

*Future on Paper*

## Knight Libertas Credit Conference

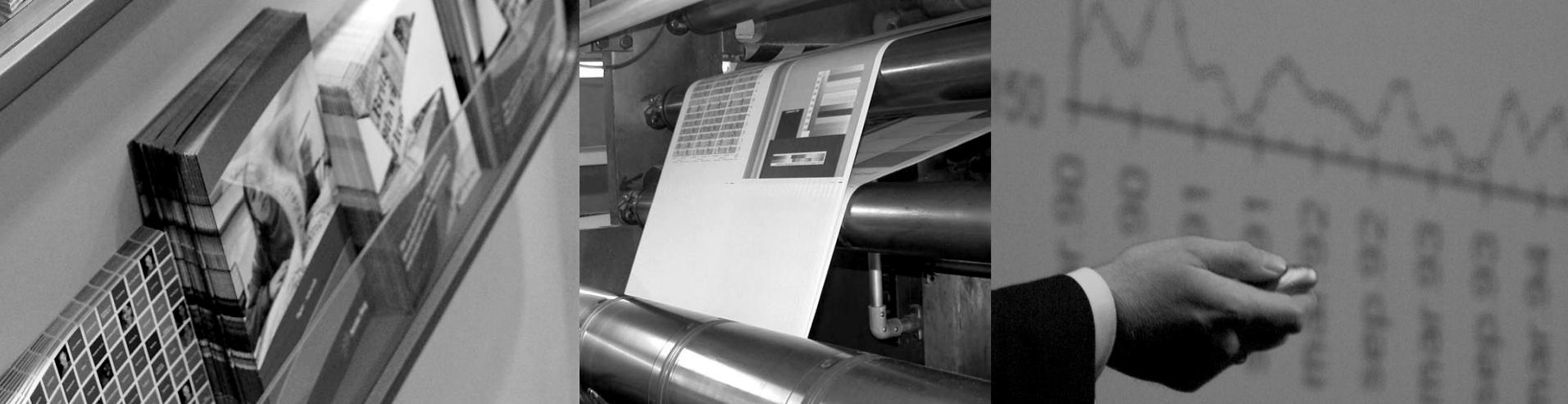
London, 25 March 2010

Odd-Geir Lyngstad, Corporate Treasurer and Deputy CFO



# Overview of presentation

- Company specifics & the industry
- Three performance drivers
- Norske Skog's response
- Financials and outlook



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## Company specifics & the industry

# Norske Skog headlines

- A leading producer of publication paper:
    - 14 mills in 11 countries
    - Revenue (2009)
      - ~ NOK 20.4 bn/US\$ 3.2 bn
    - 5,700 employees
  - Listed in Oslo
    - no controlling shareholder



# The world of Norske Skog



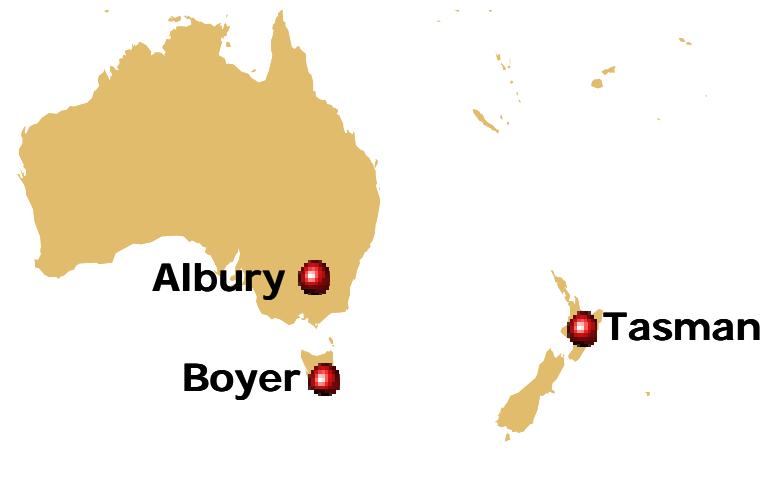
# Norske Skog in Europe

- 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)
- Long-term market development:
  - Newsprint: Most likely declining
  - Magazine grades: Expect stable or 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 relationships
- Favourable cost position and historically strong cash flow

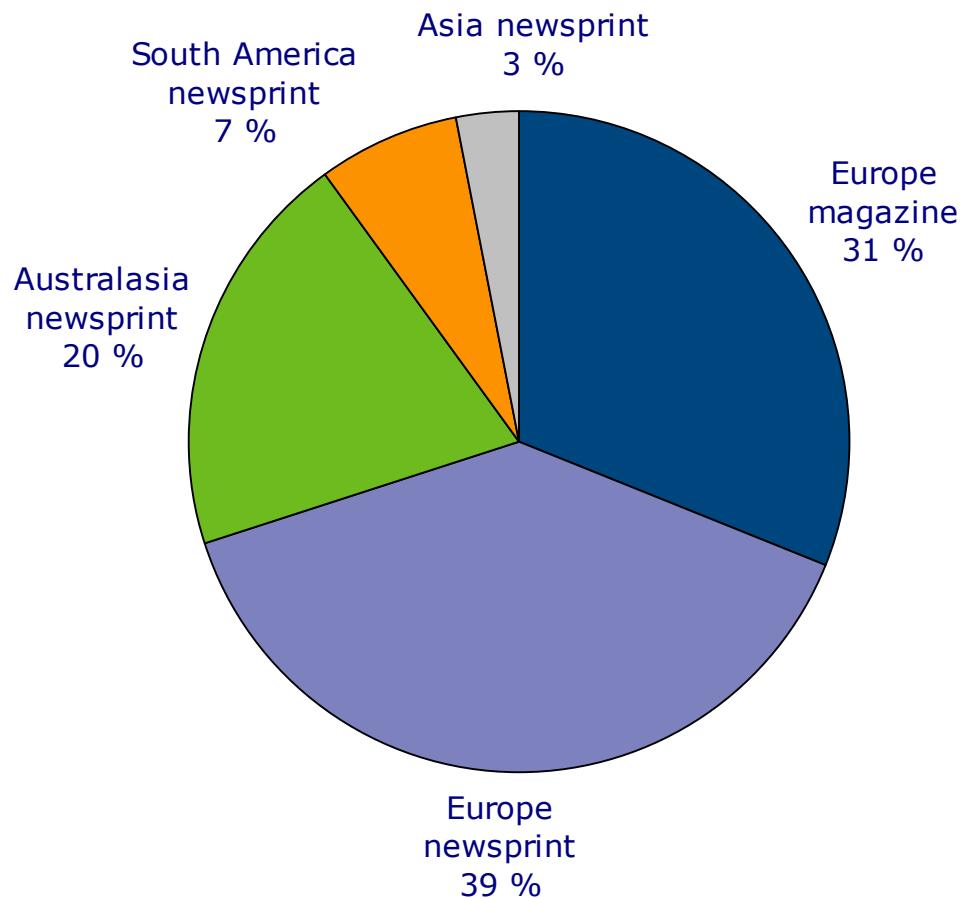


# Norske Skog in South America

- Two mills, capacity 310 000 tonnes of std newsprint, book paper etc
- Largest producer, good cost position
- Growth market, some volatility expected
- Opportunities within bio energy
- Earthquake in Chile, March 2010
  - No injuries on personnel, limited economic impact



