



# Norske Skog

## Q2 2020 presentation

16 July 2020

[www.norskeskog.com](http://www.norskeskog.com)



# Second quarter in brief



## **Weak Q2 2020 EBITDA of NOK 138 million due to COVID-19**

- Restrictions significantly impacting volumes
- Publication paper prices unchanged in the quarter
- Includes gain of approximately NOK 86 million from sale of Tasmanian forest, underlying EBITDA of NOK 52 million



## **Announced entry into packaging with conversion projects in Golbey and Bruck**

- First production of containerboard planned in H1 2023
- Expected annual EBITDA of EUR 70-80 million from converted machines at full utilisation



## **Completion of Tasmanian forest sale**



## **Maintains robust financial position**

- Cash position of NOK 1,487 million
- Net interest-bearing debt of NOK 329 million



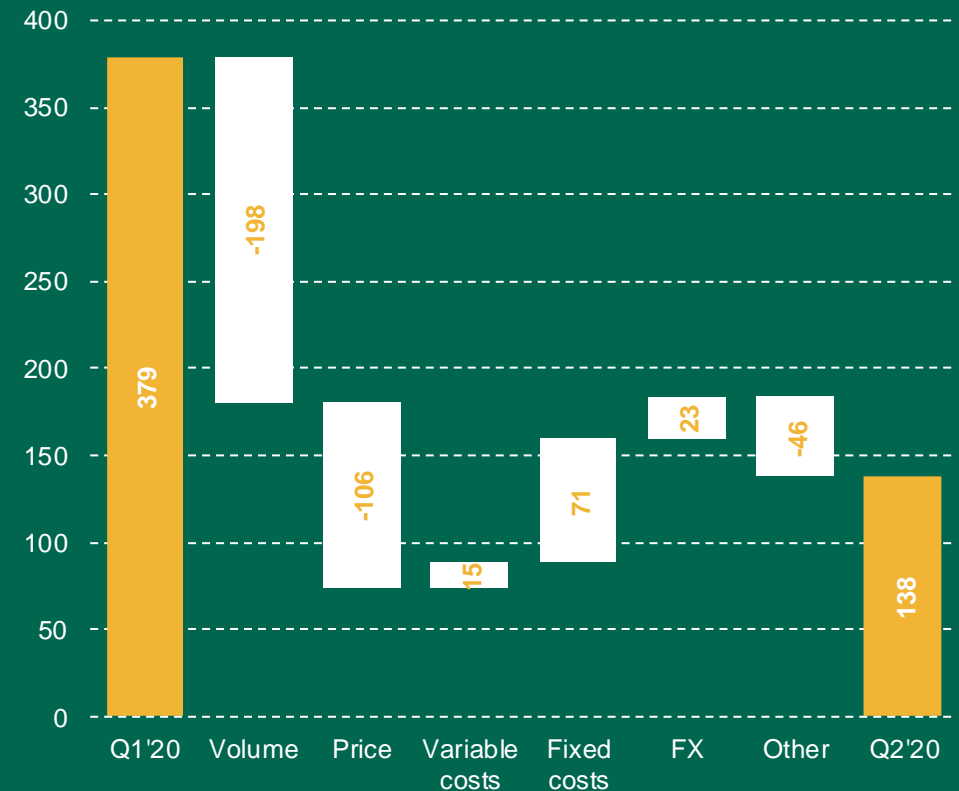
## **Forestry and industry in general have seen limited support from Norwegian authorities**

- Need for re-industrialisation of Norway

# Publication paper volumes significantly impacted by COVID-19

- Restrictions imposed due to COVID-19 impacting sales volume particularly in May and June, utilisation of 69% in the quarter
- Prices largely unchanged during the quarter, but change in product mix and increased exports to lower priced markets impacted achieved prices
- Lower variable costs mainly resulting from reduced energy prices and recovered paper prices
- Reduction in fixed costs as a result of temporary layoffs at most mills following market-related downtime
- Favourable FX in the quarter with NOK remaining weak
- Change in other items includes gain on sale of Tasmanian forest, but more than offset by sale of CO<sub>2</sub> allowances and Albury-related gains in Q1 2020

