

Future on Paper

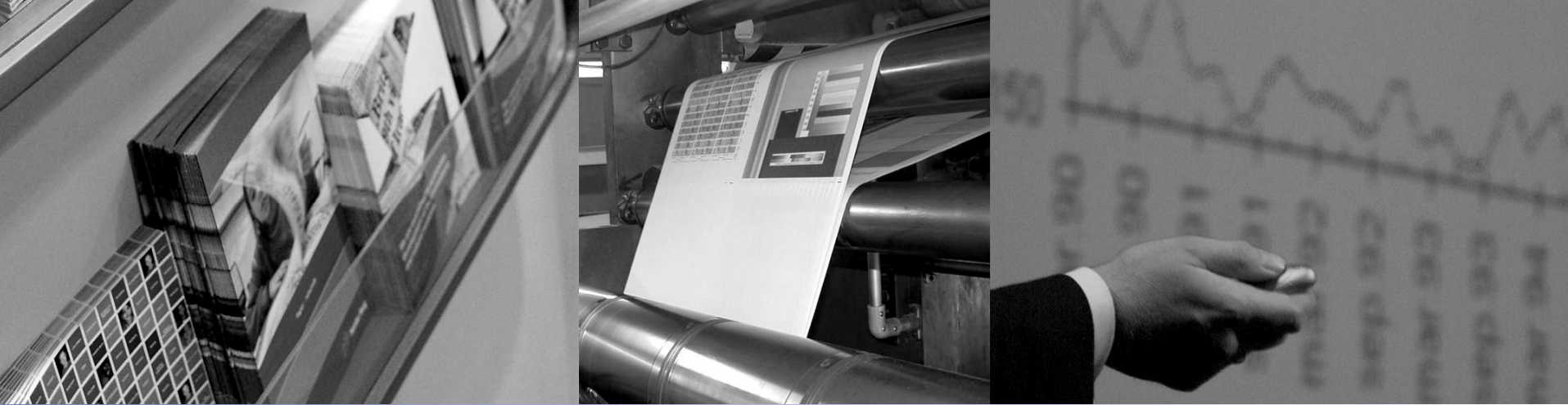
Nordic Basic Industry Seminar

Handelsbanken

11 March 2010

Sven Ombudstvedt, President and CEO





Future on Paper

Company specifics & the industry

The world of Norske Skog



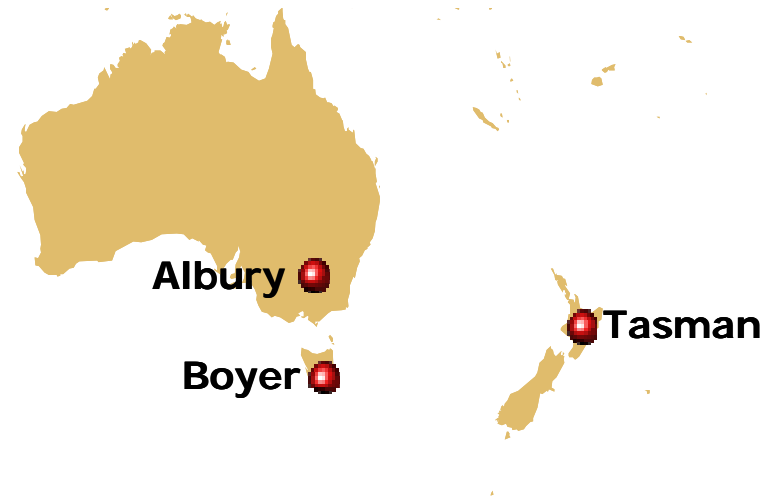
Norske Skog in Europe

- 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 (1st 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

