

Press release

Strong performance

Norske Skog's EBITDA in the fourth quarter of 2022 was NOK 1 083 million, an increase from NOK 508 million in the third quarter of 2022. The fourth quarter EBITDA was impacted positively by higher publication paper sales prices, and significant energy revenues from excess energy sale in France. Lower sales volumes were more than offset by increases in publication paper prices. The packaging paper conversion projects are progressing according to budget and timeline. Norske Skog Bruck will commence packaging paper production in the first quarter, while Norske Skog Golbey will start in the fourth quarter of 2023.

"Our commercial and mill teams have utilized fluctuations in the energy market while matching a reasonable demand for publication paper to reach a strong result. At the same time, our strategic project groups are on track to fulfil our strategy to become an independent European packaging paper player. This year, both the commercial and technical teams at Bruck and Golbey, will start delivering packaging paper to the market. The group will eventually have an annual capacity of 760,000 tonnes of recycled containerboard," says Sven Ombudstvedt, CEO of Norske Skog.

Cash flow from operations was NOK 745 million in the quarter compared to NOK 627 million in the previous quarter, positively impacted by the strong operating results, but somewhat negatively impacted by change in working capital. Operating earnings in the fourth quarter of 2022 were NOK 944 million compared to operating earnings in the third quarter of 2022 of NOK 113 million. The operating earnings in the quarter positively affected by non-cash changes in fair value of energy contracts in Norway amounting to NOK 227 million, and negatively impacted by NOK 164 million impairment entirely related to write-down of the light weight coated paper machine (PM4) at Bruck. Profit in the quarter was NOK 1 065 million compared to a loss of NOK 11 million in the previous quarter. The net profit in the quarter was positively affected by NOK 200 million in gain of sale of high school facilities in Halden through Porsnes Utvikling AS. The board of directors proposes that the annual general meeting adopts an authorisation to pay NOK 5.00 per share in dividend. A dividend payment would be subject to lenders waiving certain shareholder distribution restrictions. Net interest-bearing debt was NOK 1 092 million at the year end, with an equity ratio of 43%.

Status projects

The conversion of newsprint machines at Norske Skog Bruck and Norske Skog Golbey will add 760 000 tonnes of new cost-competitive and low-emission packaging paper capacity. The packaging paper production will be fully based on recycled fibre, and will utilise green energy generated from the waste-to-energy facility at the Bruck industrial site and the biomass plant under construction at the Golbey industrial site (Green Valley Energie).

"We are well prepared to soon serve both the publication paper and the packaging paper markets in a sustainable and profitable manner. In 2023, we will complete a large-scale transformation of Norske Skog when it comes to product portfolio changes. Our entire organisation is tuned in to enter a new era of opportunities within the packaging paper markets," says Ombudstvedt.

Bruck ceased newsprint production (PM3) in the third quarter, and will commence recycled packaging paper production in the first quarter of 2023. The Bruck team has already entered into sales agreements with packaging paper customers. At Golbey, the newsprint paper machine (PM1) was closed in the fourth quarter of 2022 for conversion into recycled packaging paper production resulting in the sale of excess energy. The timeline and total budget is in line with the project plan assumptions, with expected start-up in the fourth quarter of 2023.

The construction of the biomass boiler at the Golbey industrial site is progressing according to original plans. The biomass boiler will produce about 200 GWh of electricity and about 700 GWh of renewable heat, thus generating

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CO2 savings of 210 000 tonnes per year. The Green Valley Energie (GVE) is a joint venture, in which Norske Skog Golbey has a 10% equity stake.

"The biomass boiler will ensure a stable, long-term supply of cost-competitive and renewable steam as an alternative to fossil energy sources, shielding us from volatile energy markets," says Ombudstvedt.

Norske Skog Skogn will invest about NOK 180 million, net of NOK 40-50 million in grant financing from the industrial partnership NOx Fund, in a new thermo-mechanical pulp (TMP) line, substituting expensive recovered paper with fresh fibre. The new TMP line will reduce variable costs, significantly reduce NOx and fossil CO2 emissions, and reduce waste sent to landfill. The start-up is expected to be in the first half of 2024. Norske Skog actively works to realise value from its industrial sites by developing existing infrastructure and industry competence. Both the biocomposite product CEBICO, and microfibrillar cellulose product CEBINA produced at Norske Skog Saugbrugs have established regular commercial operations. The products have successfully been applied in various processes and materials. Norske Skog aims to pursue the opportunity to become CO2 net negative or climate positive, and Norske Skog explores economically viable models for utilisation of biogenic CO2.

