

*Future on Paper*

# Nordic Basic Industry Seminar

## Handelsbanken

11 March 2010

Sven Ombudstvedt, President and CEO





*Future on Paper*

## Company specifics & the industry

# The world of Norske Skog



# Norske Skog in Europe

- Seven mills, capacity 3 163 000 tonnes  
= 70 % of total capacity
  - Std newsprint etc 1 763 000 tonnes
  - Magazine grades 1 400 000 tonnes
- Good cost position (1<sup>st</sup> quartile) for Skogn, Golbey and Saugbrugs (combined 55 % of European capacity)
- Longterm market development:
  - Newsprint: Most likely declining
  - Magazine grades: Expect increased demand



# Norske Skog in Australasia

- Three mills, capacity 880 000 tonnes of std and improved newsprint
- Only producer, high market share and good long term customer relations
- Favourable cost position, and historically a good cash flow

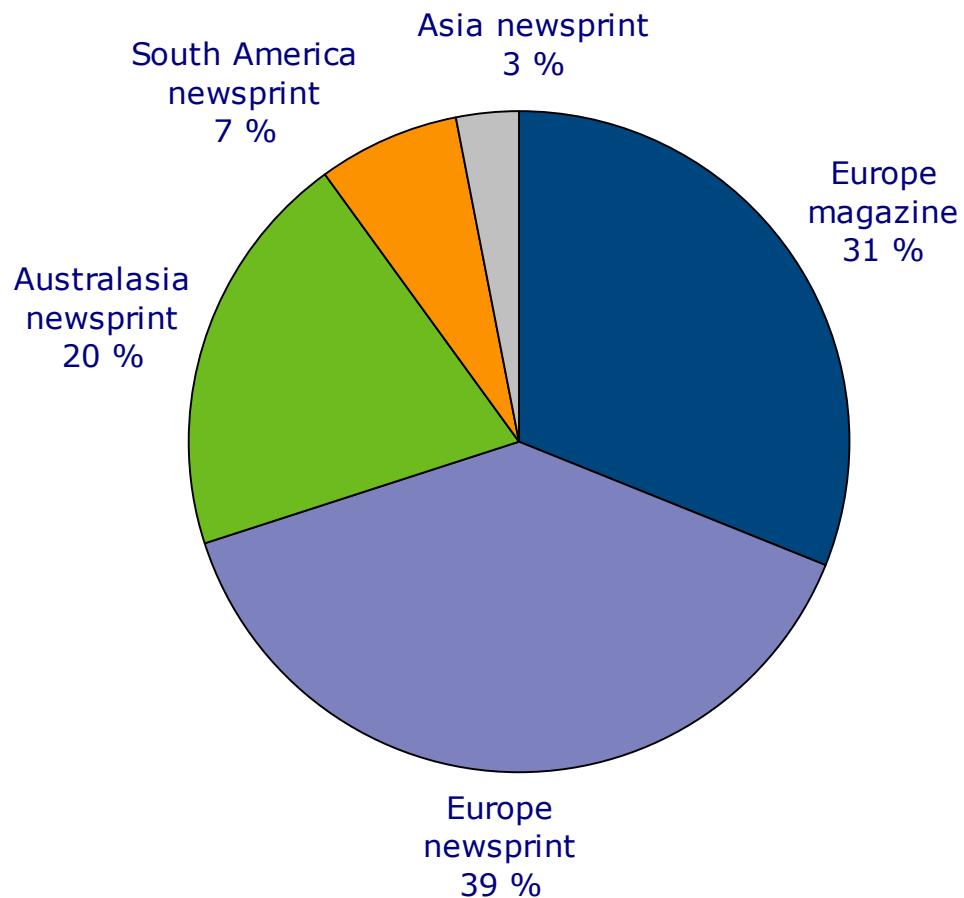


# Norske Skog in South America

- Two mills, capacity 310 000 tonnes of std newsprint, book paper etc
- Largest producer, good cost position
- Growth market, but volatile
- Opportunities within bio energy
- Earthquake in Chile
  - No injuries on personnel, limited economic impact