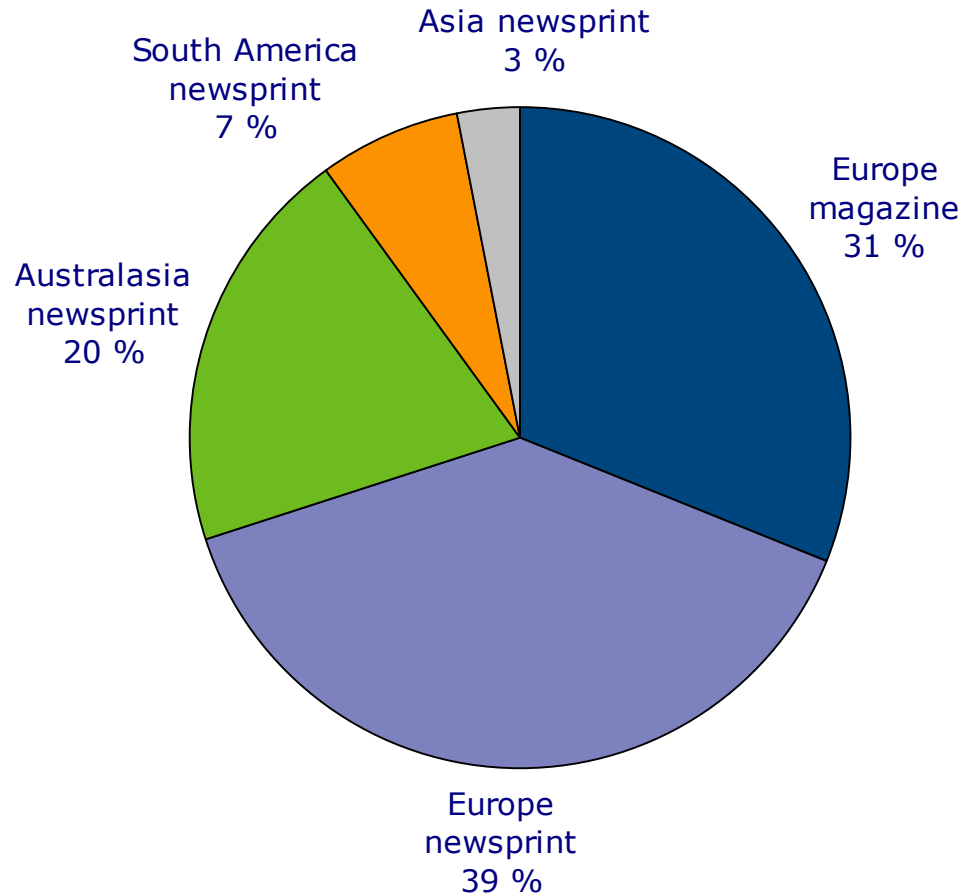


Norske Skog in South America

- 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

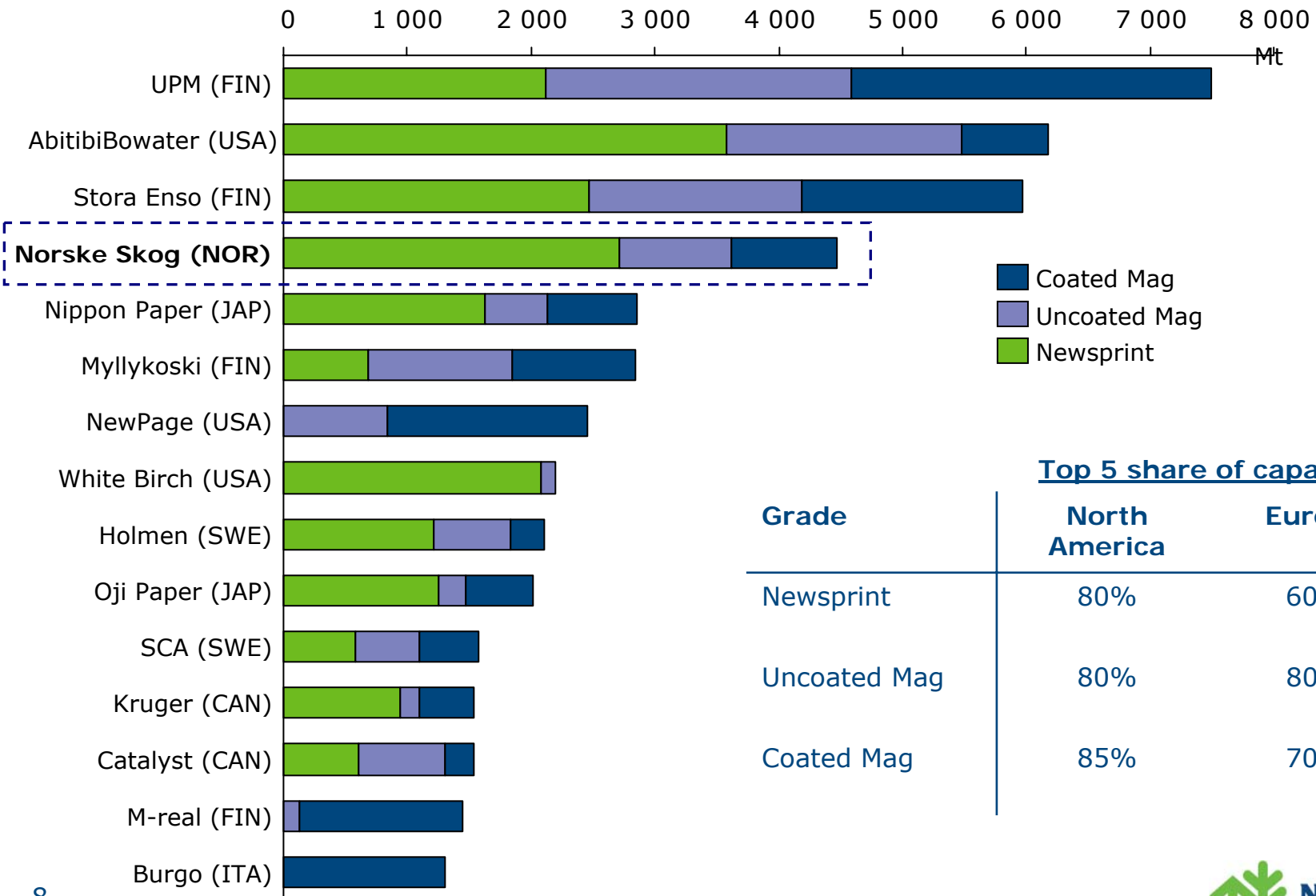


Production capacity by segments



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

Top global publication paper companies



Industry structure

