazine demand decreased by around 1%; whereas, LWC paper demand increased by around 1% through November compared to the same period last year. Capacity utilisation was unchanged from previous quarter at 96%.

Australasia

Operating income decreased slightly compared to previous quarter due to lower delivery volumes but was somewhat offset by a slight price increase. Variable costs per tonne were lower compared to the previous quarter because of a slight reduction in energy and raw materials costs. Employee benefit expenses were lower, also on a per tonne basis, mainly due to the cessation of paper production at Tasman. According to official trade statistics, demand for newsprint in the fourth quarter in Australasia increased by 1% compared to the same period in 2020. Capacity utilisation was in line with the previous quarter at 87%.

Outlook

Energy and raw material markets remain highly volatile and uncertain into 2022. The unprecedented increases for the largest input factors, particularly energy, do not show signs of being alleviated any time soon. The continued

high prices for energy, recovered paper and other input costs into 2022 have resulted in further necessary publication paper price increases for all grades in Europe.

The significant capacity closures and conversion to packaging paper in the industry have positively impacted the market balance for publication paper. Additional capacity closures have been announced for 2022 and 2023. Operating rates are expected to remain high for the industry well into 2022.

The waste-to-energy facility at Norske Skog Bruck is in the commissioning phase and is expected to reach full operations in the second quarter. Once fully operational, the facility will substantially reduce gas consumption and thus CO₂-emissions for the Norske Skog Bruck site.

Norske Skog carries out preparatory groundwork for establishing packaging paper production at both Norske Skog Bruck and Norske Skog Golbey, and performs necessary commercial market preparations. Production of packaging paper is expected to start at Norske Skog Bruck in the fourth quarter of 2022, and at Norske Skog Golbey in the fourth quarter of 2023.

Norske Skog will develop business opportunities for CEBINA and CEBICO. This includes to evaluate a potential capacity increase for CEBICO beyond the existing 300 tonnes annual pilot-scale capacity. The pilot facility will enable production and delivery of larger test volumes.

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 ongoing conversion projects. In addition, the Group operates one paper mill in Australia. Norske Skog aims to further diversify its operations and continue its transformation into a growing and high-margin business through a range of promising energy and fibre development projects. The Group has approximately 2 150 employees, is headquartered in Norway and listed on the Oslo Stock Exchange under the ticker NSKOG.

Presentation and quarterly material

The company will not hold a live presentation, but will arrange a webinar today at 08:30 CEST for pre-registered participants. 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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