

Future on Paper

Knight Libertas Credit Conference

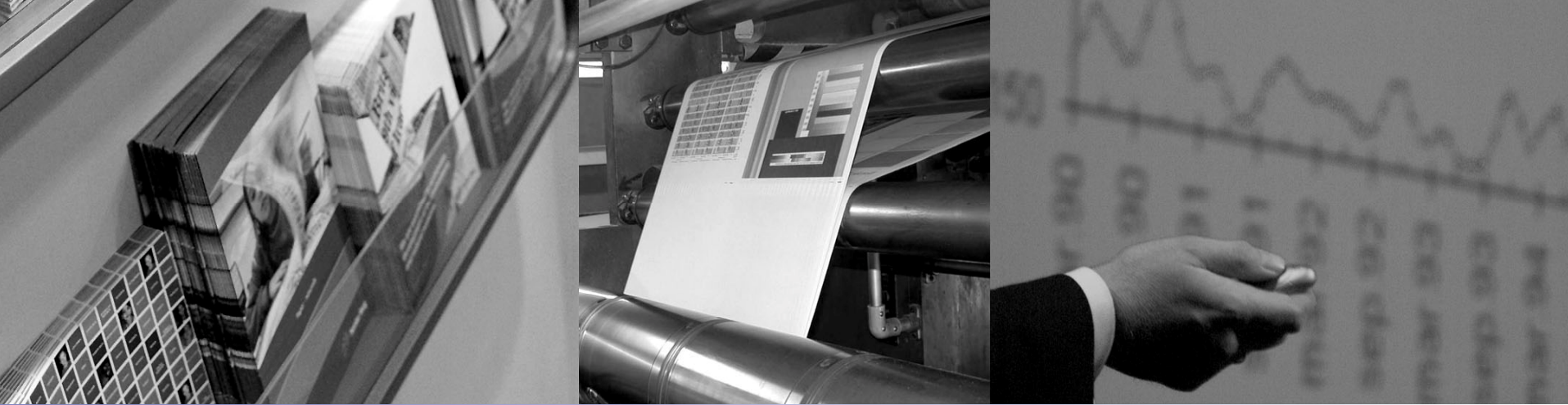
London, 25 March 2010

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



Future on Paper

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



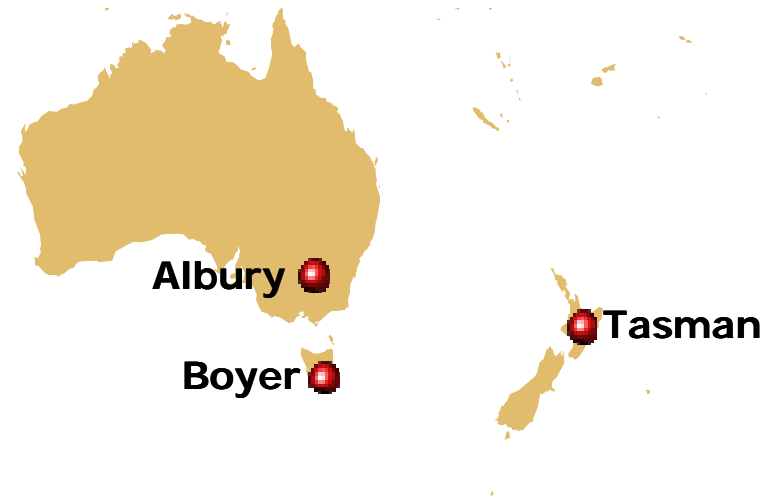
Norske Skog in Europe

- 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 (1st 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