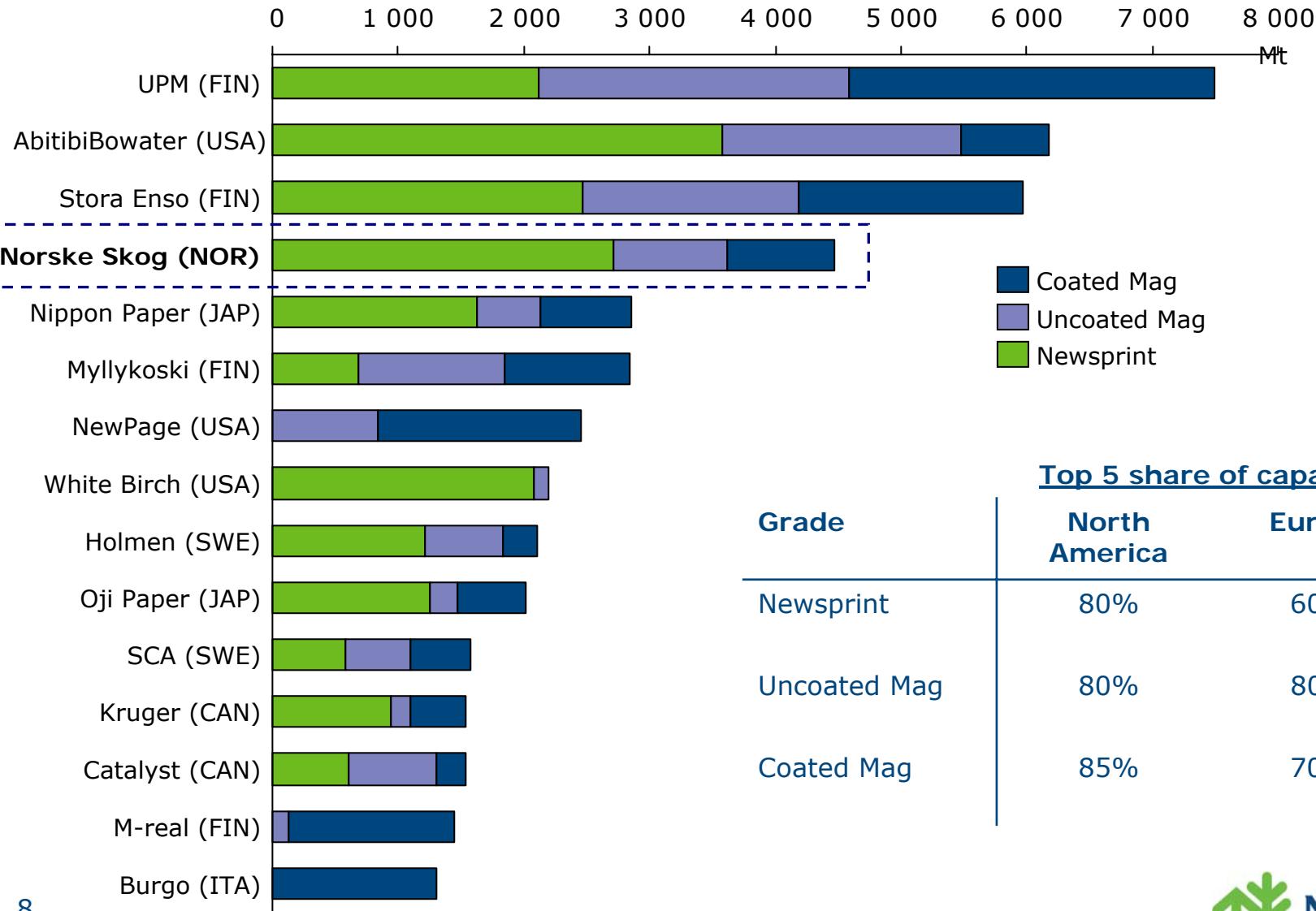


# Production capacity by segments

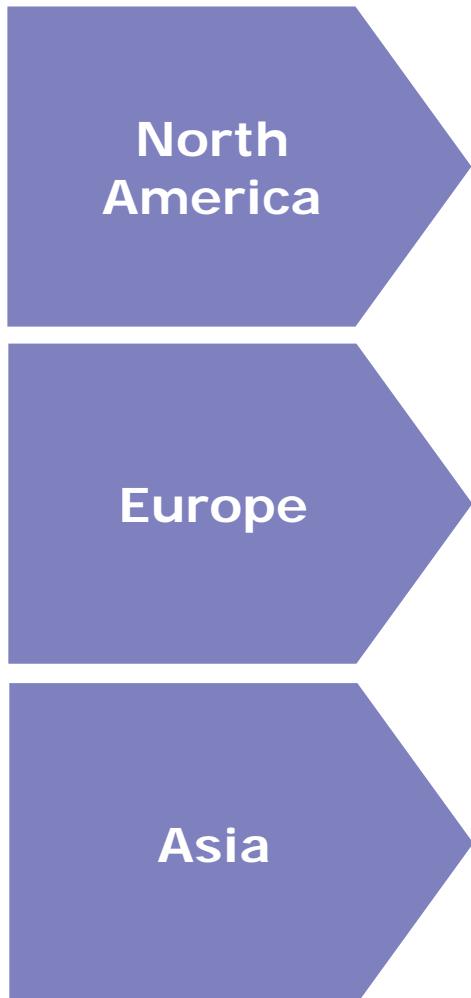


- Total capacity 4.5 mill. tonnes
  - Newsprint etc. 3.1 m.t.
  - Magazine 1.4 m.t.

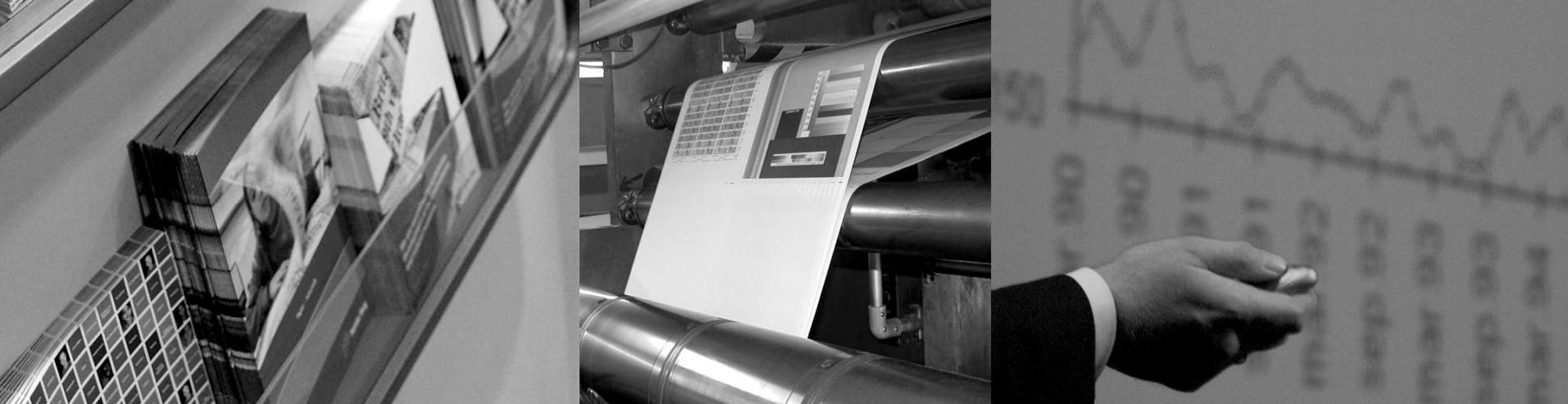
# Top global publication paper companies



# Industry structure



- Consolidated
- Steep fall in demand
- Less consolidated
- Fall in demand, but less than North America
- Fragmented
- Increase in demand