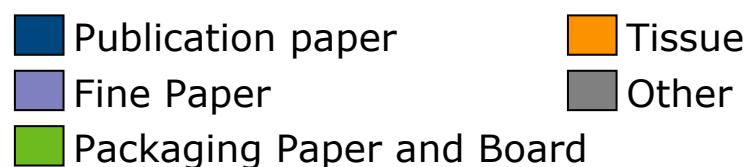
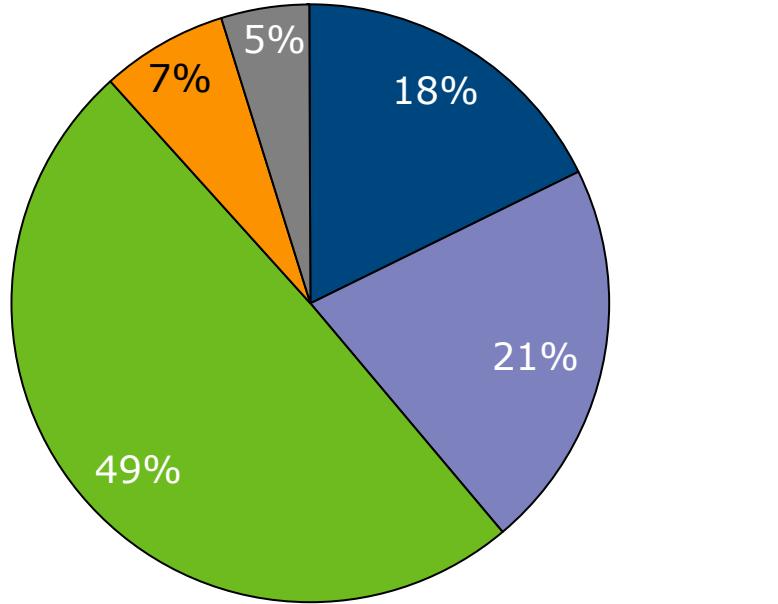
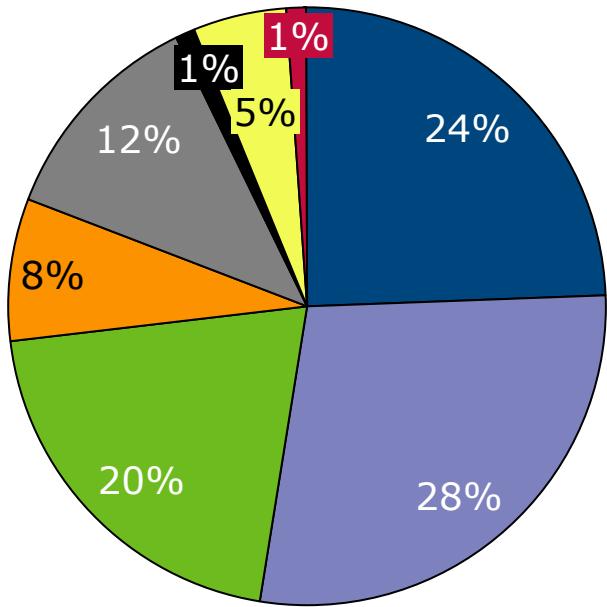
# Norske Skog's production capacity by segments



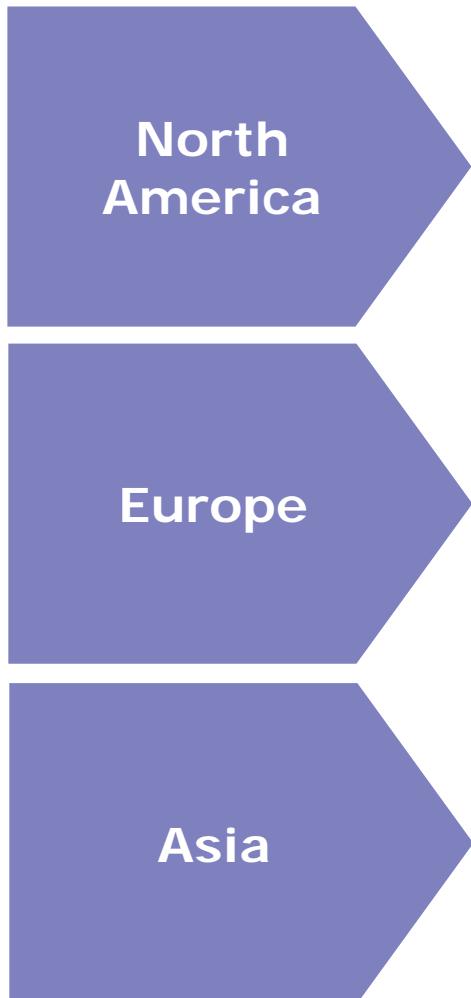
- Total capacity 4.5 mill. tonnes
  - Newsprint etc. 3.1 mt
  - Magazine 1.4 mt

# World paper production

TOTAL – 391 million tonnes (2008)