North America

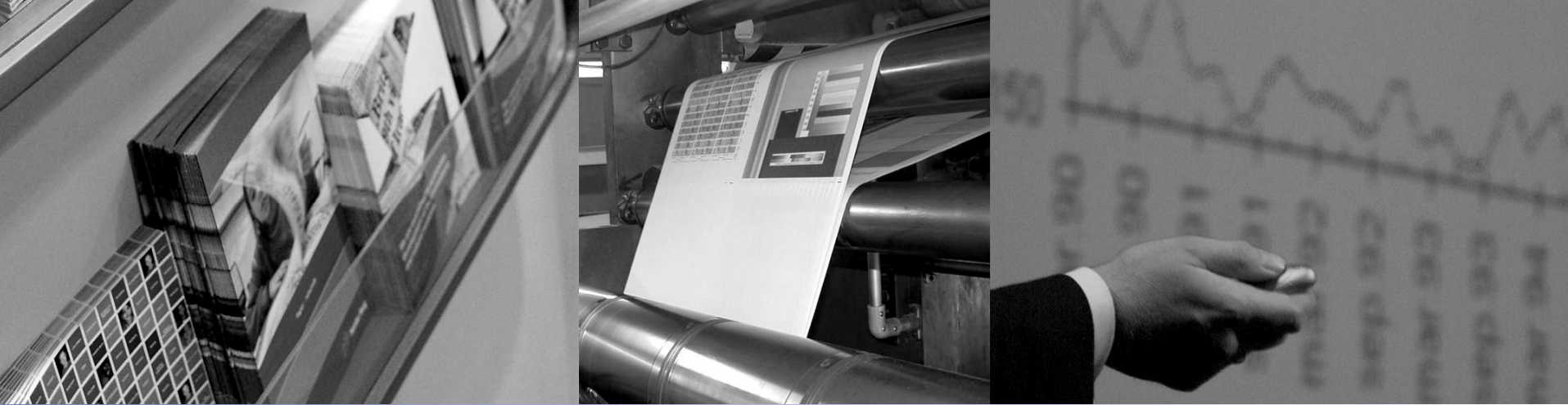
- Consolidated
- Steep fall in demand

Europe

- Less consolidated
- Fall in demand, but less than North America

Asia

- Fragmented
- Increase in demand



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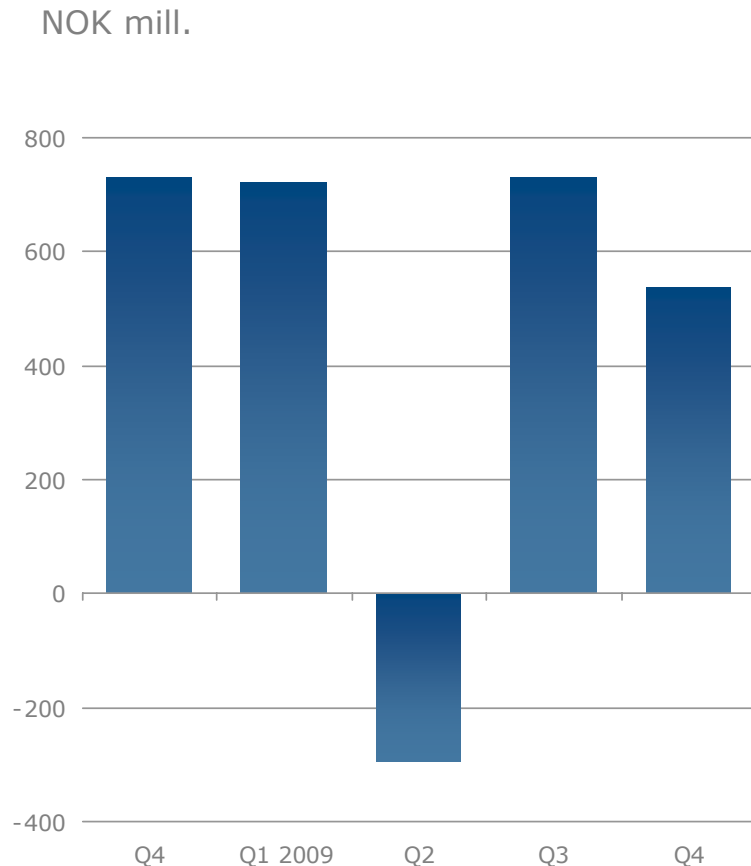
Financials