*Future on Paper*

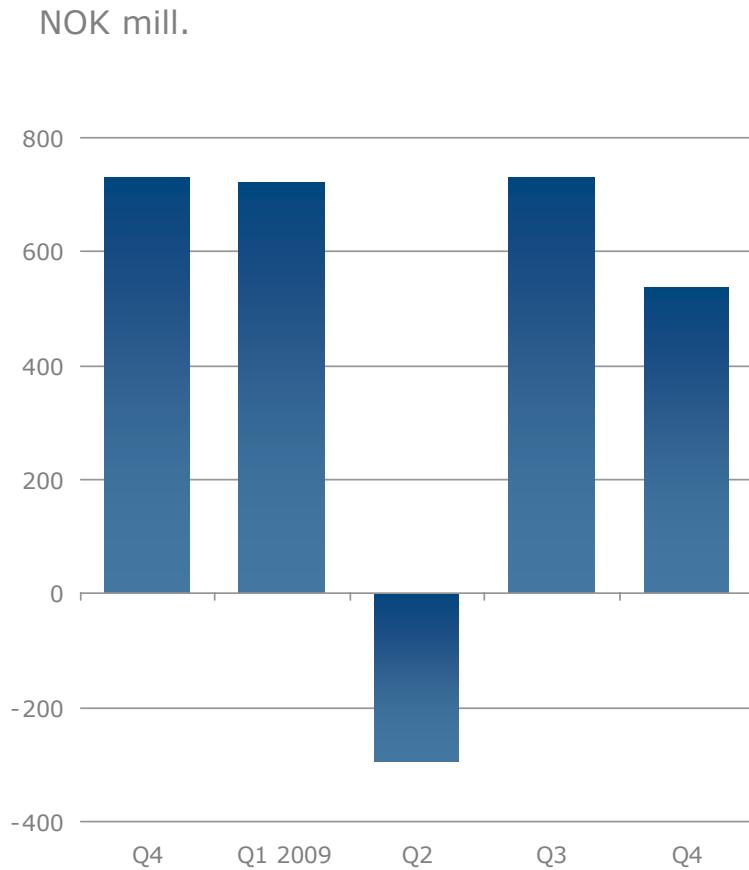
# Financials

# 2009 – Key P&L figures

	2009	2008
Revenue	20 362	26 468
<b>EBITDA</b>	<b>2 185</b>	<b>2 723</b>
Depreciation	(2 465)	(2 623)
Special items	(1 046)	(1 508)
<b>EBIT, IFRS</b>	<b>(1 325)</b>	<b>(1 407)</b>
Financial items	280	(1 402)
<b>Net result</b>	<b>(1 400)</b>	<b>(2 765)</b>
<i>Shipments, 1 000t</i>	3 894	5 412
<i>Operating rate</i>	79 %	93 %

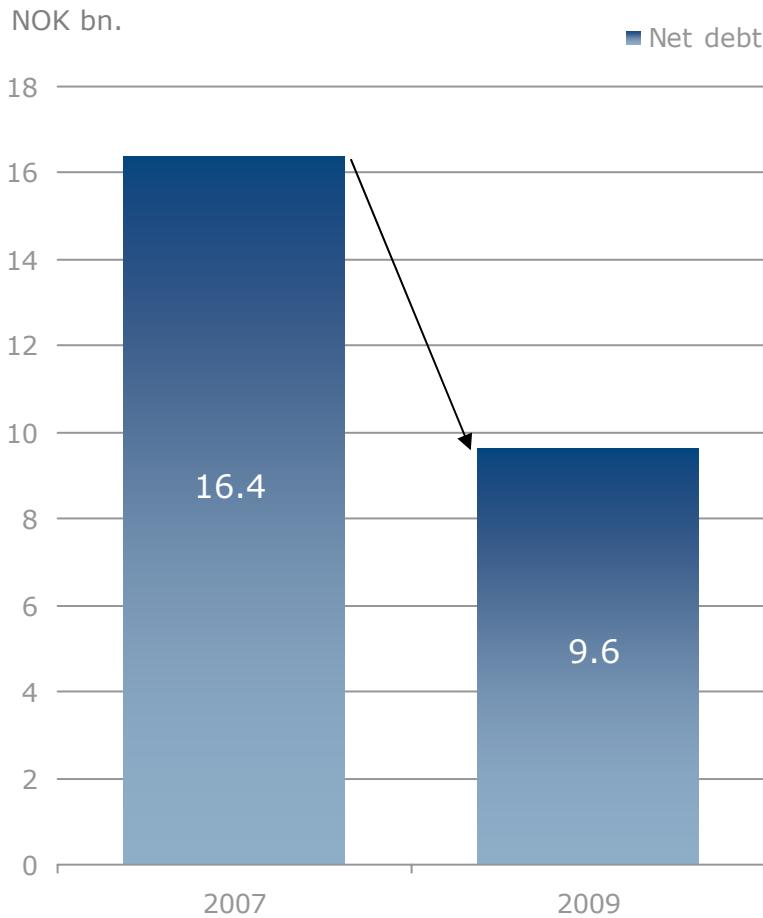
- Much lower volumes YoY
  - Divestments and closures of capacity
  - Unprecedented drop in demand
- Improved net result YoY
  - Positive impact from value change on energy portfolio and financial items