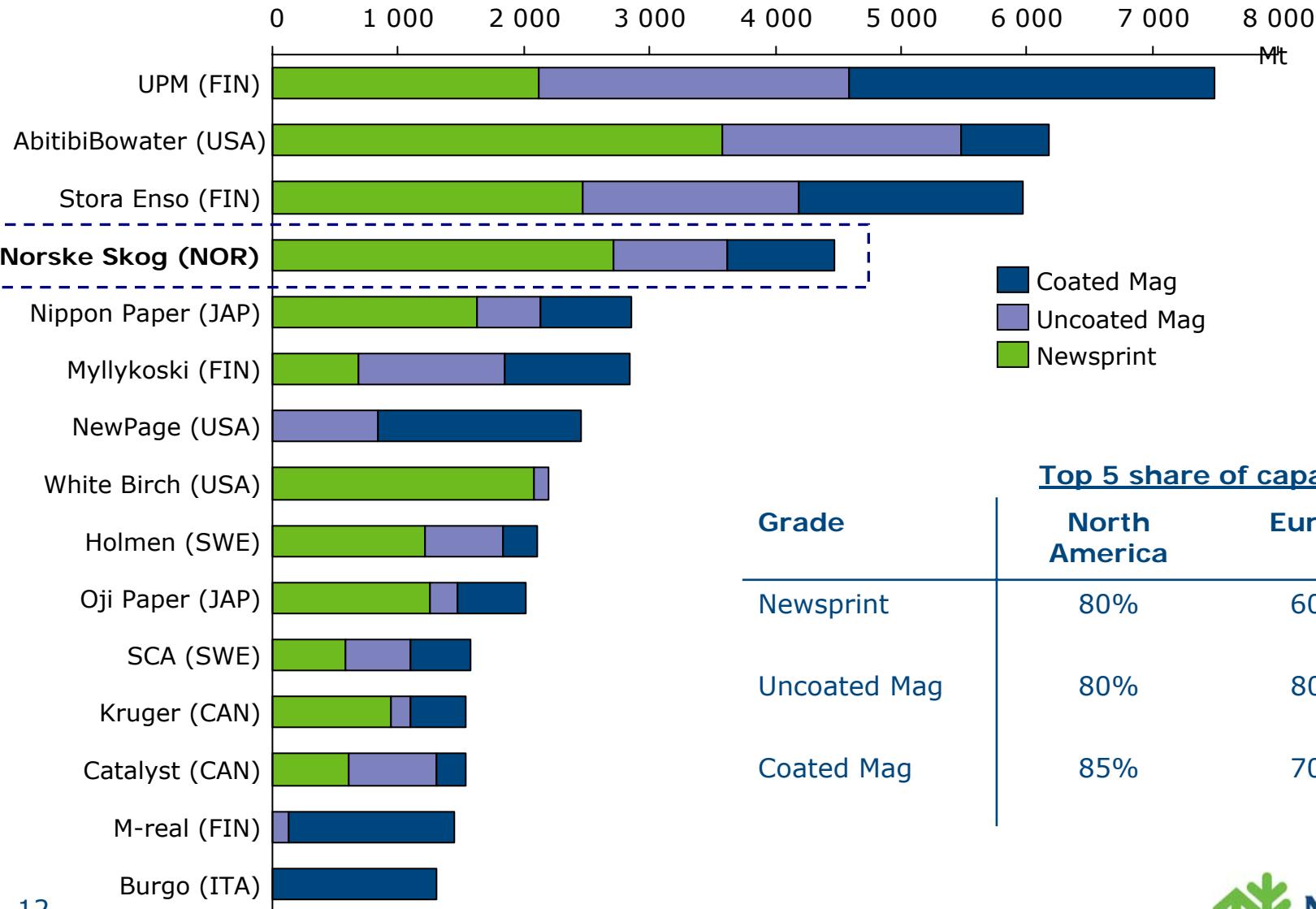


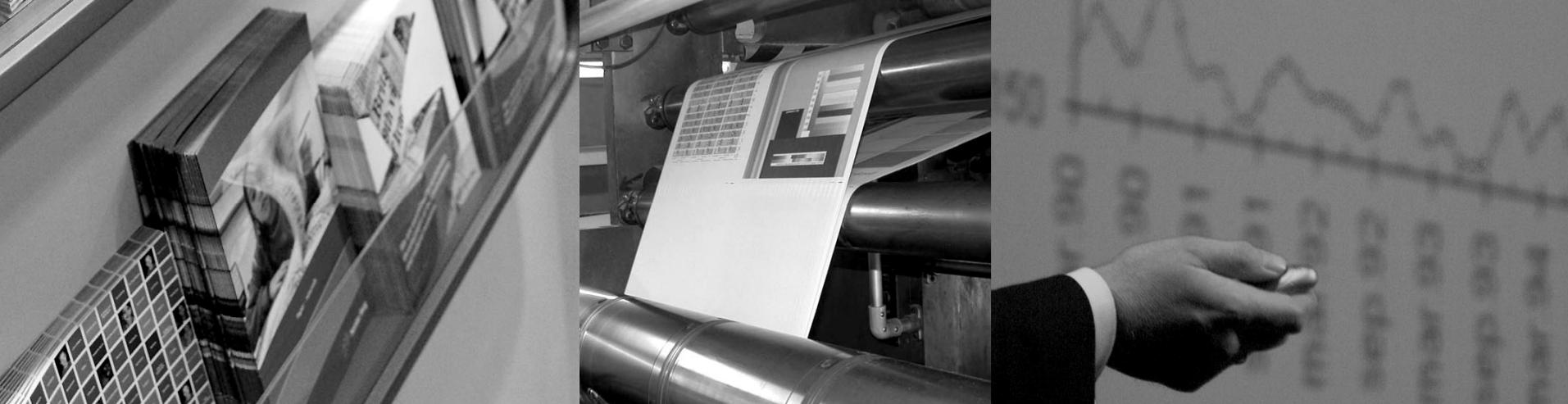
# Industry structure



- Consolidated
  - Steep fall in demand for several years
- 
- Less consolidated
  - Fall in demand in 2009, but less than North America
- 
- Fragmented
  - Increase in demand overall, regional variances

# Top global publication paper companies





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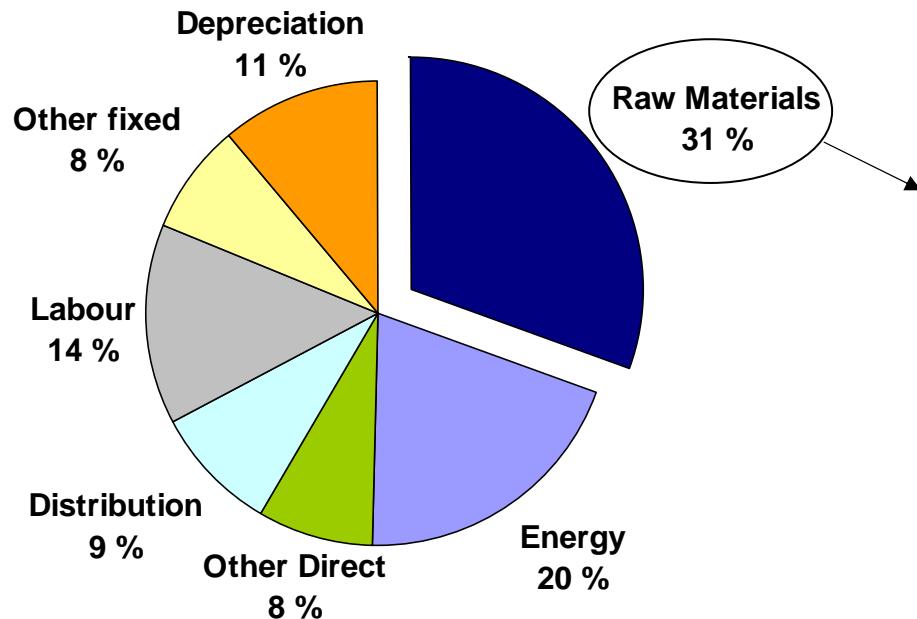
## Three performance drivers

# Challenging market conditions

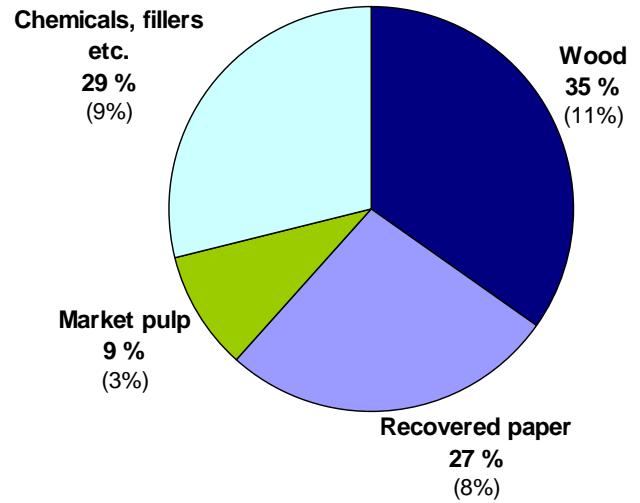
- Three forces driving performance;
  - Cost wave 2006 – 2008
    - Substantial cost increases for raw materials and energy
  - Demand drop
    - Steadily decline in the US since 2001
    - Significant drop in all markets in 2009
  - Prices
    - Historically low price level in the US in 2009
    - Price reduction of approx. 20% in Europe for 2010