Operations

Total annual publication paper production capacity for the group is 1.7 million tonnes, with 1.4 million tonnes in Europe and 0.3 million tonnes in Australia. Following the machine conversions at Bruck (PM3) and Golbey (PM1) during 2023, Norske Skog will have an annual capacity of 760 000 tonnes of packaging paper production. Norske Skog has several ongoing bio products and energy activities at all industrial sites.

Despite lower sales volume in 2022, the operating revenues increased substantially due to sales price increases, and sale of excess energy during the year, especially following the newsprint machine closure at Golbey in connection with the machine conversion into packaging paper grades. The sales price increases were driven by higher energy and other raw material costs, and a tight market situation for publication paper. Variable cost per tonne was unchanged in the quarter, with lower distribution and recovered paper prices, and higher pulpwood prices. Fixed costs per tonne increased somewhat due to lower production volumes and increased inflation driven by employee benefit expenses. Group capacity utilisation was 78% in the quarter, respectively 74% in Europe and 98% in Australasia. The newsprint machine closure at Golbey and high peak energy prices caused some operational downtime in the quarter, which impacted the capacity utilization in Europe.

According to Eurograph, demand for standard newsprint in Europe decreased by 5% through November compared to the same period last year. SC magazine demand decreased by around 13%; whereas, LWC paper demand decreased by around 18% through November compared to the same period last year. According to official Australian trade statistics, demand for newsprint in the fourth quarter in Australasia decreased by 8% compared to the same period last year.

Key figures, fourth quarter of 2022

NOK million (unless otherwise stated)	Q4 2022	Q3 2022	Q4 2021	YTD 22	YTD 21
Income statement					
Total operating income	4 056	3 630	3 092	15 214	10 315
EBITDA	1 083	508	422	3 105	662
Operating earnings	944	113	479	2 845	-160
Profit/loss for the period	1 065	-11	400	2 572	-363
Cash flow					
Net cash flow from operating activities	745	627	317	2 040	191
Net cash flow from investing activities	-872	-520	-326	-1 956	-891
Operating margin and profitability (%)					
EBITDA margin	26.7	14.0	13.6	20.4	6.4
Return on capital employed (annualised)	12.1	-0.7	8.1	14.8	-7.8
Capacity utilisation (Production / capacity %)					
	78	85	95	87	89

Outlook

The developments in the global economy, especially within the raw material and energy markets, but also consumer spending, are of vital importance for the pulp and paper industry, and thus for Norske Skog's operations. Uncertainty in global economic performance will remain during 2023. Raw material and energy prices have fallen from peak levels, but are still at significant levels. Under these circumstances, Norske Skog will actively manage its energy exposure through the coming quarters.

The uncertainty in the cost and demand development will influence the publication and packaging paper prices in Europe. Executed and planned capacity closures in the industry are expected to maintain a balanced newsprint paper market, whereas the markets for supercalendered magazine grades and in particular lightweight coated magazine grades are softening. The turbulent operating environment, especially within energy, may result in further downtime and closures in the industry.

The waste-to-energy facility at Bruck has been operating since the second quarter of 2022 on approximately 80% of its designed capacity. Together with the supplier Valmet, optimization and modifications will be carried out in the first quarter to bring the energy plant to its full design capacity. The energy facility significantly reduces the gas consumption, and thus CO2 emissions for Norske Skog Bruck.

Norske Skog expects to commence production of recycled packaging paper during the first quarter of 2023 at Bruck PM3, and during the fourth quarter of 2023 at Golbey PM1. From the first quarter of 2023, Norske Skog will establish Packaging Paper as a new operating segment. Norske Skog will continue to develop other industrial opportunities, which include further conversions and several new initiatives within renewable energy and bioproducts.

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 packaging paper 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 bio product development projects. The Group has approximately 2 100 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 quarterly recording, the presentation, the 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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