# Cash flow\*



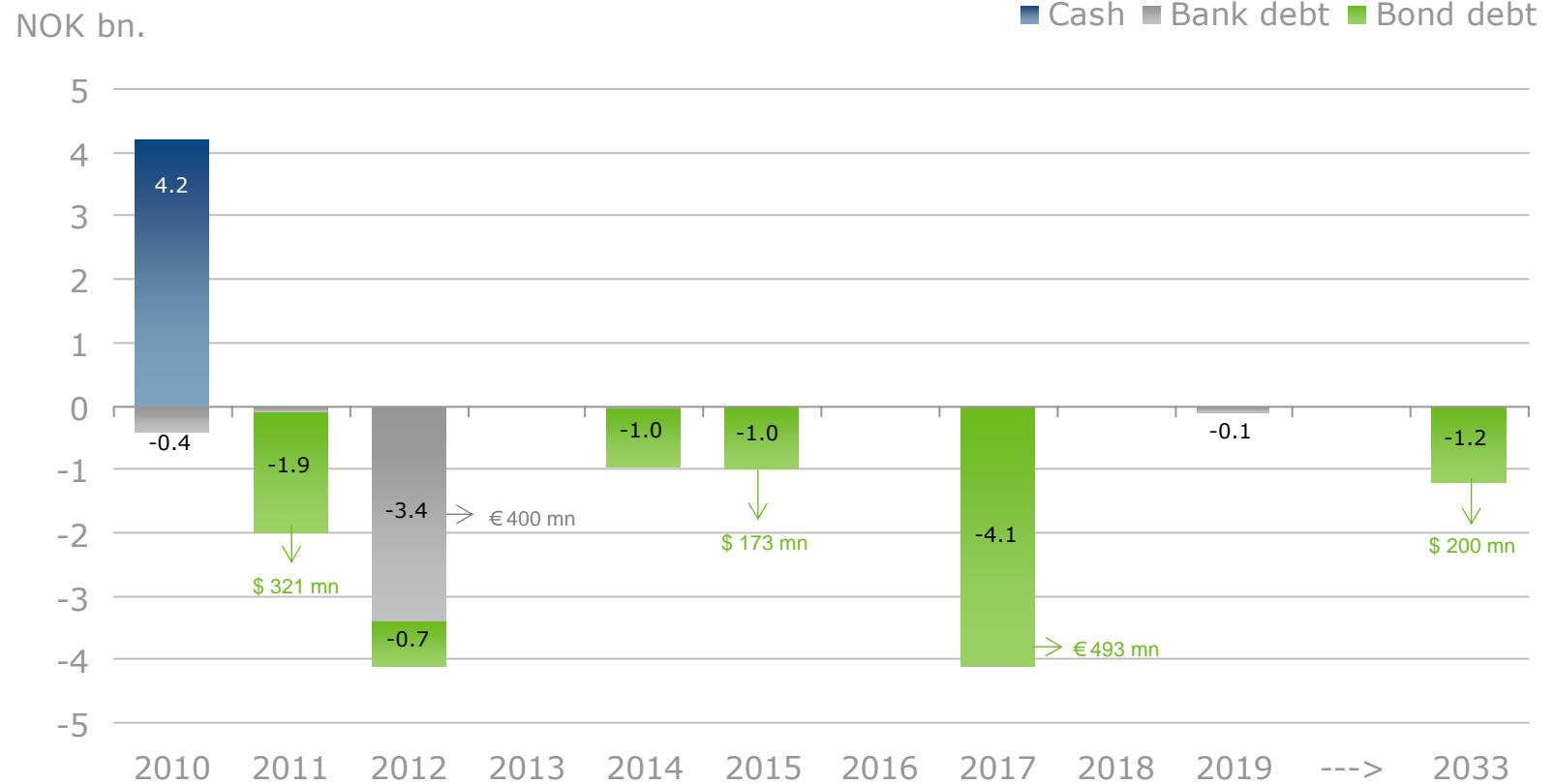
- **Cash flow 2009: NOK 1 697 mill.**
  - Down from NOK 1 977 mill. in 2008
  - Lower EBITDA partially offset by reduction in working capital and lower fin. items and paid taxes
  - Capex of NOK 580 mill. in 2009
  - Free cash flow after capex: NOK 1 117 mill.

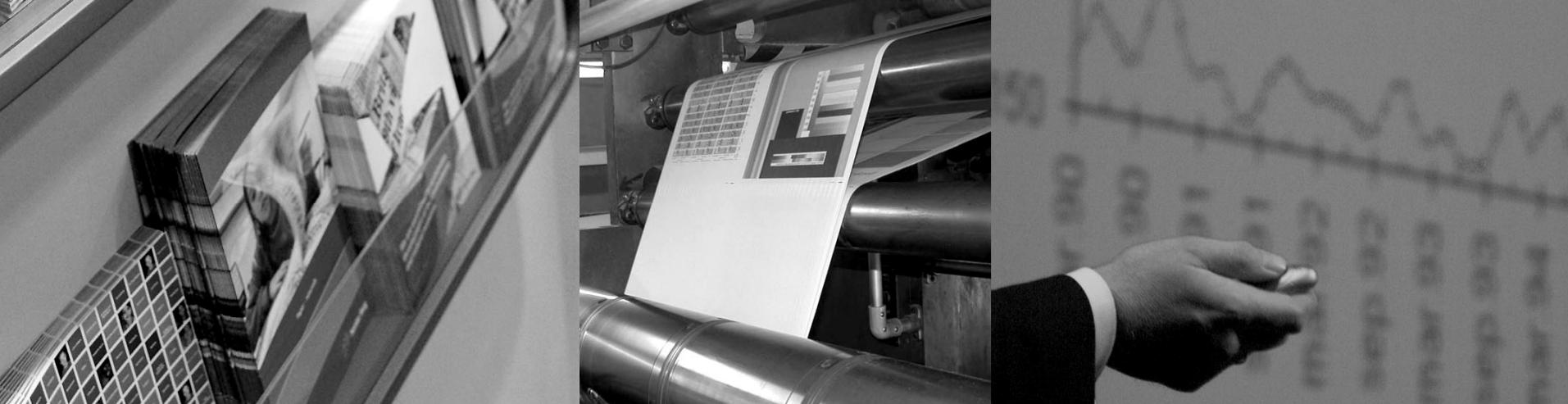
# Considerable reduction in net debt



- Net debt reduced by NOK 6.8 bn. since end 2007
  - Retained free cash flow
  - Net debt effect from bond buy-back of NOK 643 mill. in 2008 and 2009
  - NOK 5.4 bn. through asset sales
- No material currency impact over this period
- Gearing: 0.80