# Total cost breakdown\*

Total cost



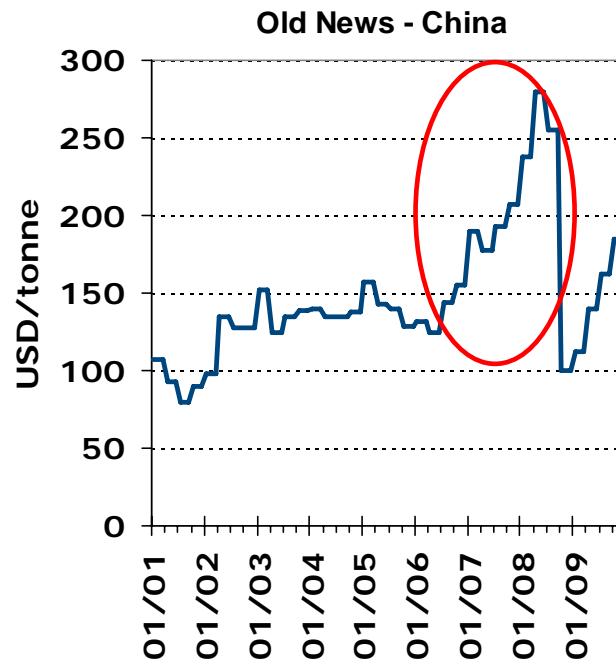
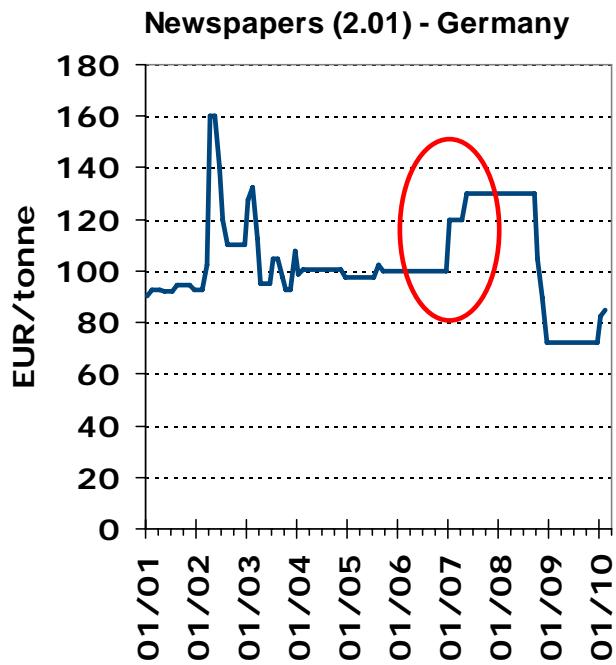
Raw materials



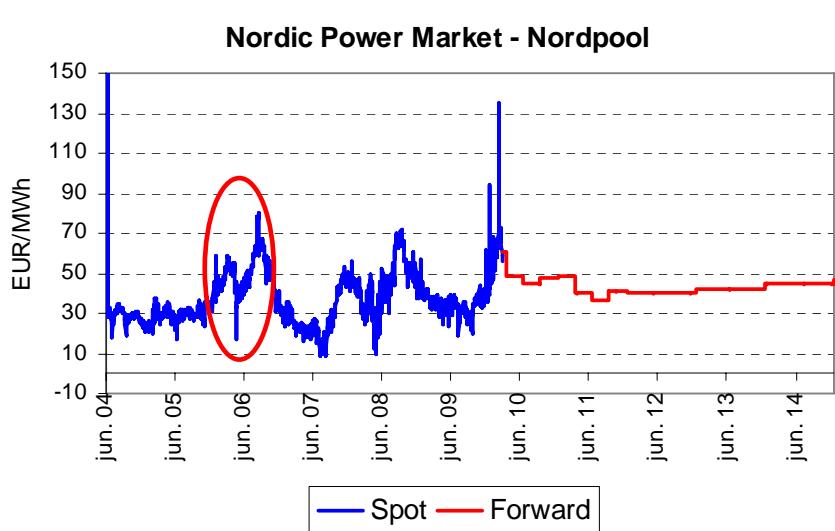
\*Calculated to 90% operating rate

# Cost development

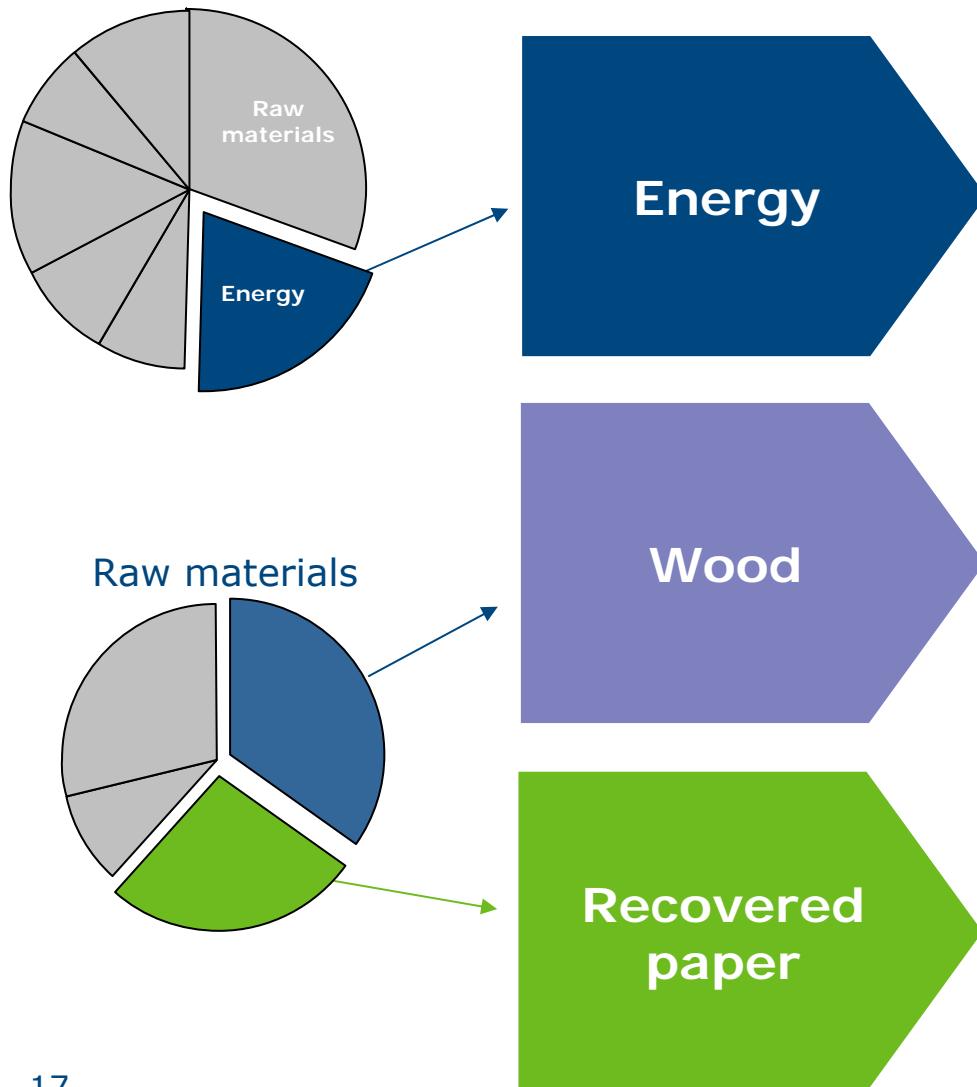
Recovered paper



Electricity



# Current cost picture



- 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 & Australasia:
  - 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

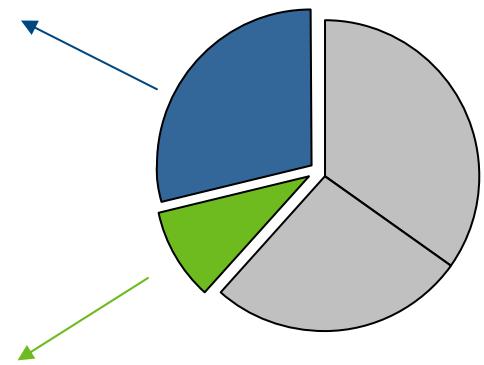
# Current cost picture (cont.)

