

Third quarter 2009:

Results slightly up, but few signs of market upturn

Norske Skog's gross operating earnings were NOK 642 million in the third quarter of 2009, up from NOK 568 million in the second quarter, but NOK 70 million lower than the same period in 2008. Third-quarter improvements were a result of lower costs and higher sales volumes. Net interest bearing debt was reduced by NOK 2.2 billion in the third quarter.

"Our results are slightly better in this quarter due to increased volumes and lower costs. The sharp fall in demand has levelled off, but the market remains challenging. At the same time, I am concerned about the consequences of a strong Norwegian currency, particularly for our operations in Norway," says chief executive Christian Rynning-Tønnesen.

"Going forward, our focus remains on ensuring good cost control, optimal capacity management and continuous operational improvements. Additionally, we are exploring business opportunities within bio-fuel production. Favourable frame conditions will be a prerequisite for our progress in this area," says Rynning-Tønnesen.

Key figures (Million NOK)

	Q3 2009	Q2 2009	Q3 2008
Operating revenue	5 033	5 160	6 317
Gross operating earnings (EBITDA)	642	568	712
Gross operating margin (%)	12.8	11.0	11.3
Gross operating earnings after depreciation (EBIT)	- 7	- 98	111
Value changes, energy portfolio	96	886	18
Accumulated currency translation differences	58	0	-783
Restructuring expenses and other special revenues and expenses	-13	- 291	188
Impairments	- 1 006	- 651	0
Operating earnings – IFRS	- 872	- 153	- 466
Financial items and share of profit in associated companies	543	76	- 646
Income taxes	- 88	- 461	- 98
Net profit/loss for the period	- 418	- 538	- 1 212
Net cash flow from operating activities	730	- 293	119

Production and sales

Capacity utilization increased from 75 percent in the second quarter to 81 percent in the third quarter. Annual capacity of 225 000 tonnes at Norske Skog Parenco in the Netherlands has been removed from the third quarter figures, following the shutdown of one paper machine at the mill in the second quarter of 2009. Increased volumes have been achieved through sales initiatives, such as exports from New Zealand to Asia, and introduction of book paper production at the Norske Skog Follum mill in Norway.

Average market prices decreased slightly in the third quarter compared with the previous quarter, but the reduction was partly offset by higher sales and production volumes, as well as lower variable and fixed costs.

For the newsprint segment, Norske Skog achieved stronger results in Asia and Australasia during the quarter, while results in Europe and South America were weaker than in the

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second quarter. Gross operating earnings for the total newsprint segment were NOK 444 million, which was NOK 68 million lower than in the second quarter. Demand for standard newsprint in Europe was marginally higher in the third quarter compared with the second quarter. There are no signs of increasing demand in the short term. Demand during the first nine months of 2009 is approximately 13 percent lower than the same period in 2008. Demand remains low also in other markets.

The magazine paper segment delivered significantly better results in the third quarter compared with the previous quarter due to increased volume and cost-reduction measures. Gross operating earnings for magazine paper was NOK 201 million, up from NOK 125 million in the second quarter. Demand for magazine paper was around 10 percent higher in the third quarter than in the second quarter. Demand for uncoated magazine paper was nine percent lower during the first three quarters of 2009 than in the same period last year. Demand for coated magazine paper was 19 percent lower in the first three quarters compared with the same period last year.

Cost reductions

Fixed costs were reduced by about NOK 100 million, from NOK 1 251 million in the second quarter to NOK 1 146 million in the third quarter. The decline is mainly a result of reduced maintenance costs and de-consolidation of Shanghai Norske Skog Potential Paper (SNP) in China, which in June was announced sold.

Further cost reductions are expected in the fourth quarter, mainly as a result of downsizing at Norske Skog Parengo and discontinued operations in China following the sale of Norske Skog Hebei. Ongoing downsizing throughout the group will also have an effect on fourth quarter results. The total number of employees in the group will be about 5 600 at the end of 2009, a reduction of around 1 300 from the beginning of the year. The full effect of staff reductions, reduced maintenance costs and other measures initiated in 2009 is expected to be NOK 600-700 million in 2010.

Currency and financial position

A stronger NOK throughout the third quarter has negatively impacted operating earnings due to lower sales revenue at the Norwegian mills, but has led to gains from currency hedging and has been a contributing factor to the debt reduction.

Net interest bearing debt was NOK 10 billion as of 30 September 2009, a decrease of NOK 2.2 billion from the second quarter achieved through cash flow from operations, currency effects and the reclassification of debt related to the Norske Skog Hebei. The gearing ratio (net interest bearing debt to equity) was 0.89 at the end of the third quarter. Since 2007, the company's net debt has been reduced by NOK 6.4 billion as a result of cash flow from operations, repurchase of bonds and divestments.

Norske Skog had a positive cash flow of NOK 730 million in the third quarter, up from NOK -294 million in the second quarter. The main reasons for the increase is reduced working capital of NOK 190 million, significantly lower interest payments in the quarter and realized gains on currency hedging contracts.

Impairments totalling NOK 1 billion have been made during the third quarter. These are associated with an estimated loss related to the sale of Norske Skog Hebei of NOK 660 million, in addition to impairment of the assets at Norske Skog Walsum in Germany and Norske Skog Singburi in Thailand, with NOK 198 million and NOK 148 million respectively.

Presentation / webcast

Norske Skog will hold a presentation and webcast in the company's offices at Lysaker outside of Oslo at 13:00 CET today. For more information, please visit

www.norskeskog.com

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