2009 – Key P&L figures

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

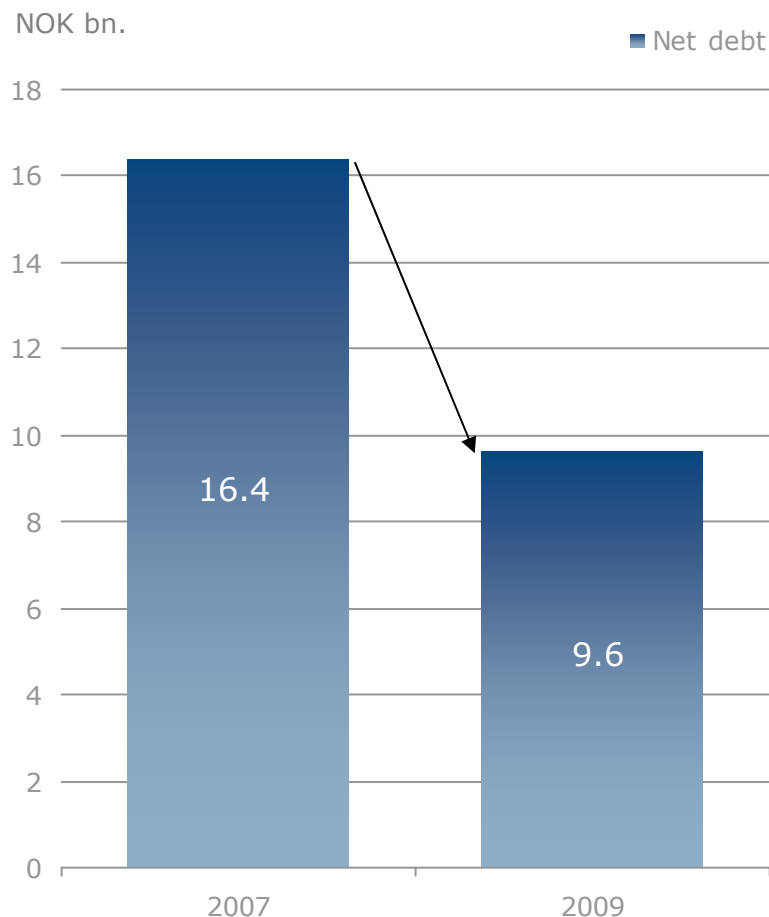
- Much lower volumes YoY
 - Divestments and closures of capacity
 - Unprecedented drop in demand
- Improved net result YoY
 - Positive impact from value change on energy portfolio and financial items