# Cash and debt maturity profile, 31.12.2009



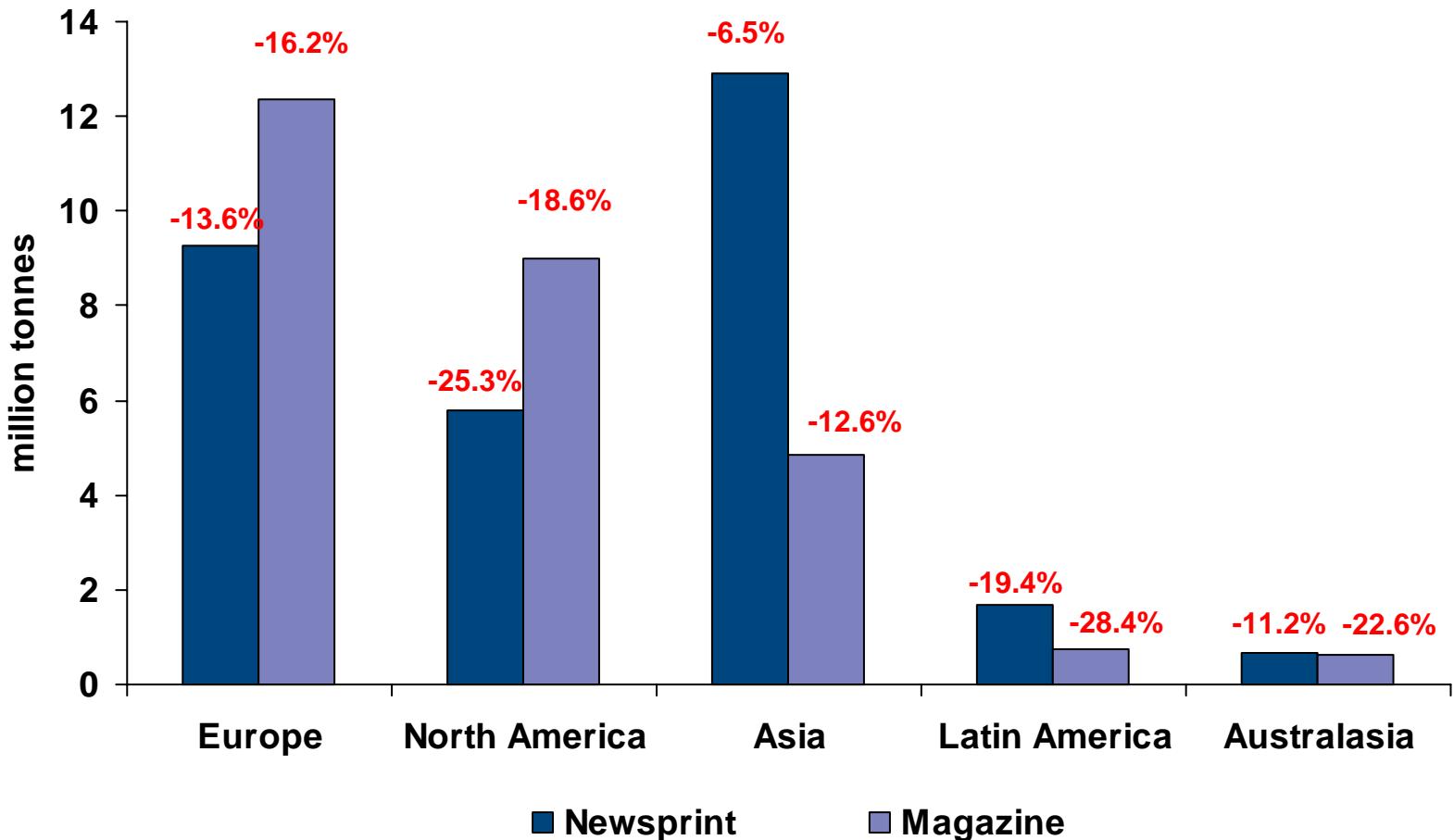


*Future on Paper*

# Market update, early 2010

# Regional demand for publication paper

## 2009 demand & change '09/'08

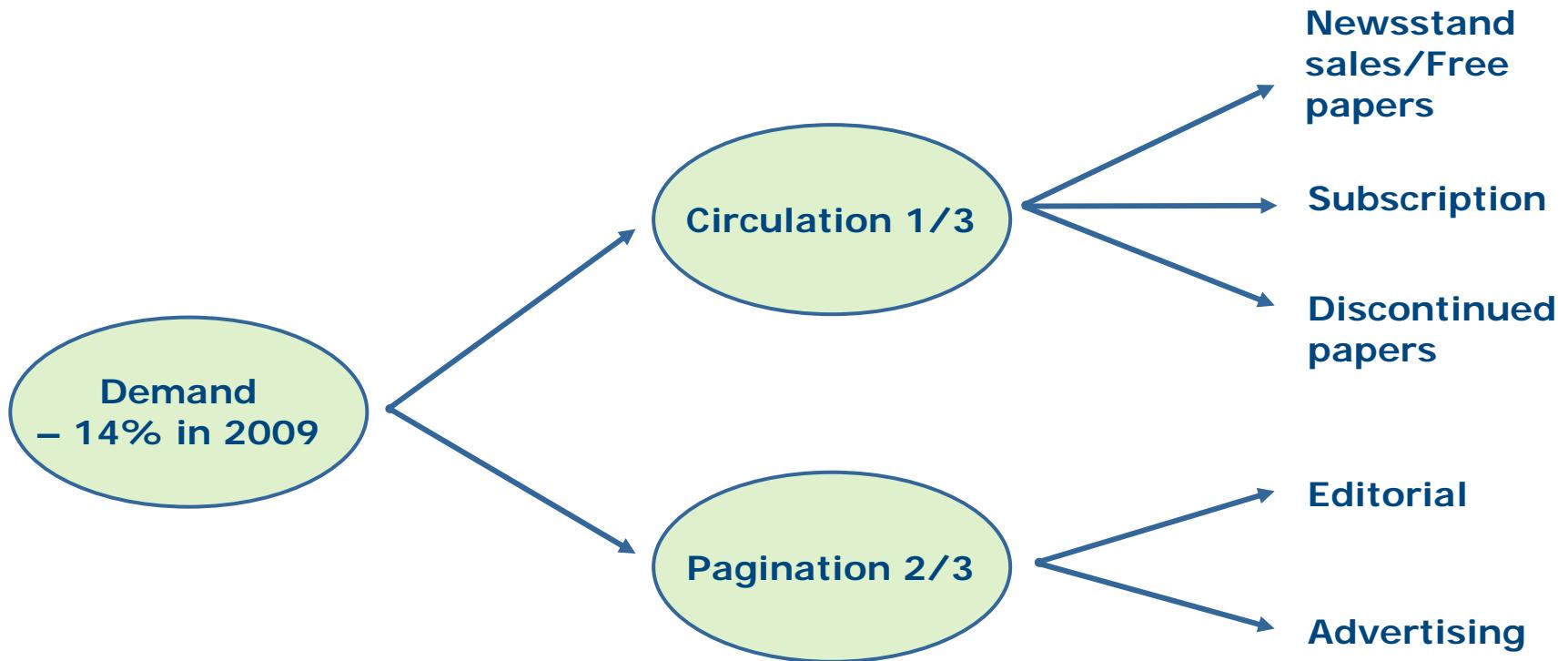


Sources: PPPC

Newsprint = Standard newsprint

Magazine = Coated, supercalendered and other (improved newsprint etc.)