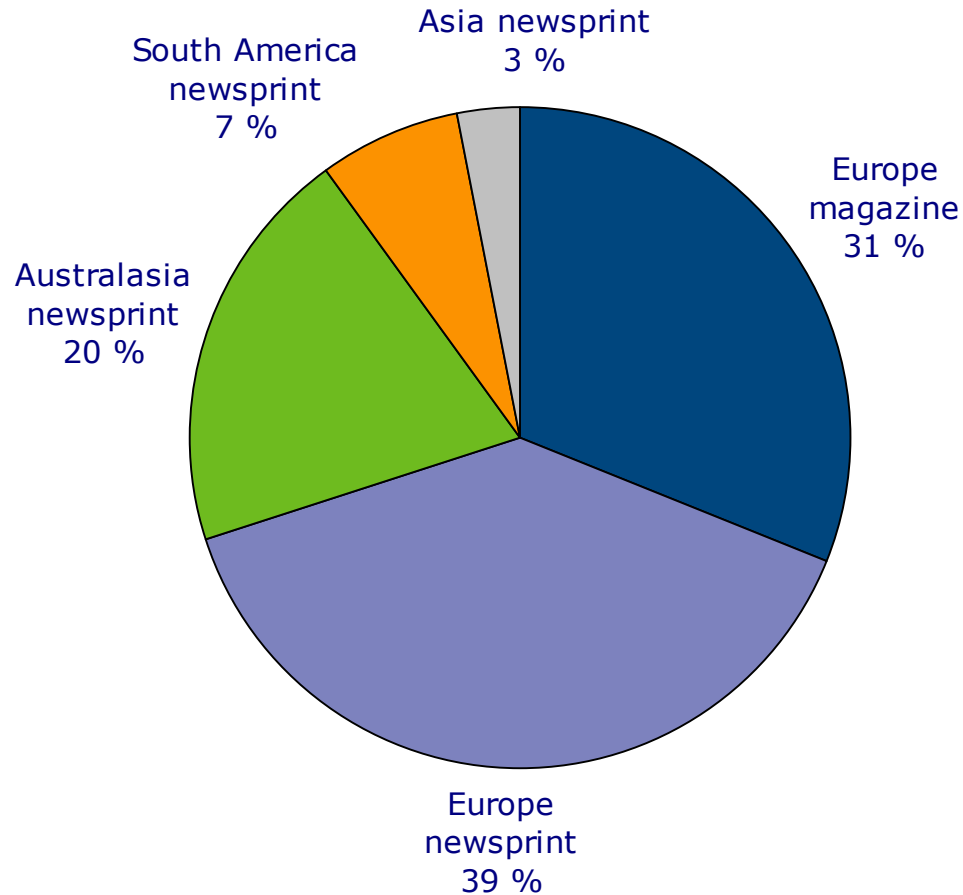


Norske Skog in South America

- 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