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

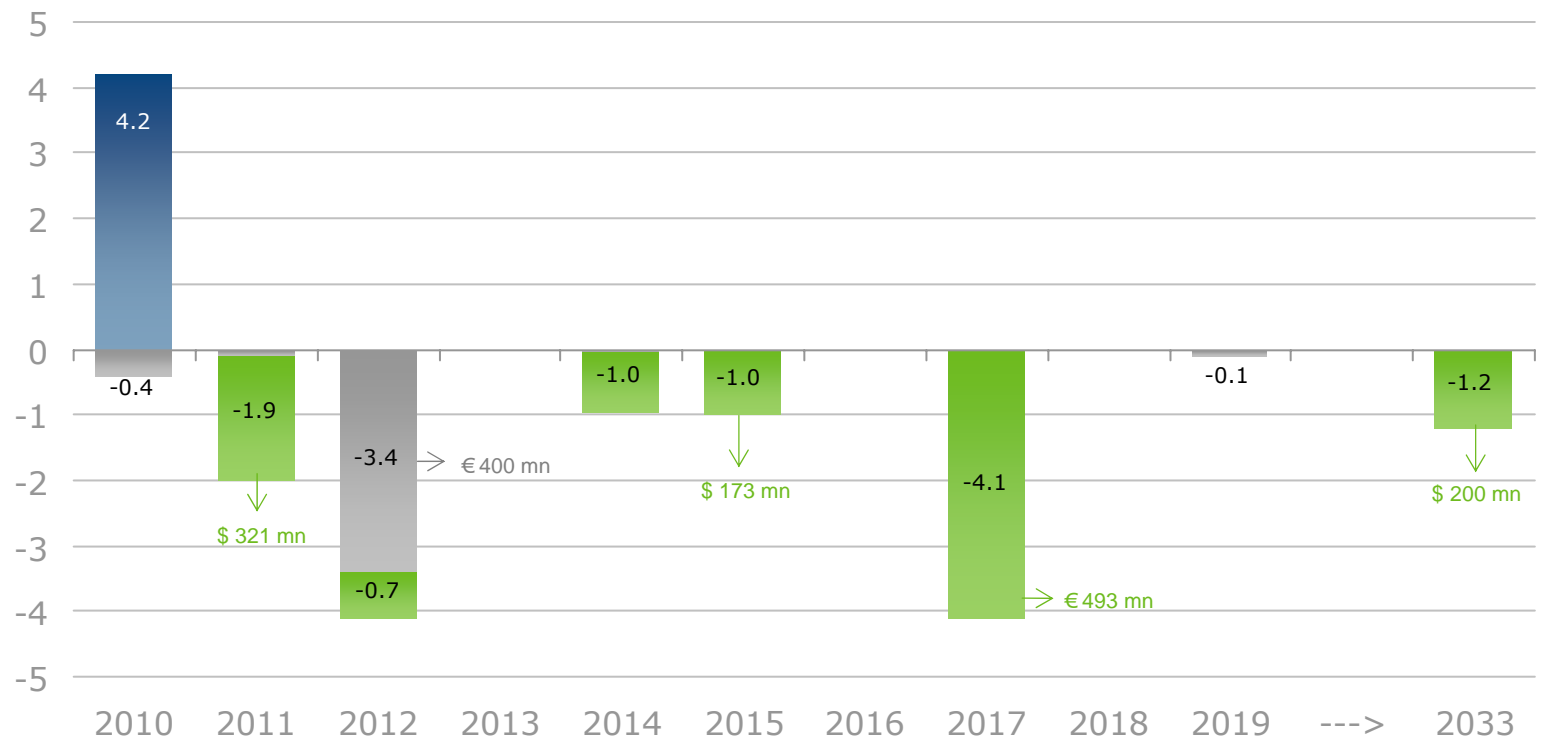


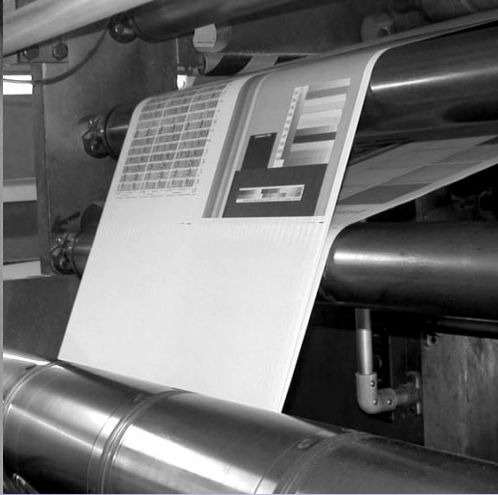
- Net debt reduced by NOK 6.8 bn. since end 2007
 - Retained free cash flow
 - Net debt effect from bond buy-back of NOK 643 mill. in 2008 and 2009
 - NOK 5.4 bn. through asset sales
- No material currency impact over this period
- Gearing: 0.80

Cash and debt maturity profile, 31.12.2009

NOK bn.

