

Slightly improved result in a very demanding market

Norske Skog's gross operating earnings amounted to NOK 568 million in the second quarter of 2009, up from NOK 504 million in the first quarter. The result is also somewhat better than the results from the corresponding quarter in 2008. Reduced costs improved the gross operating margin from 9.6 per cent in the first quarter to 11 per cent in the second quarter. For the first six months of 2009 the gross operating earnings amounted to NOK 1.07 billion, up from NOK 901 million in the same period last year.

"The low demand for newsprint and magazine paper continued in the second quarter. Reduced sales were offset by lower costs, but Norske Skog' financial result in the second quarter is not satisfactory," says CEO Christian Rynning-Tønnesen.

Key figures (in million NOK)

	Q2 2009	Q1 2009	Q2 2008*	H1 2009	H1 2008*
Operating income	5 160	5 259	5 724	10 419	11 148
Gross operating earnings (EBITDA)	568	504	496	1 071	901
Gross operating margin	11%	9.6%	8.7%	10.3%	8.1%
Gross operating earnings after depreciation (EBIT)	- 98	- 149	- 73	- 246	- 259
Value changes energy contracts	886	-1 352	1 340	- 466	2 326
Accumulated translation differences	0	123	0	123	0
Restructuring costs and other special income and costs	- 291	3	- 4	- 260	- 493
Impairments	-651	0	- 32	- 651	- 1 286
Operating earnings – IFRS	-153	-1 374	1 269	- 1 528	279
Financial items and share of the results from associated companies	76	- 126	- 272	- 50	- 392
Tax	- 461	389	- 301	- 72	- 159
Profit/loss	- 538	-1 111	695	- 1 649	- 271
Net cash flow from operations	- 293	723	295	430	1 127

*) Norske Skog sold two mills in South Korea in the third quarter of 2008. For the sake of comparison, the results from the activities in South Korea have been excluded from the table showing operating income, gross operating earnings and gross operating earnings after depreciation for the second quarter and first six months of 2008. Other account items lines have not been revised.

Sales and production

The production and sales volumes in the second quarter are at about the same level as in the first quarter. Total capacity utilization in the group was 75 per cent in the second quarter.

Extensive production curtailments have been implemented so far this year to compensate for reduced demand. In June, the board decided to indefinitely idle one of the paper machines at Norske Skog Parenco in the Netherlands. This reduces Norske Skog's newsprint production capacity in Europe by 225 000 tonnes and will contribute to improved capacity utilisation and lower costs in the future. There will still be a need for production curtailments, and temporary measures are assessed and implemented on an ongoing basis.

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Prices

The prices achieved for newsprint in Europe in the second quarter are about the same as in the first quarter. Prices were lower in South America and Asia. In Australia the prices have remained unchanged from the first to the second quarter. A price increase of seven per cent has been implemented from 1 July for a considerable part of newsprint sold in Australia, while prices for export from the region are declining. Somewhat lower prices have been achieved for magazine paper in the second quarter, compared with the first quarter.

Costs

Norske Skog's total costs have been reduced by NOK 200 million from the first to the second quarter. Energy and recycled paper in particular have become cheaper, and measures to reduce Norske Skog's fixed costs have also had an effect.

The improvement in total gross operating earnings of NOK 64 million is first and foremost the result of lower costs.

Measures to improve profitability

In June, Norske Skog reported that the group would sell its interest in the Norske Skog Potential Paper (SNP) mill in Shanghai, China. Norske Skog is still the owner of Norske Skog Hebei, which is one of China's most modern mills with an annual capacity of 330 000 tonnes of newsprint. Following the sale of SNP, Norske Skog's activities in China will be restructured to improve profitability at Norske Skog Hebei, concurrent with streamlining administration and sales.

A number of measures have been implemented to reduce costs in the group. The greatest cost impact is achieved through downsizing. By the end of 2009 the number of employees will have been reduced by 10 per cent compared with the beginning of the year. In addition to cost-cutting measures already implemented, work continues on further reducing the group's fixed costs.

Debt reduction and financial situation

The work on reducing net debt by generating a sufficient cash flow from operations and transactions still has a very high priority. Net interest-bearing debt amounted to NOK 12.2 billion at the end of the second quarter, down from NOK 12.9 billion in the first quarter. The gearing was 1.02 at the end of the second quarter, down from 1.08 in the first quarter.

Several loan transactions were also conducted in the first six months of 2009 to strengthen the company's financial position. In April Norske Skog raised a loan of NOK 250 million from Innovation Norway with maturity of twelve years and two years' interest-only. In June Norske Skog issued a new five-year bond loan of NOK 750 million. The maturity profile of the group's total debt has been improved through these transactions. The cash balance was NOK 4.8 billion at the end of the second quarter. This is sufficient to meet all the group's debt commitments until 2012.

The weak cash flow in the second quarter is strongly impacted by annual and semi-annual interest payments on a substantial part of Norske Skog's loans in the quarter.

Norske Skog has bought back its own bonds at a par value of NOK 1.1 billion in the first six months. The buy-backs were made at a discount and the total profit on the purchase of own bonds was NOK 254 million in the first six months.

Presentation/webcast

A presentation and webcast will be held at Norske Skog's offices at Lysaker outside Oslo at 13:00 hours today. For more information, see www.norskeskog.com.

Oxenøen, 6 August 2009

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