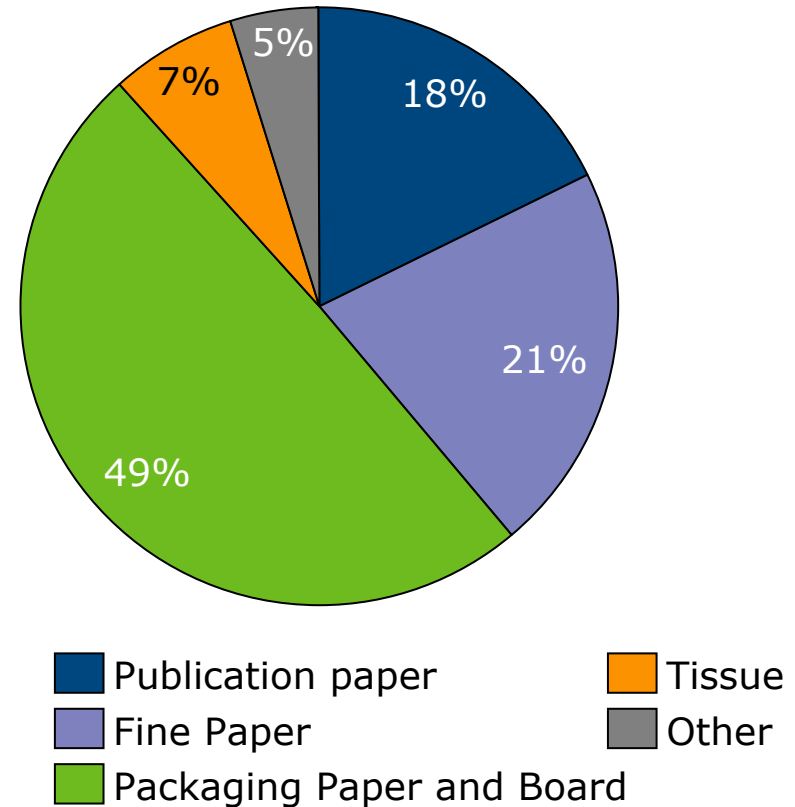
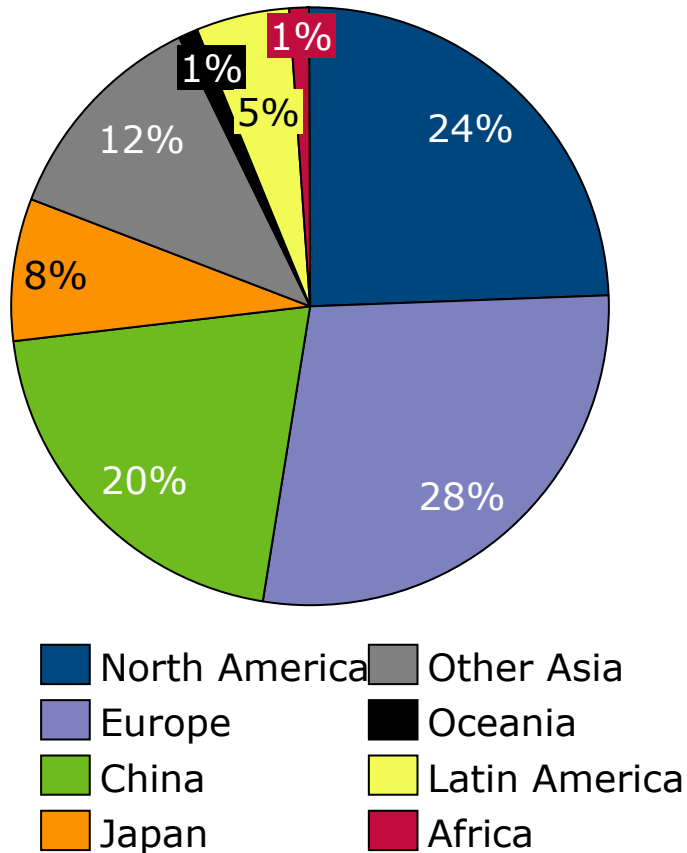
Norske Skog's production capacity by segments