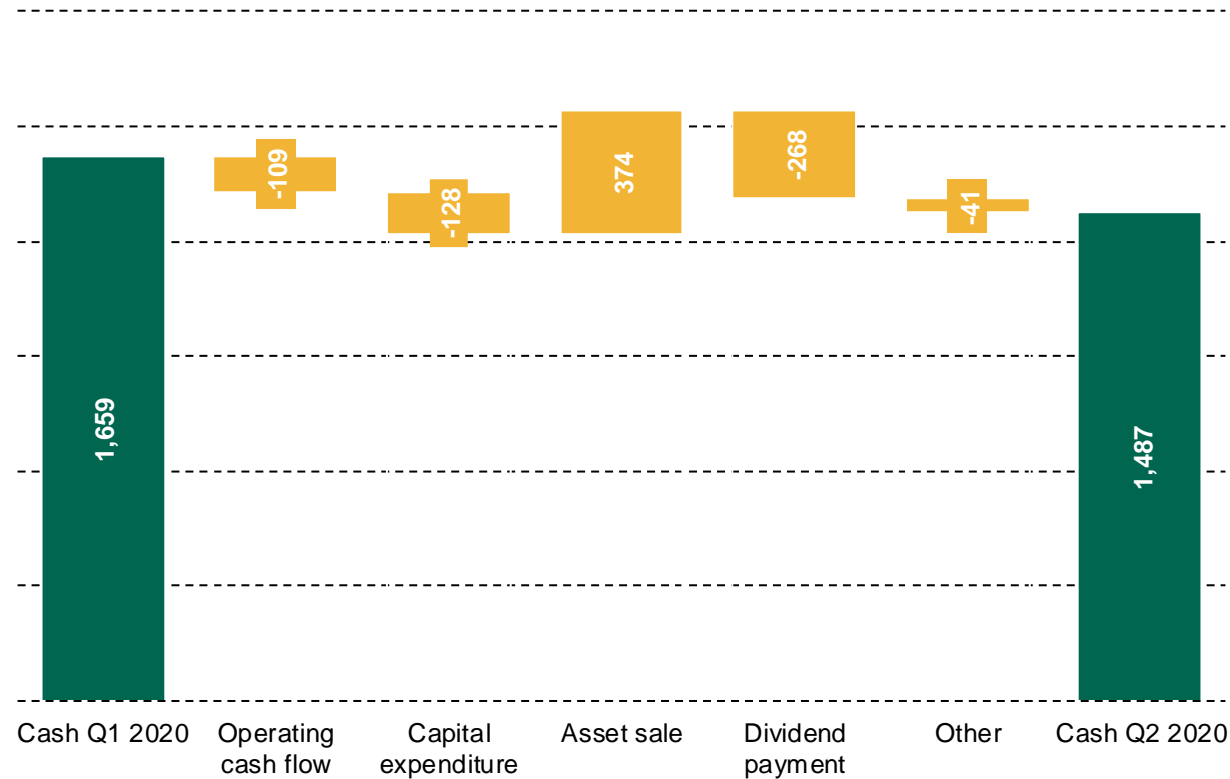
EBITDA bridge Q1 2020 to Q2 2020



# Maintaining a strong cash position

## Bridging the cash and cash equivalents from Q1 2020 to Q2 2020

NOKm

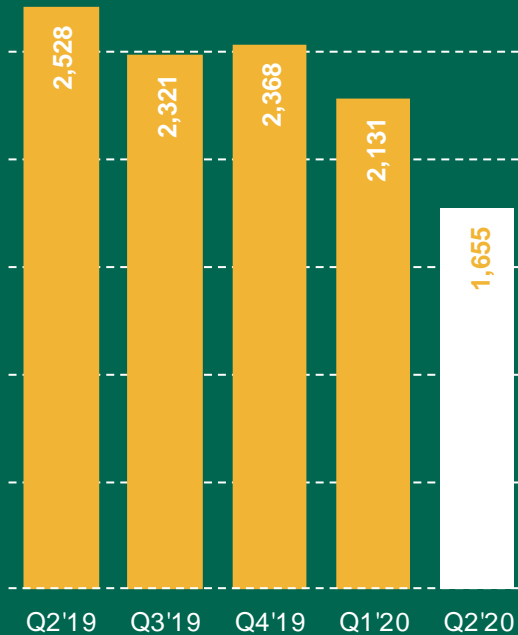


- Cash of NOK 1,487m<sup>1</sup>, gross debt of NOK 1,816m, and net debt of NOK 329m end of quarter
- Capital expenditure of NOK 128m in the quarter
  - Maintenance capex of NOK 62m
  - Expansion capex of NOK 66m, mainly relating to the Bruck multifuel boiler and NEXT / Therminator energy efficiency projects at the Saugbrugs mill
- Proceeds from asset sales of NOK 374m
- Dividend payment of NOK 268m (NOK 3.25 per share)