■ Cash ■ Bank debt ■ Bond debt



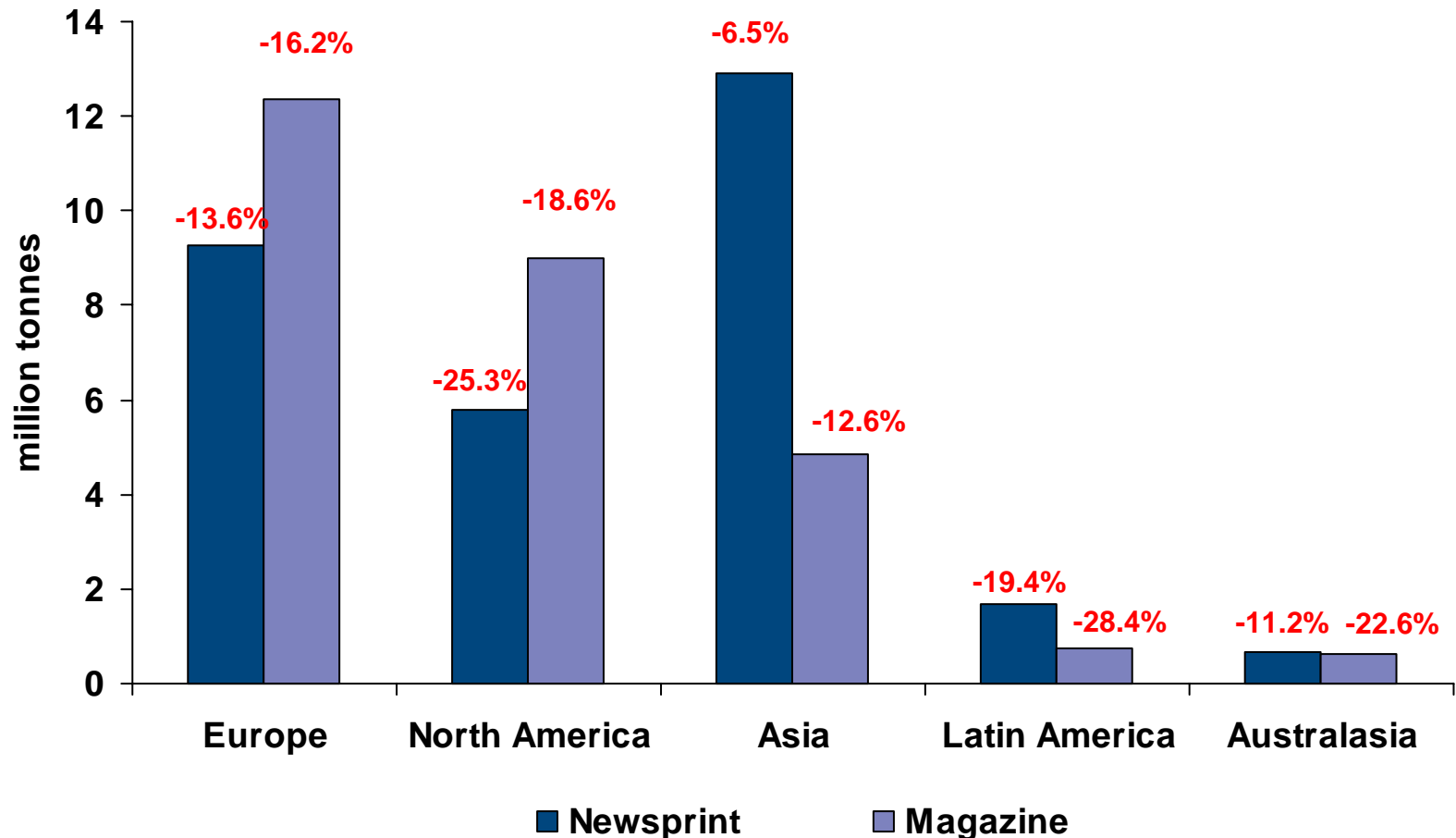


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Market update, early 2010

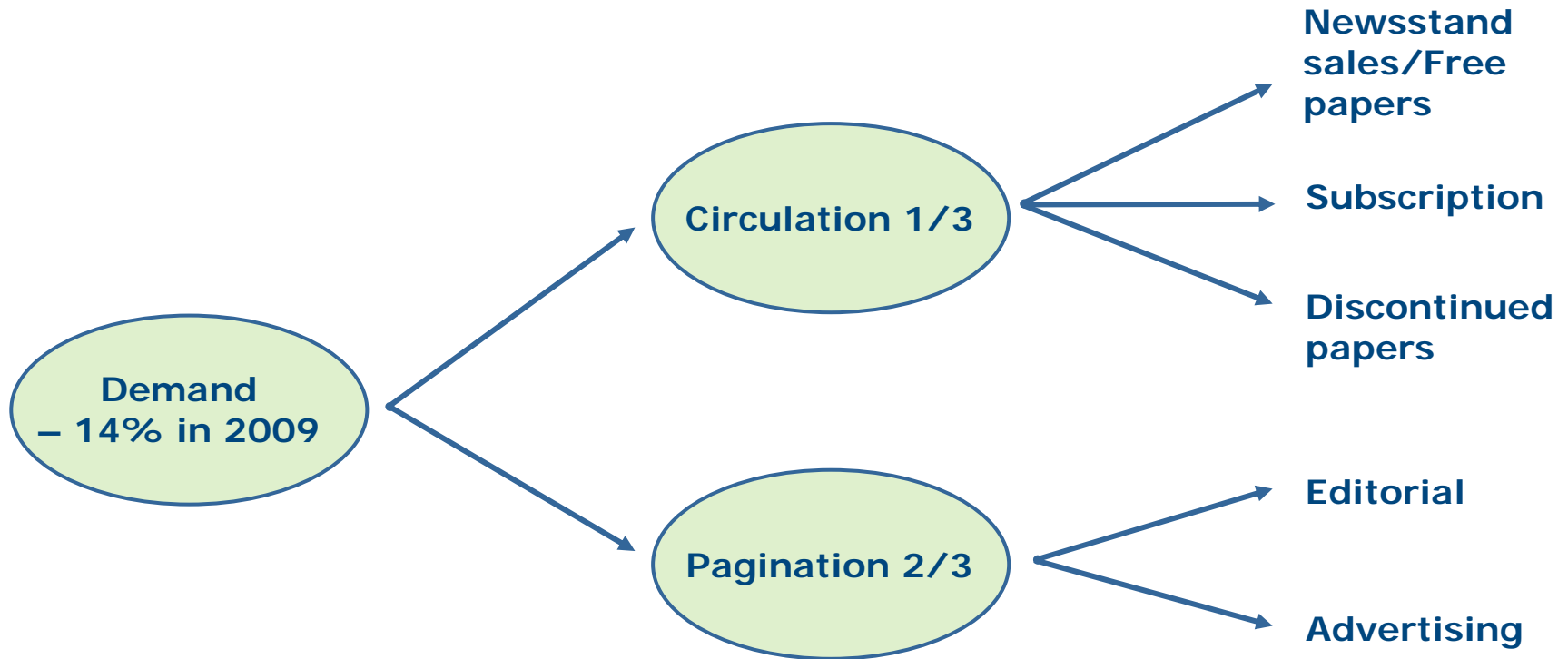
Regional demand for publication paper

2009 demand & change '09/'08



Sources: PPPC

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

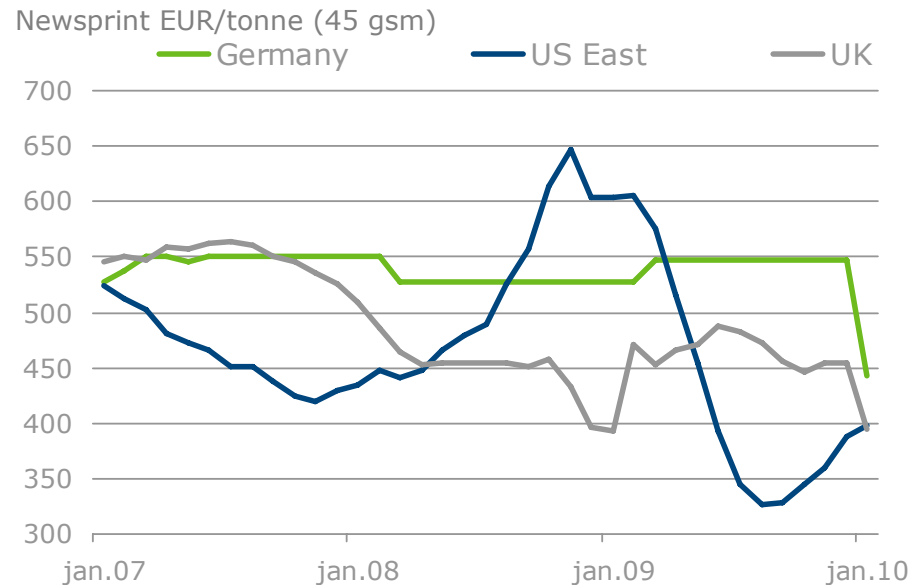
- Growth in economy, but volatile demand
- Lag vs. North American price hikes