Chemicals,  
fillers etc.

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

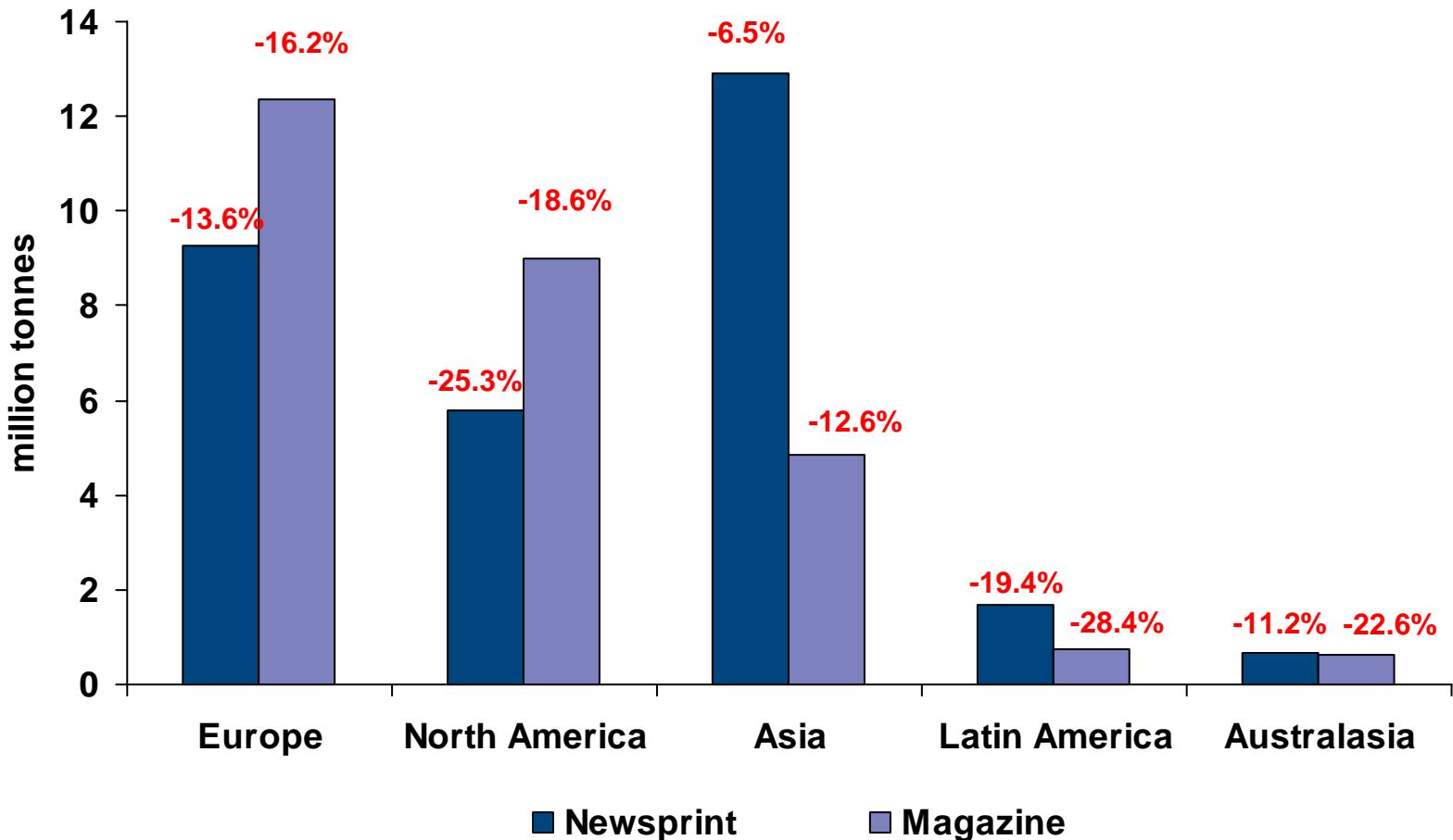
Pulp

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



# Regional demand for publication paper

## 2009 demand & change '09/'08



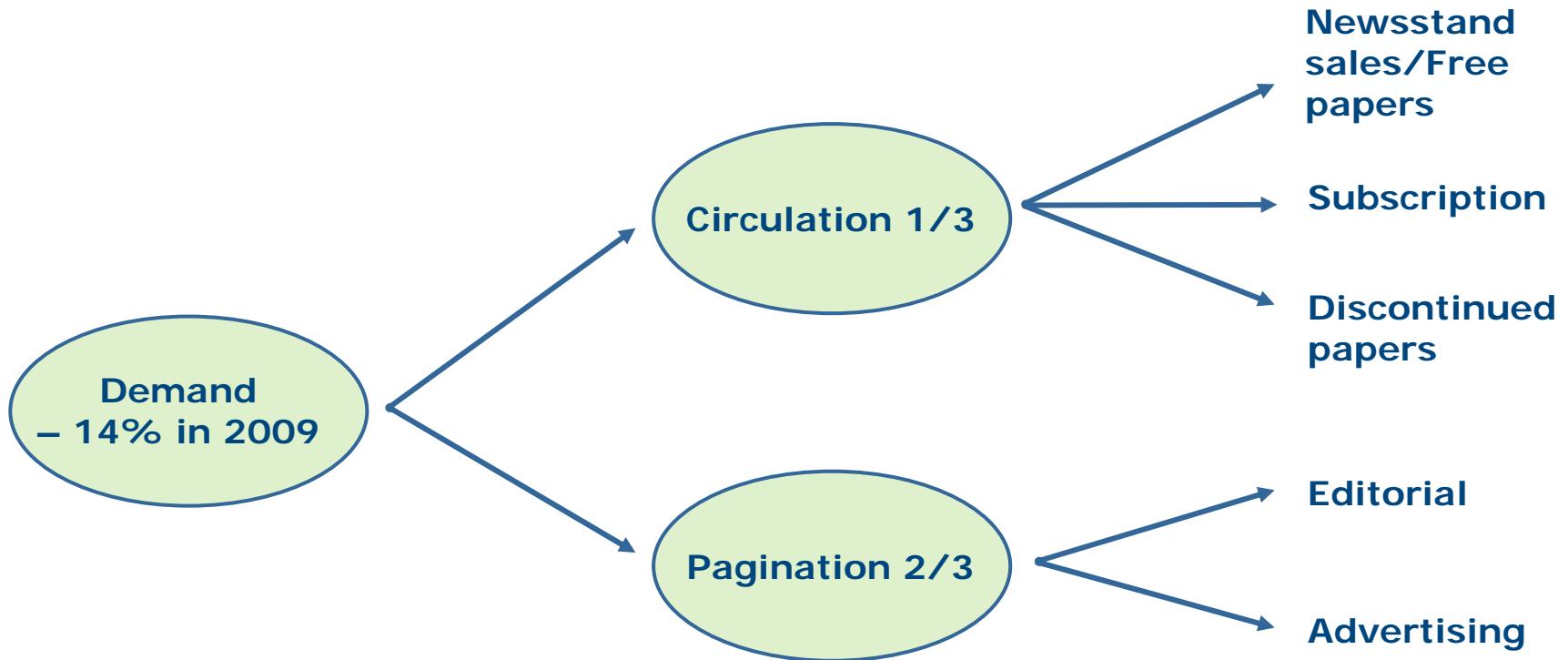
Sources: PPPC

19

Newsprint = Standard newsprint

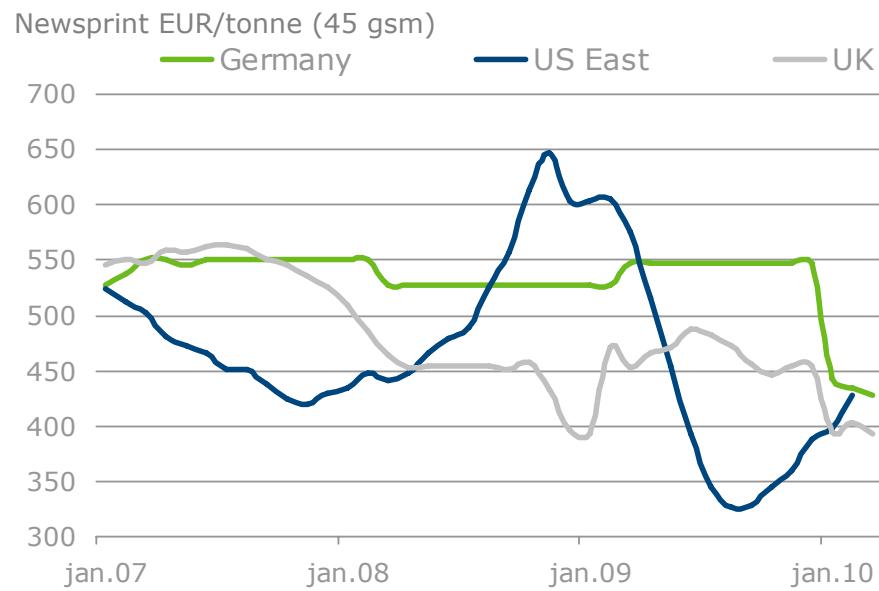
Magazine = Coated, supercalendered and other (improved newsprint etc.)

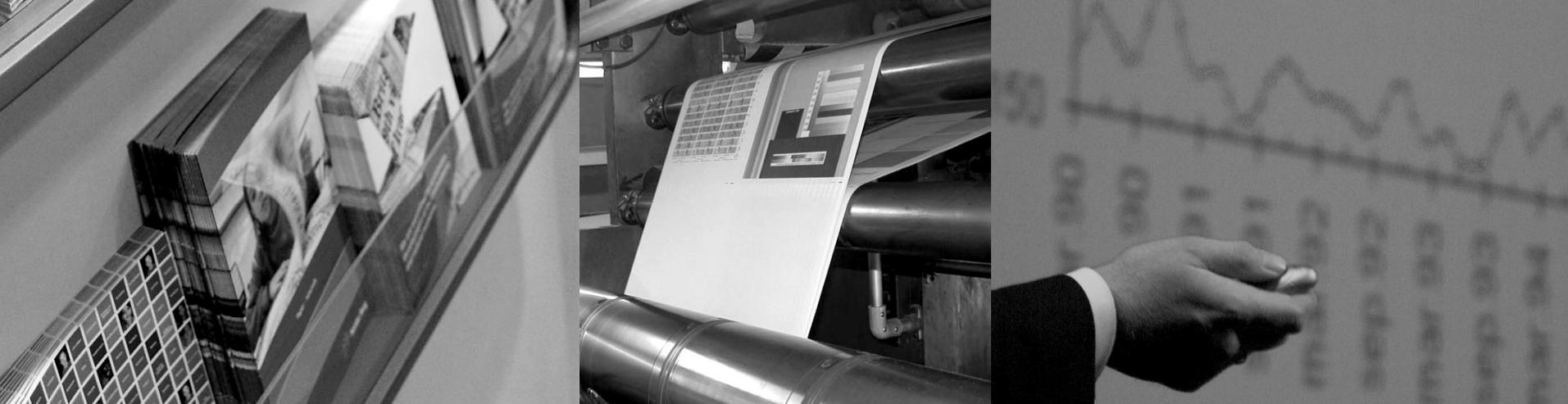
# Demand decrease in newsprint Europe



# Price development

- Newsprint pricing:
  - Annual contracts in Europe, quarterly in N-America
- Prices in Europe 2010:
  - Newsprint:
    - Drop of ~20% on the Continent
  - Magazine paper:
    - Drop of 5 – 10%
- Newsprint prices in North America:
  - Rock bottom level in Autumn 2009, increase thereafter
  - Will have positive impact also in South America and Asia





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# Norske Skog's response



# Debt reduction through asset sales

Norske Skog's  
mills in S. Korea

- Sold in 2008
- Profitable operations, acceptable price
- Reduced NIBD of ~NOK 4 billion

Norske Skog's  
mills in China

- Sold in 2009
- Marginal cash flow, low price per tonne
- Reduced NIBD of ~ NOK 1 billion

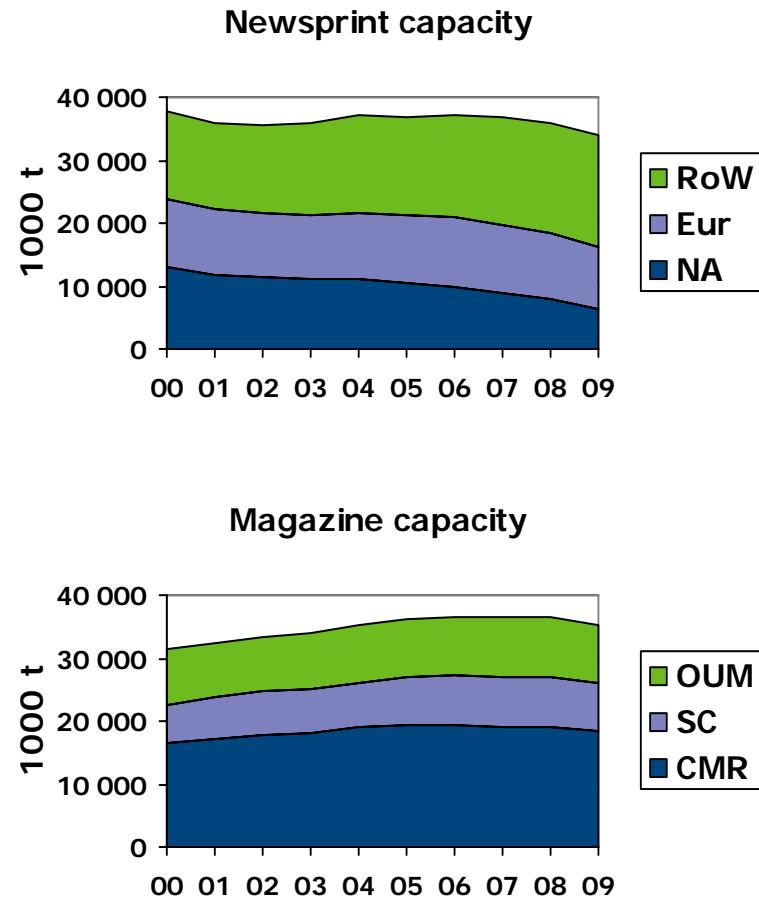
Properties etc.