# Demand decrease in newsprint Europe



# Regional development

Asia Pacific  
(Australasia)

- European-like drop in demand, but less affected by the financial crisis
  - High interest rate level and strong AUD
  - Unemployment rate down
  - ~70% export to the strong growing Asian economies
- Ongoing long term contract negotiations

South  
America

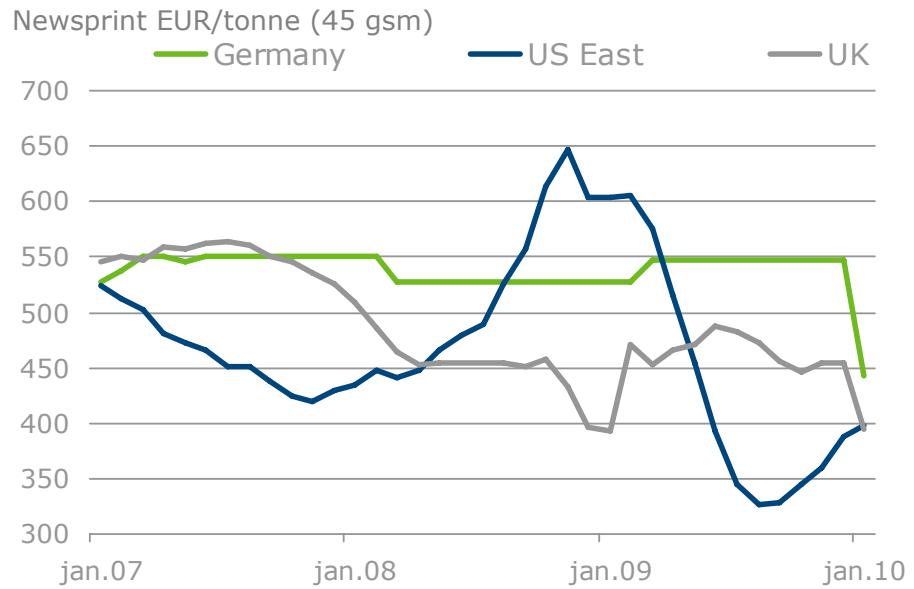
- Growth in economy, but volatile demand
- Lag vs. North American price hikes

Europe

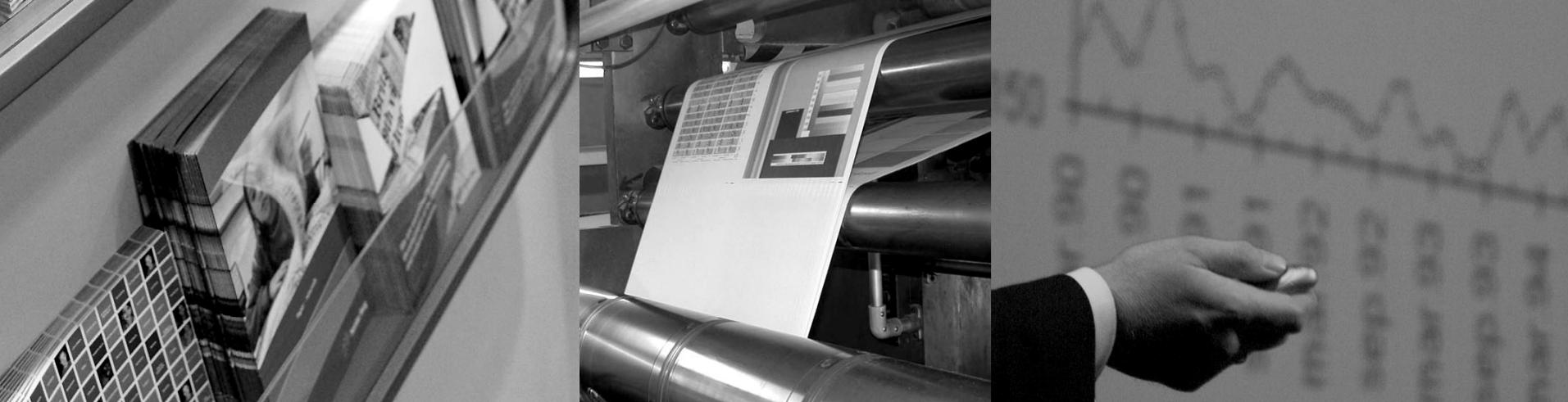
- Significant price drop, but very competitive cost position on mills
- January shipments up 1% for publication paper YoY

# Price development

- Expected prices in Europe 2010:
  - Newsprint:
    - Drop of 15 – 20% on the Continent
    - Drop > 20% in Norway
  - Magazine:
    - Expected drop of 5 – 10%
- Newsprint prices in North America:
  - Rock bottom level in Autumn 2009, some increase thereafter
  - Will have positive impact also in South America and Asia