- 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

North America

- Consolidated
- Steep fall in demand for several years

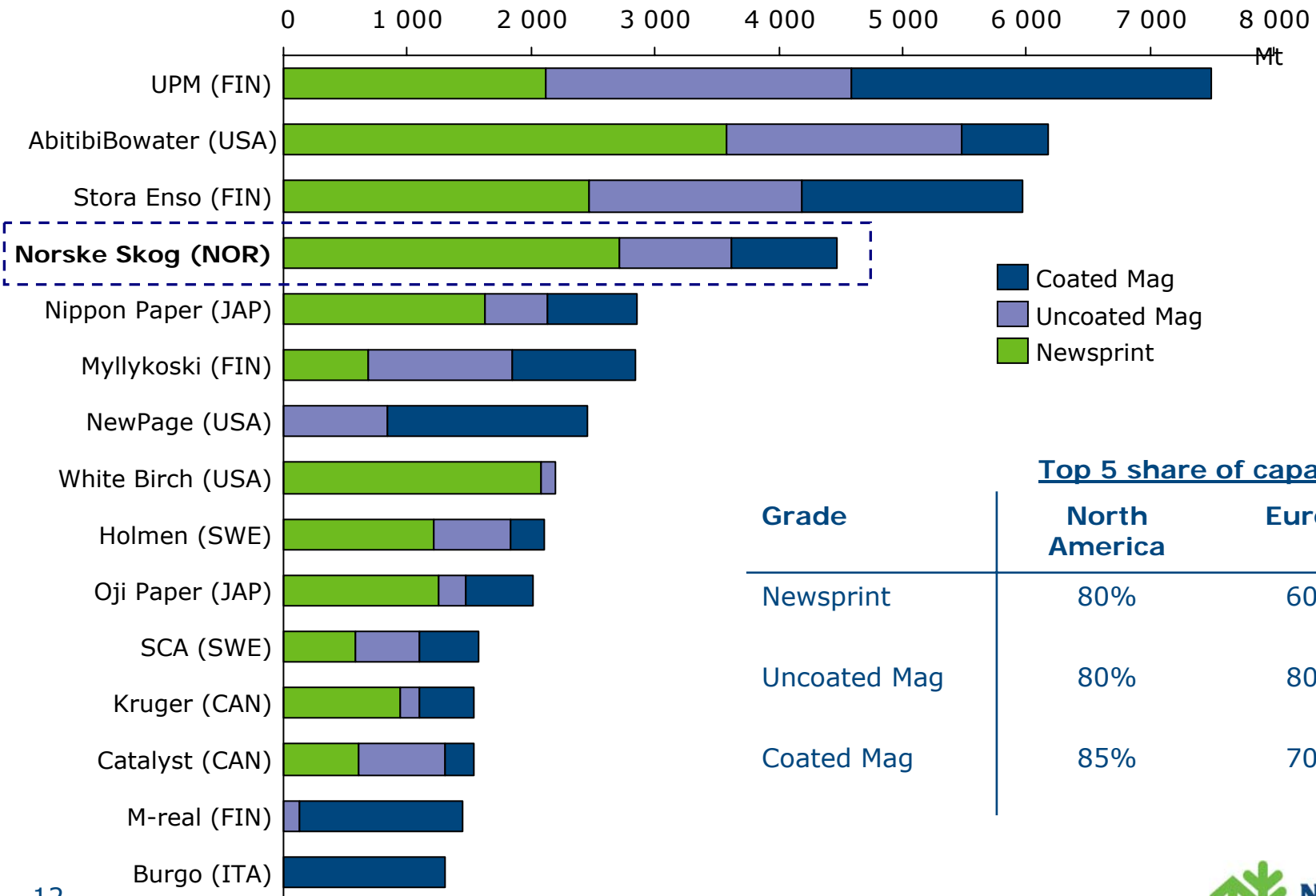
Europe

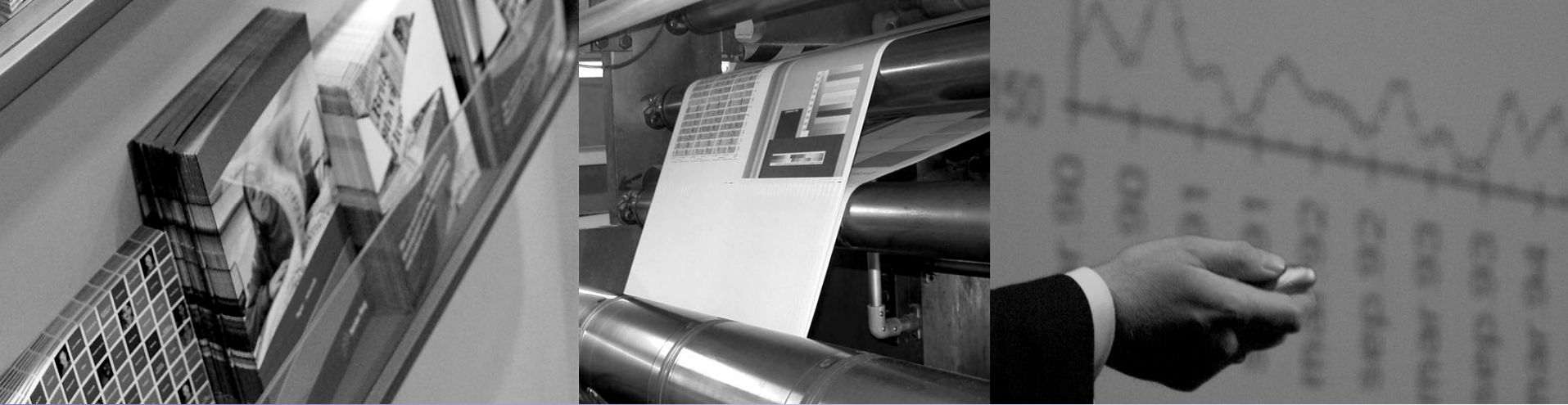
- Less consolidated
- Fall in demand in 2009, but less than North America