- Various properties sold in 2008 and 2009
- More to come in 2010
- Energy contracts: Could be partly monetized

# Capacity reductions: A prerequisite for better pricing environment

- Norske Skog has actively closed capacity since 2006
  - Norway, New Zealand, Czech Republic and Netherlands
  - In total, around 900' tonnes
- 2008: Significant closures by a number of companies:

	N.A.	Europe
Newsprint	~11%	~7%
Magazine	~8%	~6%
- 2009: Norske Skog was the only company to close capacity; Parenco PM 2 in Netherlands



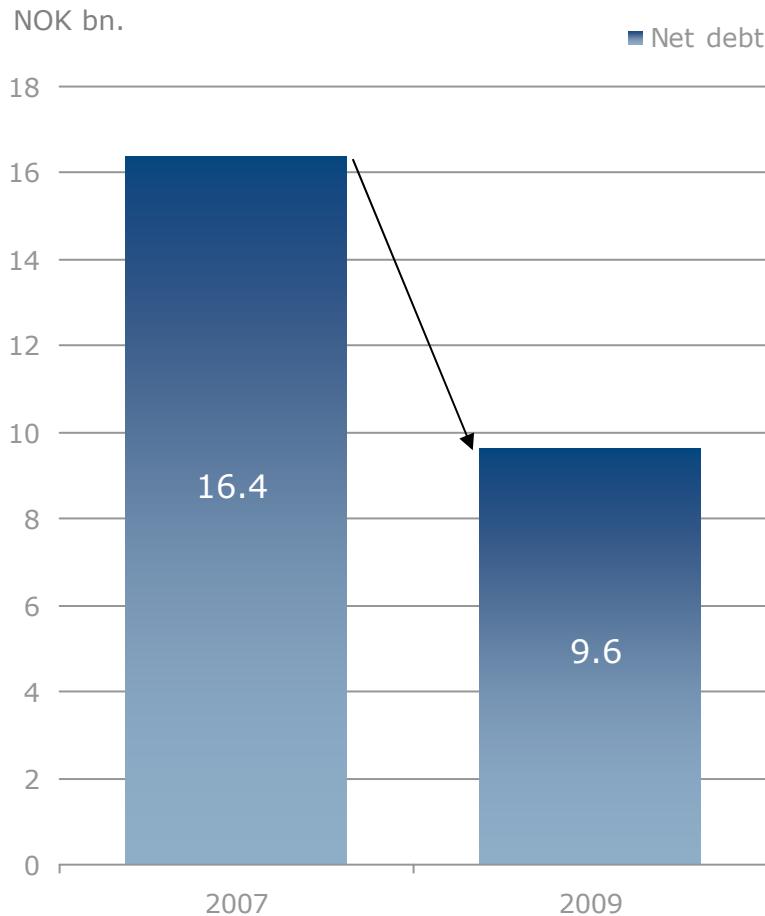
# Cost and capex reductions

- Profit improvement program ended 2008
    - Close to target of NOK 3 billion
    - Main elements; energy, efficiency improvement and de-manning
  - Initiated in summer of 2009:
    - Permanent idling of Parenco PM2
    - Reduced manning by 600 persons (9%)
    - Reduced maintenance costs
    - Headquarter cost reduction (20%)
  - Continuous improvement programme at all business units
- Annual cost reduction of NOK 600-700 million from 2010