Source: RISI

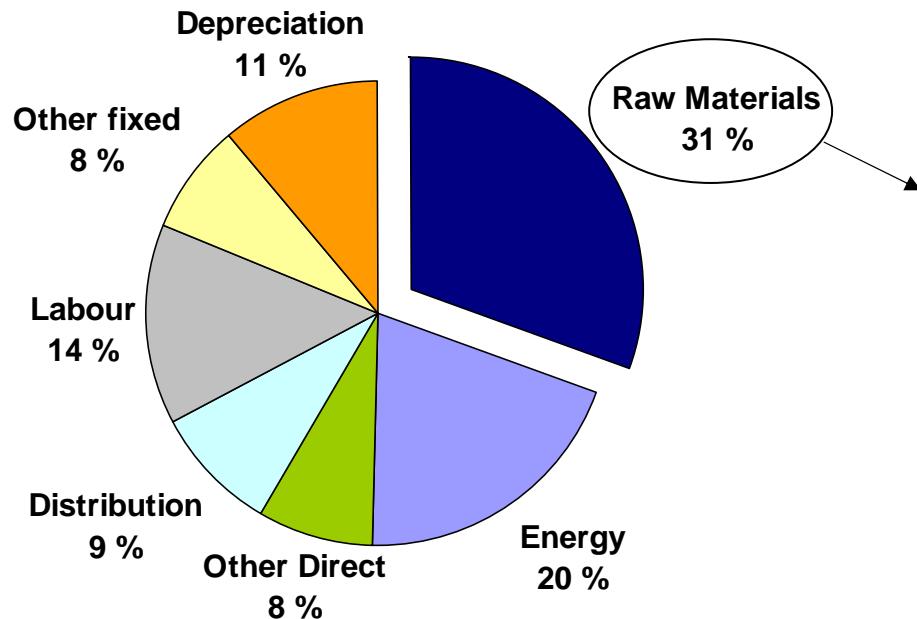


*Future on Paper*

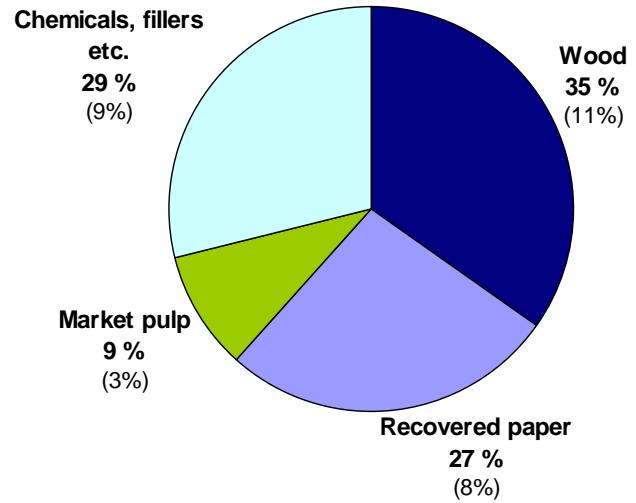
# Costs

# Total cost breakdown\*

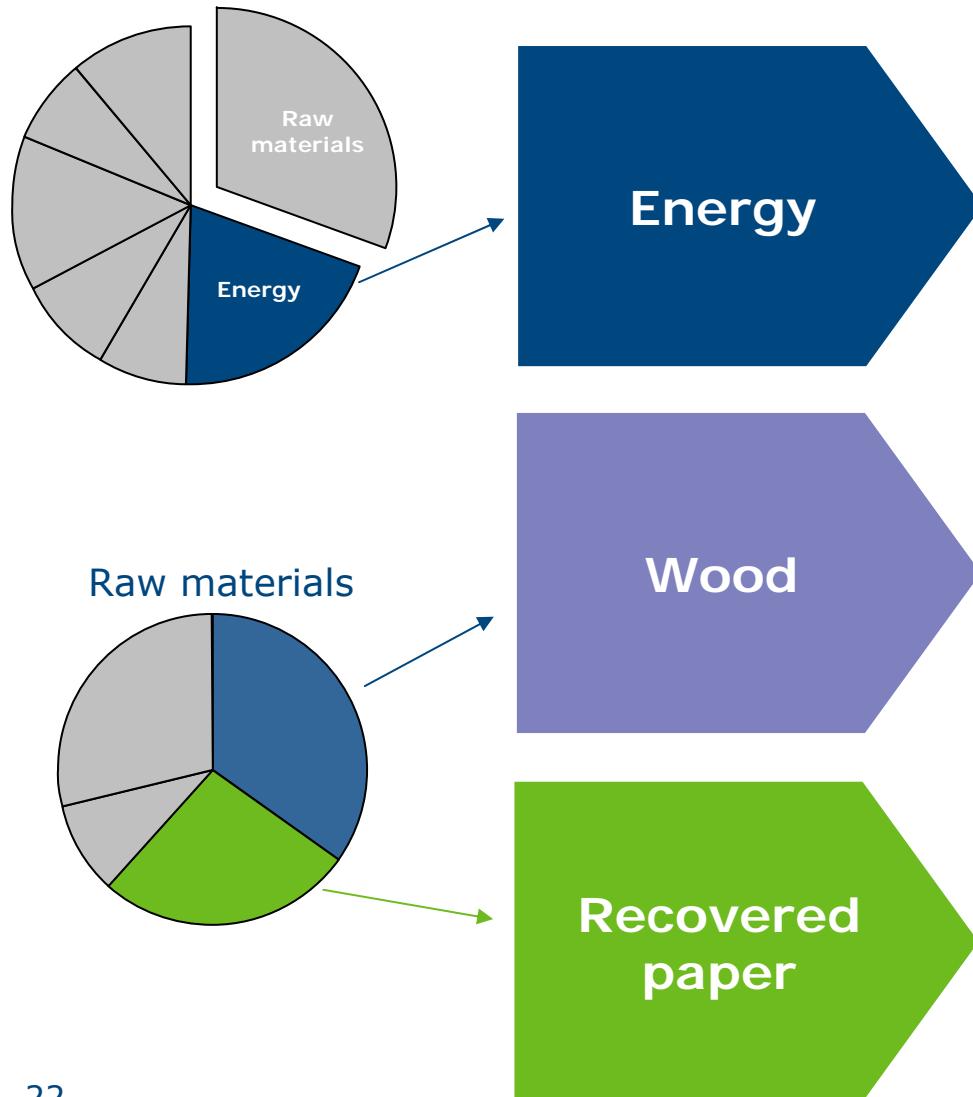
Total cost



Raw materials



# Input costs



- 2/3 electricity of which 75% bought under long term contracts in
  - Norway, Brazil and New Zealand
- Higher el-prices in Q1
- 11% of total costs
- S.America & Asia Pacific:
  - Long term contracts at favourable prices
- Continental Europe
  - Market exposure
- Norway
  - Fixed contracts
- 8% of total costs
- Reduced exposure for NS after disposals in China and idling PM2 in Parenco
- Upward pressure on prices

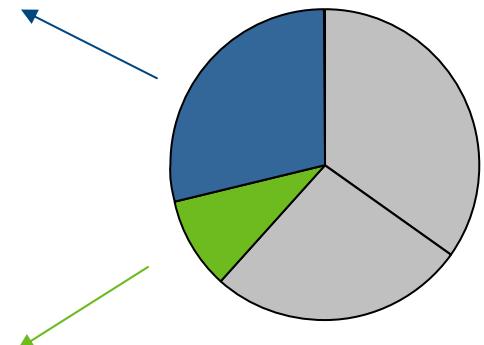
# Input costs (cont.)