# COVID-19 restrictions impact European earnings

## Europe – Revenue

NOKm



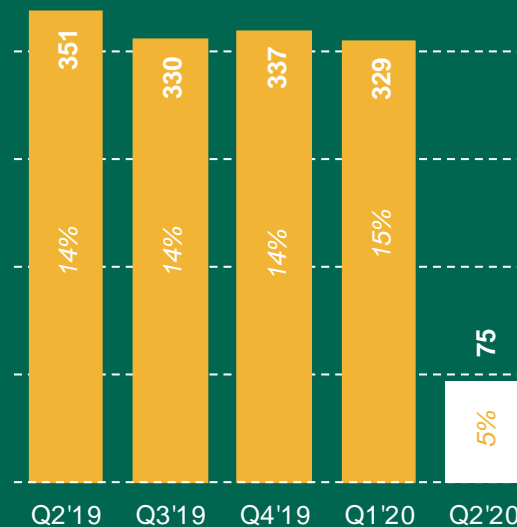
## Europe – EBITDA

NOKm (and margin in %)



## Europe – Underlying EBITDA

NOKm (and margin in %)

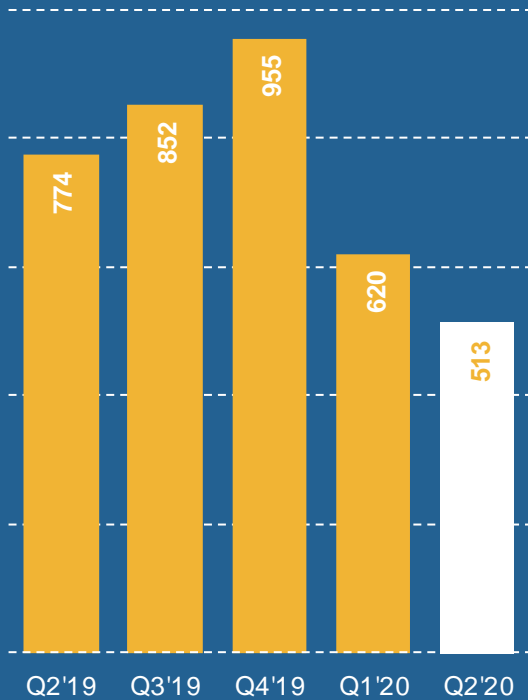


- Newsprint, SC and LWC demand decreased by 21%, 15% and 21%, respectively through May this year
- Prices unchanged
- Modest signs of improvement
- Favourable raw material prices
- Favourable FX