## Investment level reduction

CAPEX in 2010 ~NOK 500 million

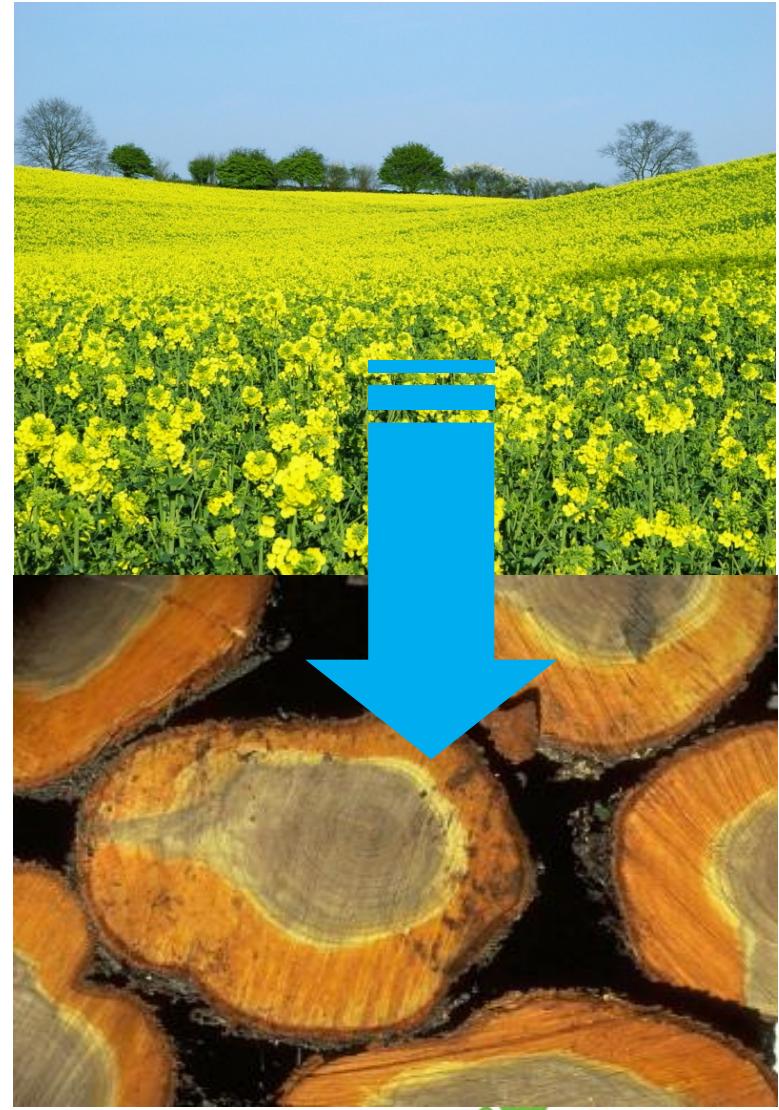
# Considerable reduction in net debt

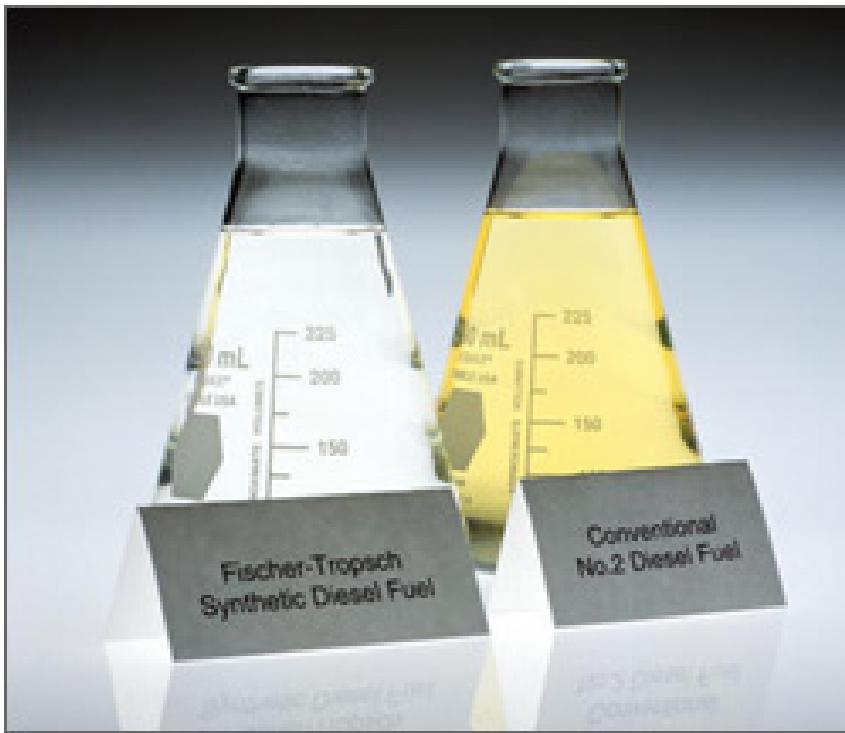


- Net debt reduced by NOK 6.8 bn. since end 2007
  - Retained free cash flow
  - Net debt effect from bond buy-back of NOK 643 mill. in 2008 and 2009
  - NOK 5.4 bn. through asset sales
- No material currency impact over this period
- Gearing: 0.80

# Exploring new opportunities within bio fuel - From wood, not from food

- **1<sup>st</sup> Generation** (Biodiesel and Bioethanol):
  - Made from plant crops
  - Available on the market today
  - Limited CO<sub>2</sub> reduction potential
  - Concerns about: sourcing of feedstock; impact on biodiversity, land use and competition with food
- **2<sup>nd</sup> Generation** (synthetic Biodiesel / cellulosic Ethanol):
  - Made from non-food feedstocks (woody biomass)
  - High CO<sub>2</sub> reduction potential
  - No competition with food
  - High fossil substitution potential







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## Financials and outlook

# 2009 – Key P&L and CF 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>
CF from operations	1 697	1 977
CF after capex	1 117	694
<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

# Balance sheet & covenants

## Total assets

- Total assets NOK 33 bn as at 31.12.2009
  - Reduced by NOK 12 bn since 31.12.2008
    - Disposal of mills
    - Depreciation and impairments > capex
    - Dismantling and environmental costs from gross to net
  - Equity of NOK 12 bn (36%)

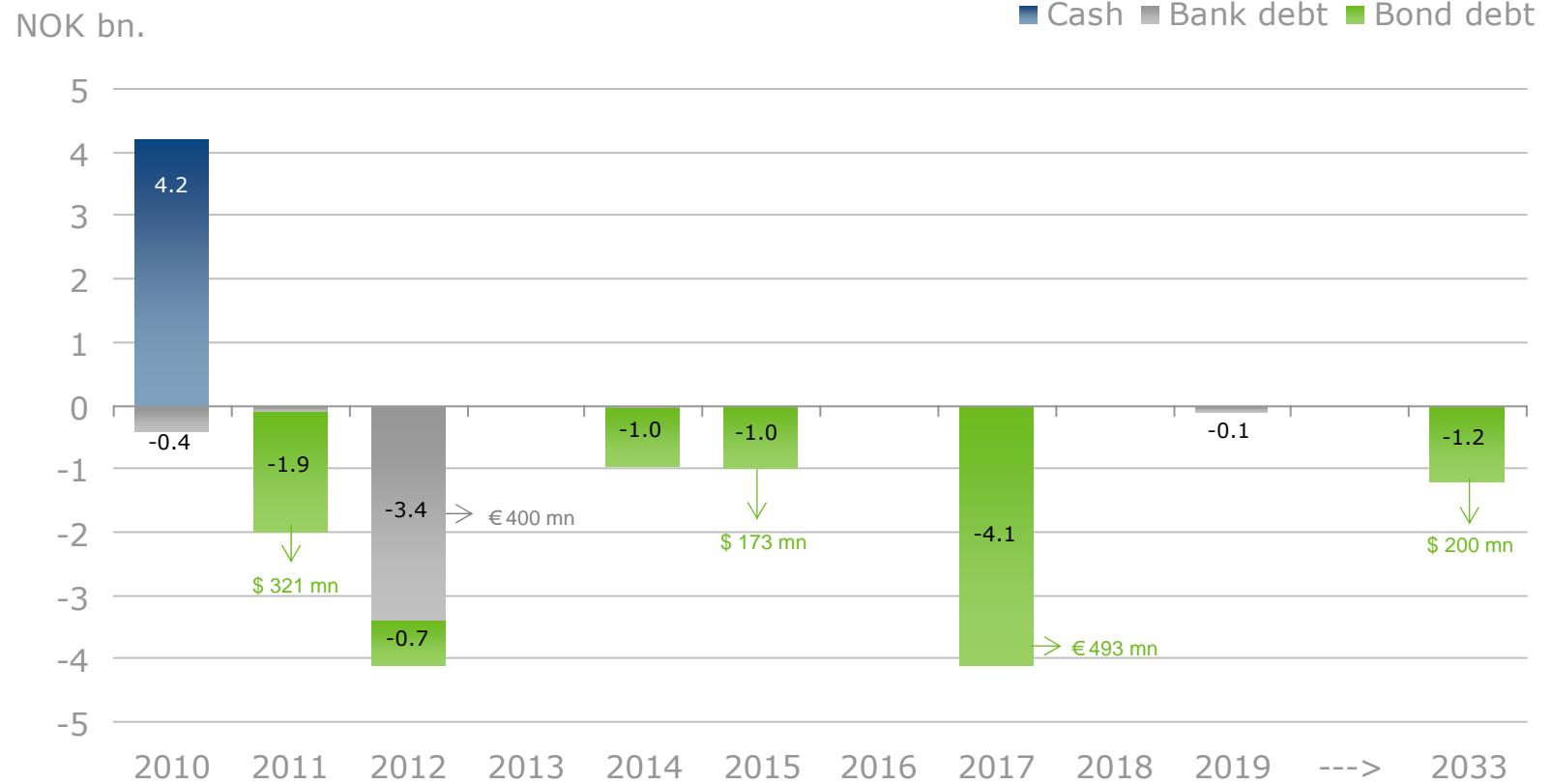
## Interest bearing debt

- Interest bearing debt NOK 13.8 bn
- Cash position NOK 4.2 bn
- Net interest bearing debt NOK 9.6 bn
  - Reduced by NOK 4.5 bn since 31.12.2008
    - FX
    - Disposals
    - Buy-back of own bonds
    - Free cash flow from operations

## Covenants

- Gearing < 1.4
  - 0.8 as of 31 Dec 2009
- Net tangible worth > NOK 9 bn
  - NOK 11.6 bn as of 31 Dec 2009

# Cash and debt maturity profile, 31.12.2009



# 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

# 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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London, 25 March 2010

Odd-Geir Lyngstad, Corporate Treasurer and Deputy CFO