Asia

- Fragmented
- Increase in demand overall, regional variances

Top global publication paper companies





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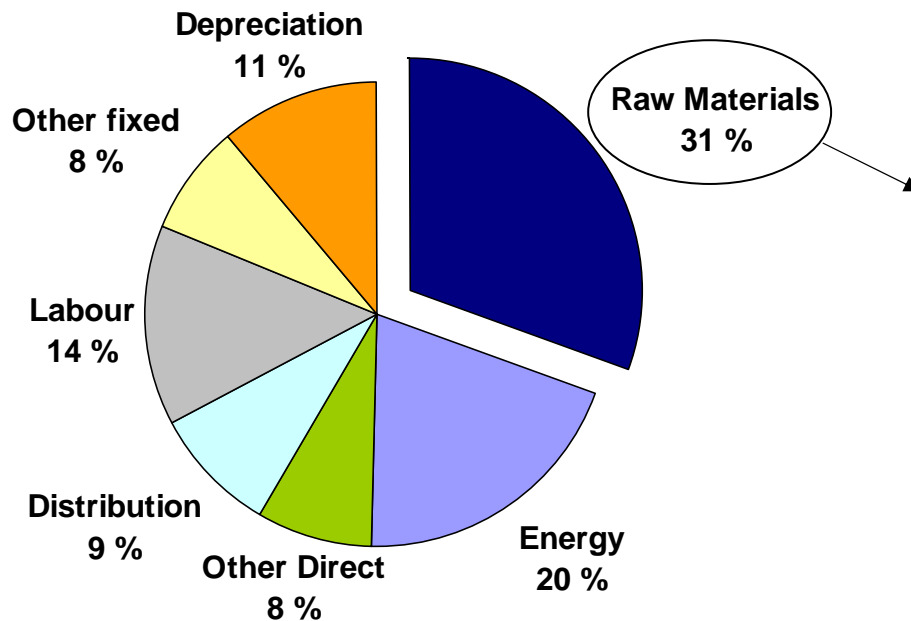
Three performance drivers

Challenging market conditions

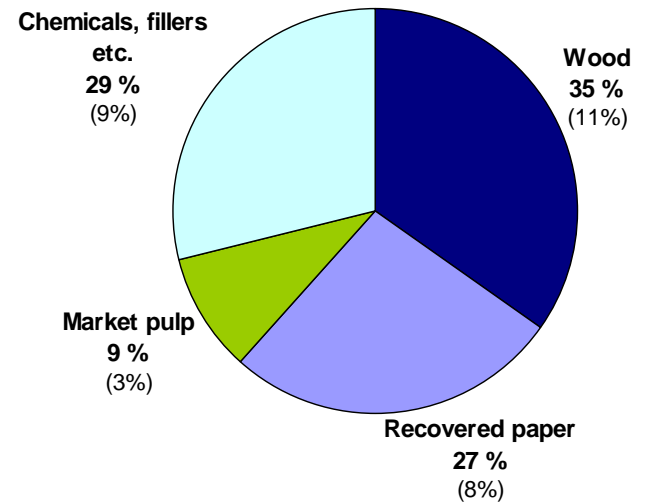
- Three forces driving performance;
 - Cost wave 2006 – 2008
 - Substantial cost increases for raw materials and energy
 - Demand drop
 - Steadily decline in the US since 2001
 - Significant drop in all markets in 2009
 - Prices
 - Historically low price level in the US in 2009
 - Price reduction of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