# Continued streamlining in Australasia with forest sale

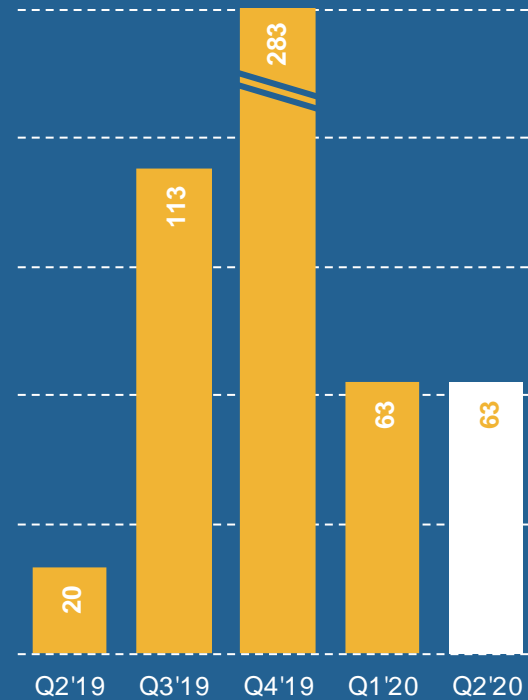
**Australasia – Revenue**

NOKm



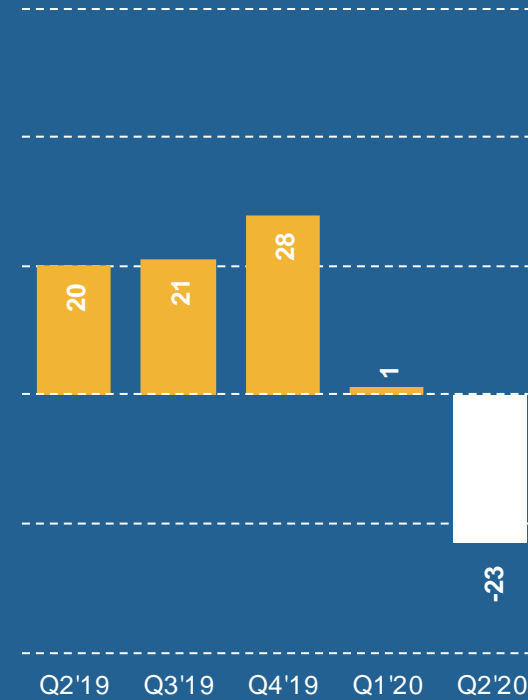
**Australasia – EBITDA**

NOKm



**Australasia – Underlying EBITDA**

NOKm



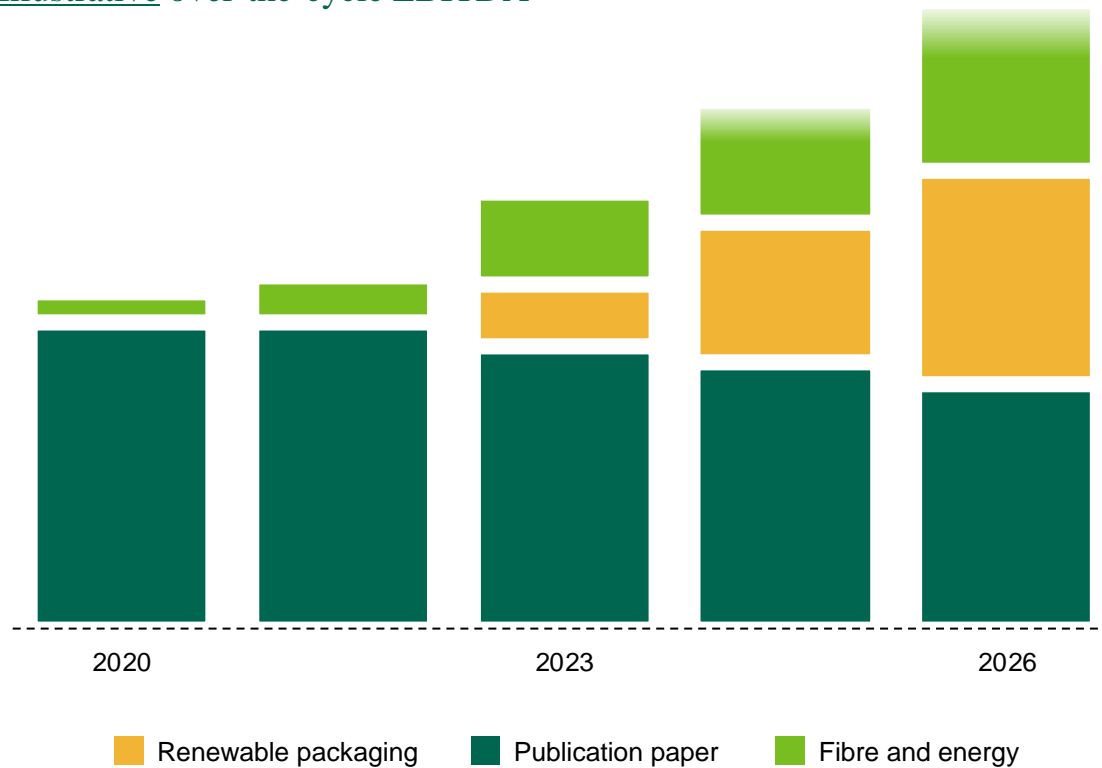
- Newsprint and magazine demand decreased by 24% and 19%, respectively through June this year
- Increase in low margin exports
- Favourable raw material prices
- NOK ~86m gain from forest sale

# Strategy



# Growth opportunities ahead

Illustrative over-the-cycle EBITDA



- Exciting portfolio of fibre and energy projects
- Introducing 765,000 tonnes of containerboard capacity
- Remain a committed producer of publication paper and maximise cash flows