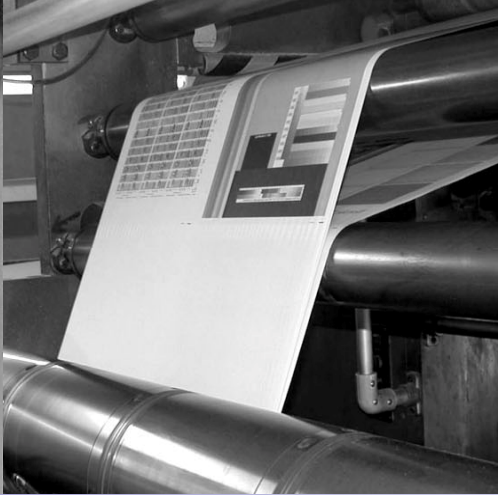
Europe

- 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



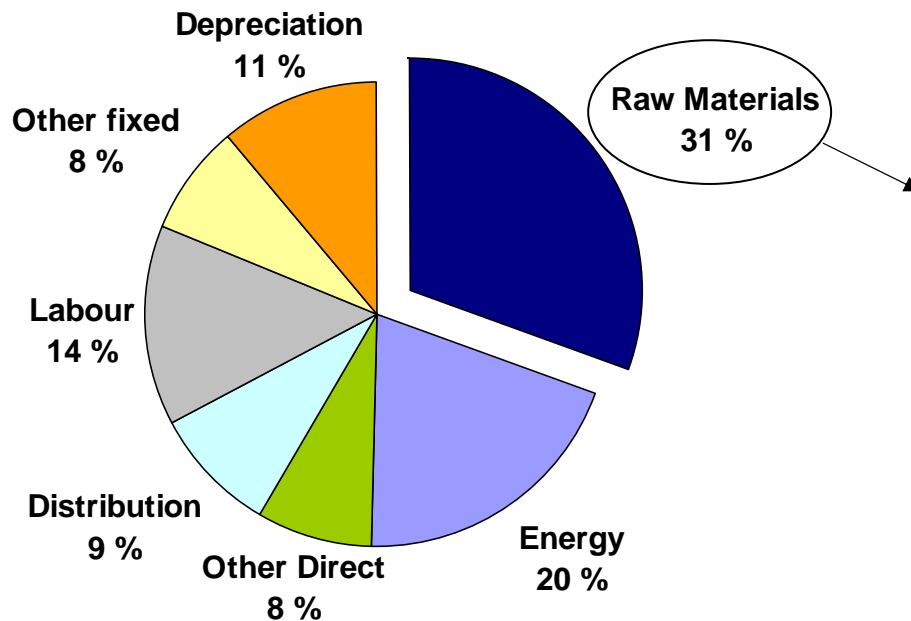


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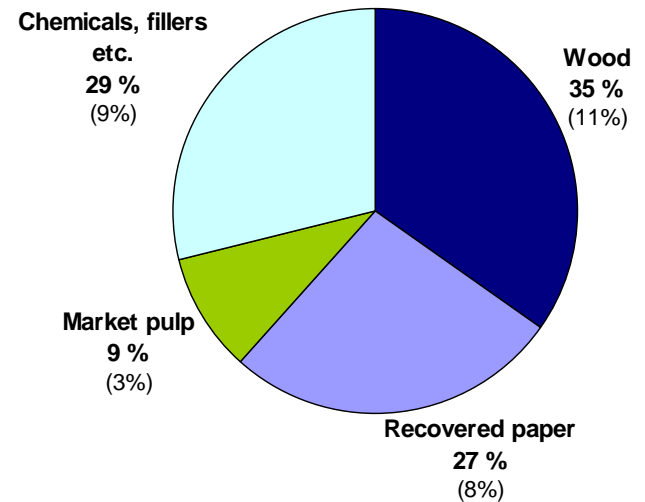
Costs