Total cost breakdown*

Total cost

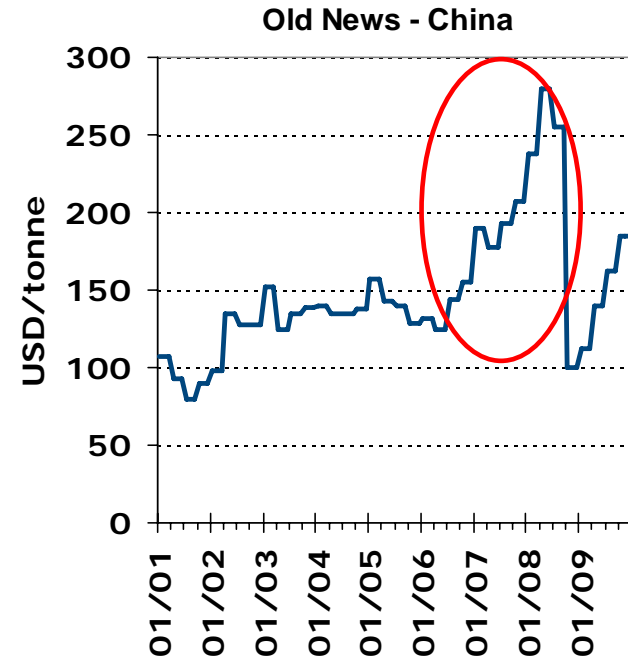
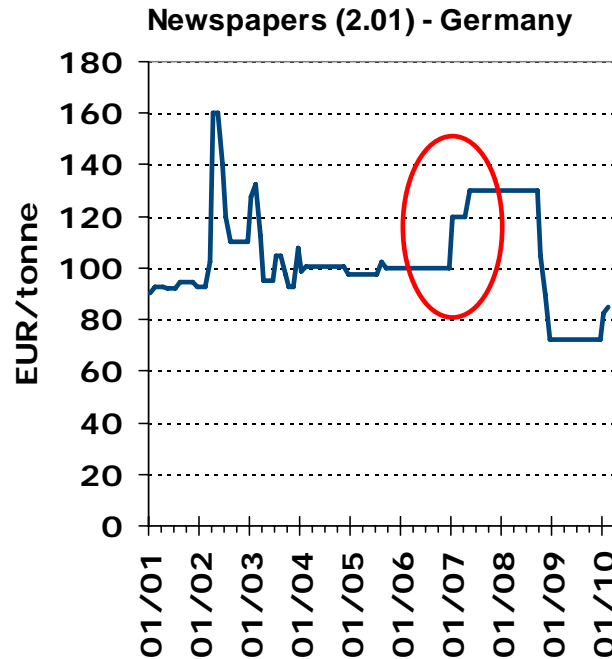