# Entering the packaging market



- Convert PM1 to 555,000 tonnes of recycled containerboard capacity<sup>1</sup>
  - Total capex estimate of EUR 250m
- 
- Boiler to be constructed securing competitive steam supply
  - Limited equity investment, partnership with Véolia



- Convert PM3 to 210,000 tonnes of recycled containerboard capacity<sup>2</sup>
  - Total capex estimate of EUR 90m
- 
- Boiler under construction to generate revenue and savings of EUR ~19m
  - Local debt funding of EUR 54m, project capex of EUR 72m

- **Investment in brownfield conversion projects** limited to approximately EUR 350m during 2021 to 2023
- Final investment decisions expected in H1 2021, estimated **production start in H1 2023**, full capacity utilisation end of 2025
- Estimated annual EBITDA from containerboard machines of approximately **EUR 70-80m** at full utilisation<sup>1</sup>
- Containerboard market **driven by megatrends** within e-commerce and sustainable packaging, securing long-term operations
- Established presence in **recycled fibre markets**
- Boilers secure sustainable and **competitive steam supply**
- Site configurations enable **cost-leadership** positions
- Balancing the newsprint market through **capacity reductions** of 360,000 tonnes in Western Europe

# Pellets – Green and profitable energy production



- Nature's Flame, a pellets company fully owned by Norske Skog
- State of the art pellet plant in Taupo, New Zealand
- Annual capacity of 85,000 tonnes and expected earnings of NZD ~5m per year
- Pellets produced from sustainably sourced fibre residues and geothermal energy
- Fonterra<sup>1</sup> converting a coal boiler to run on Nature's Flame pellets (48,000 tonnes annually), reduce carbon emissions with the equivalent of 32,000 cars

# CEBINA – Sustainable alternative to existing additives



- Cellulose nano fibrils developed at Norske Skog Saugbrugs since 2010
- Close collaboration with Rise PFI, technical partners and potential customers
- Environmentally friendly product based on chemical pulp and hydro energy
- Pilot plant at Saugbrugs with capacity of up to 500 tonnes
- Developed as a strength enhancer in publication paper
- Ongoing tests with customers in drilling fluid, glue and coatings



# Norske Skog secures cornerstone position as largest shareholder in Circa Group



- Norske Skog increases ownership stake in Circa Group Pty Ltd from 10% to 27.7%
- Circa Group is an Australia-based producer of advanced and sustainable bio chemicals, with a commercial demonstration plant located at the Norske Skog Boyer mill in Tasmania
- Patented process for production of Cyrene™, Levoglucosenone and other unique bio-chemicals from sustainable waste biomass
- Chemicals recognised for their exceptional properties through ~1,000 trials by researchers, industry experts and global companies
- Cyrene™ is a new low toxicity biodegradable industrial solvent developed for a +1 million tonne market currently dominated by petrochemical based products
- Cyrene™ was used in production of the highest quality conductive graphene ink ever reported through a study by the University of Manchester<sup>1</sup> (“birthplace” of Graphene). Graphene is a material that could enable game-changing electronic innovations
- Further opportunities include bio-polymers and pharmaceuticals (e.g. Levoglucosenone is being explored as a starting molecule to produce Ribonolactone for the production of promising COVID-19 treatments, including Remdesivir)



# Green re-industrialisation of Norway

## Norwegian mills at risk

- Proposal to establish a Green Restructuring Fund of **NOK 10 billion**
- Available for the 40-50 largest **energy-intensive** industrial companies in Norway
- Need for major investments due to the **corona pandemic**
- The pandemic may have created a new lasting sectorial **market balance**
- Pre-requisite of being **climate neutral** by 2030
- Funds available for significant **value creation and securing jobs** in local communities
- Schemes are processed via **established channels** (Enova, Innovation Norway)



We create  
green value

- **Political framework must be in place to develop Norwegian industry:**
- **Energy market:** implement measures that improve Norwegian competitive energy market advantages
- **Grid tariffs:** stop the proposed sharp increases
- **Logistics:** increase investments in infrastructure for rail and roads
- **CO2 compensation:** ensure the continuation of the CO2-scheme in line with EU's scope



# Outlook

## **Clear priorities in the short term**

- Secure the health and safety of our employees
- Actively adapt to market changes
- Maintain a robust balance sheet

## **Execute on strategy in the long term**

- Become a leading producer of renewable packaging
- Remain a producer of all publication paper grades
- Develop the downstream forest industry in Norway
- Improve and reposition Australasian operations



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