Total cost breakdown*

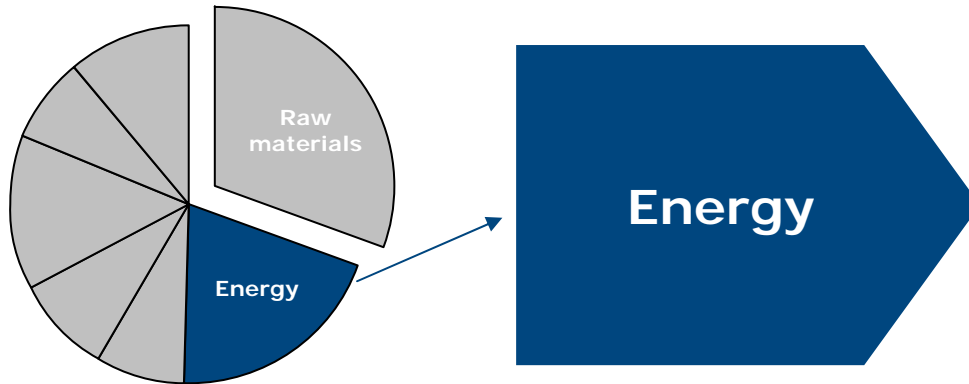
Total cost



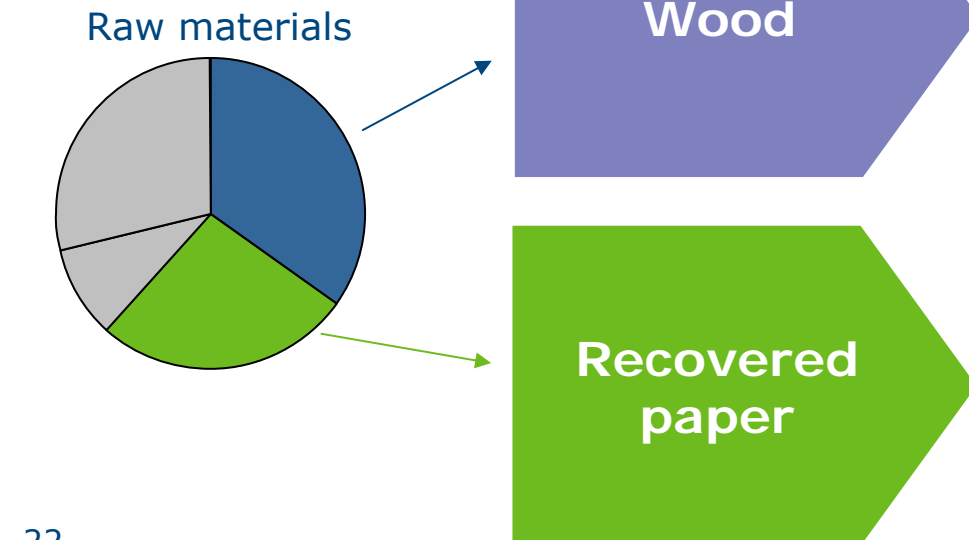
Raw materials



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

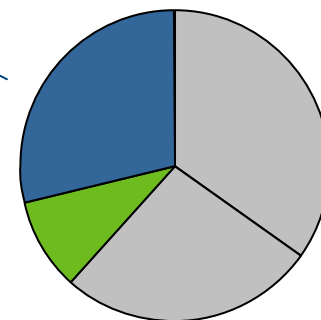
Input costs (cont.)

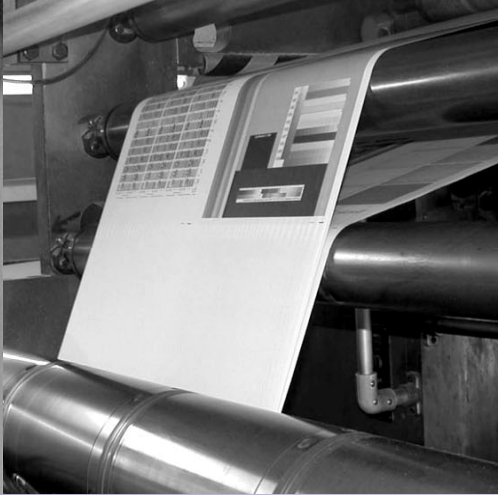
Chemicals, fillers etc.

- 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





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Closing remarks

Industry structure

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- Consolidated
- Steep fall in demand

Europe

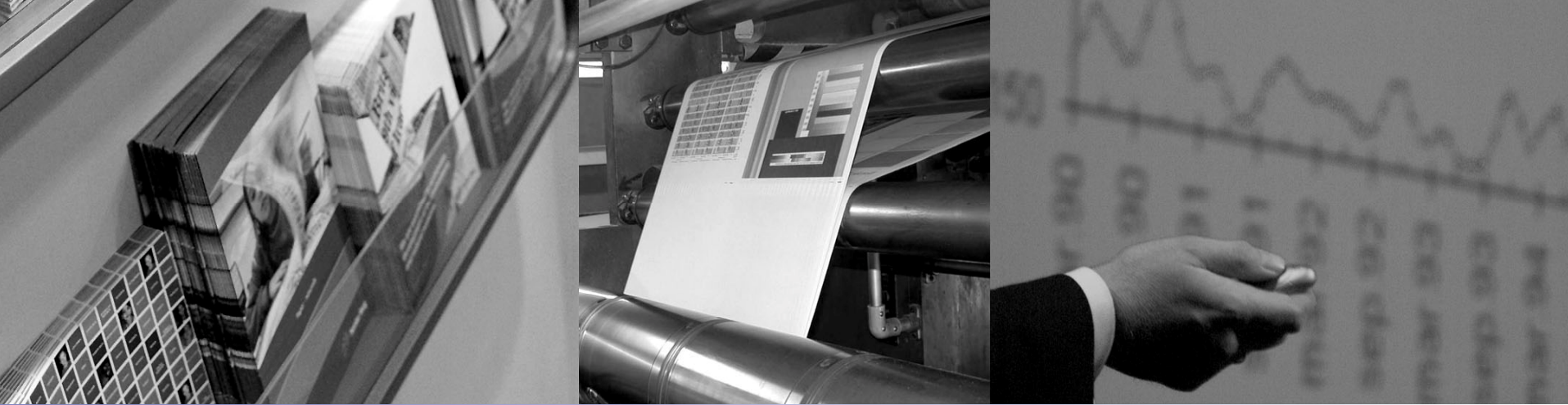
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Outlook

- 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



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