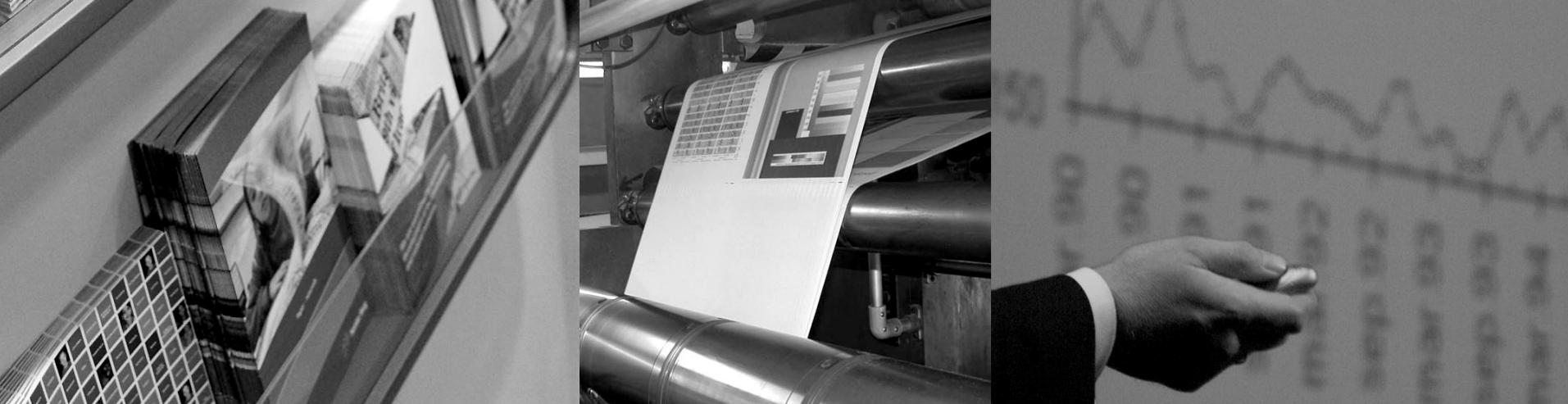
Chemicals,  
fillers etc.

- 9% of total costs
- Increased prices end of 2009
- Still upward pressure

Pulp

- 3% of total costs
- Upward pressure on prices
- Increased price pressure after earthquake in Chile
- NS exposure ~200kt in magazine production

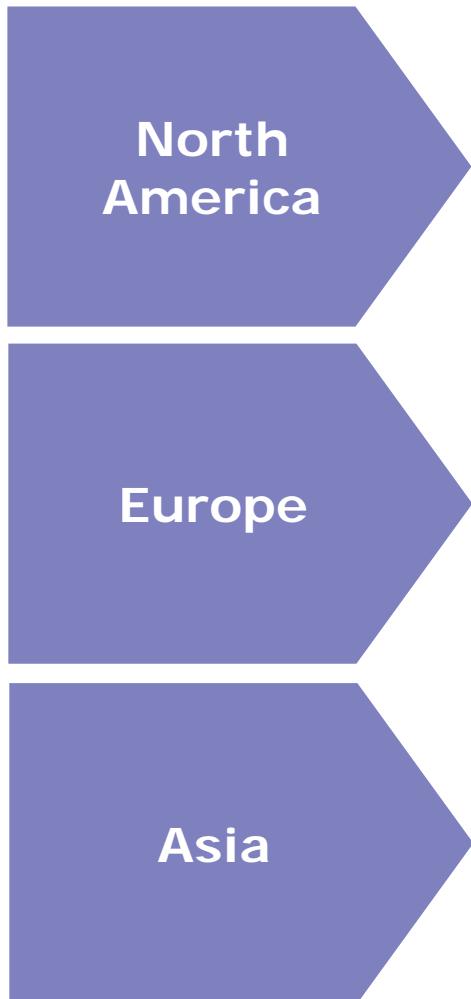




*Future on Paper*

## Closing remarks

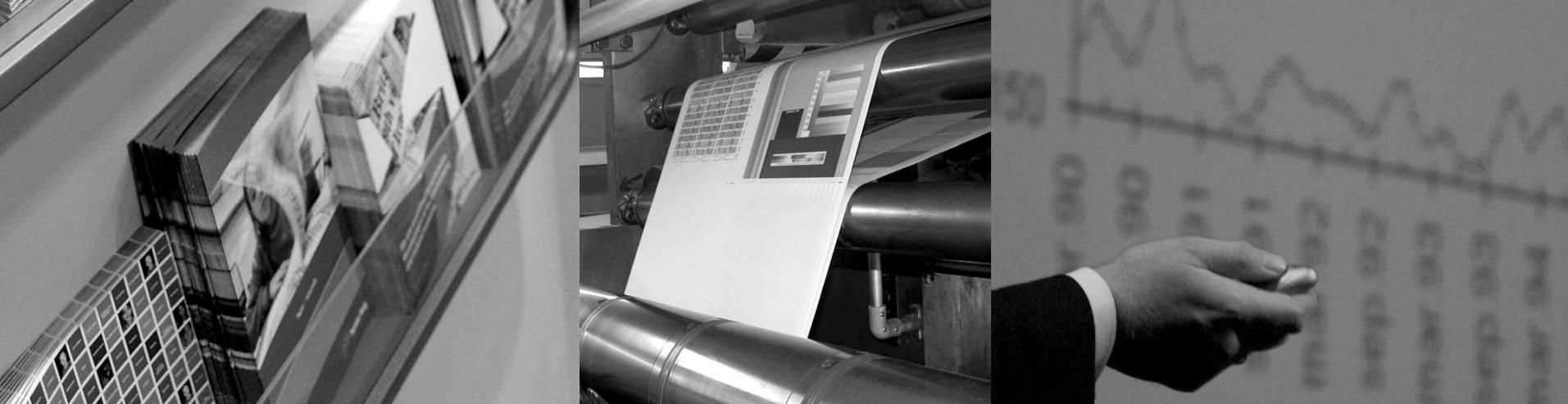
# Industry structure



- Consolidated
- Steep fall in demand
- Less consolidated
- Fall in demand, but less than North America
- Fragmented
- Increase in demand

# Outlook

- Somewhat improved demand in the course of 2010 could be expected, but still not in balance with capacity
  - Present price level in Europe not sustainable
  - Moderate price increase in South America and Asia expected
  - New long-term contracts under negotiation in Australasia
- Increased cost on certain input factors expected
- Management focus
  - Continuous cost reductions and operational improvements
  - Optimization through capacity management
  - Measures to further strengthen financial position



*Future on Paper*

# Nordic Basic Industry Seminar

## Handelsbanken

11 March 2010

Sven Ombudstvedt, President and CEO