Raw materials

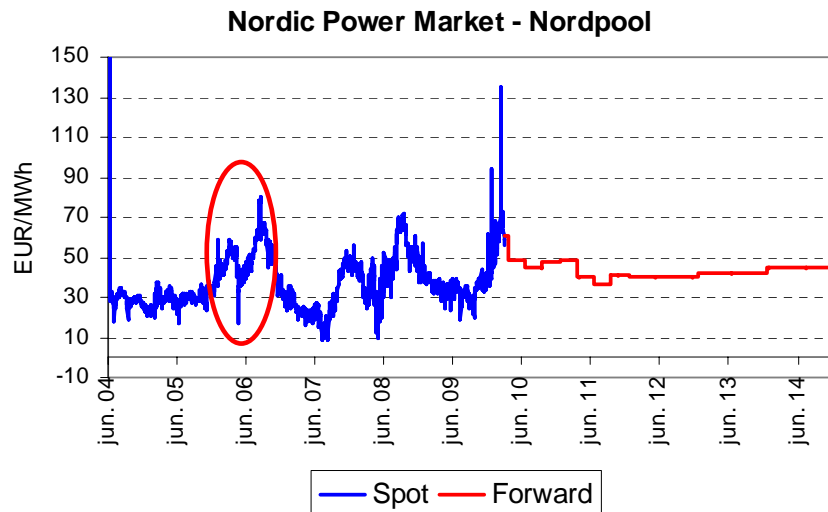


Cost development

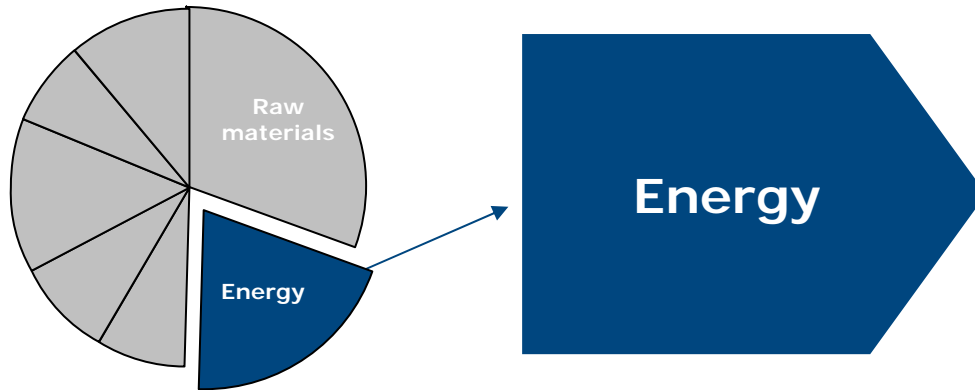
Recovered paper



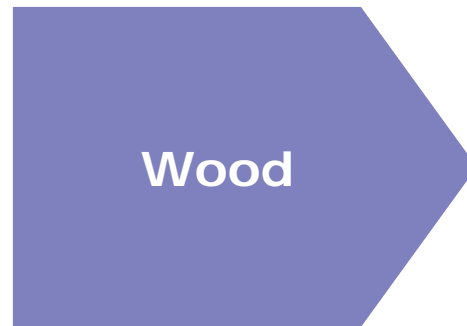
Electricity



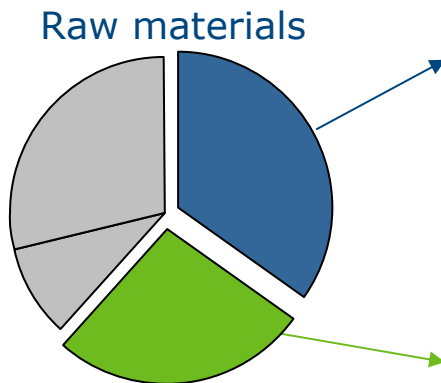
Current cost picture



- 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

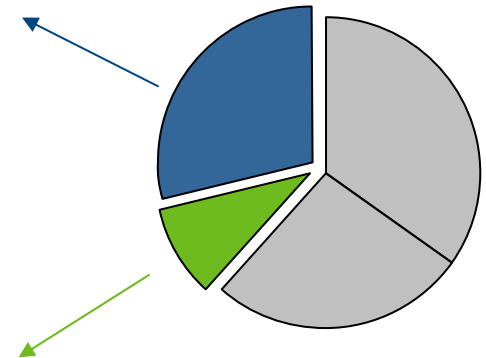
Current cost picture (cont.)

Chemicals, fillers etc.

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

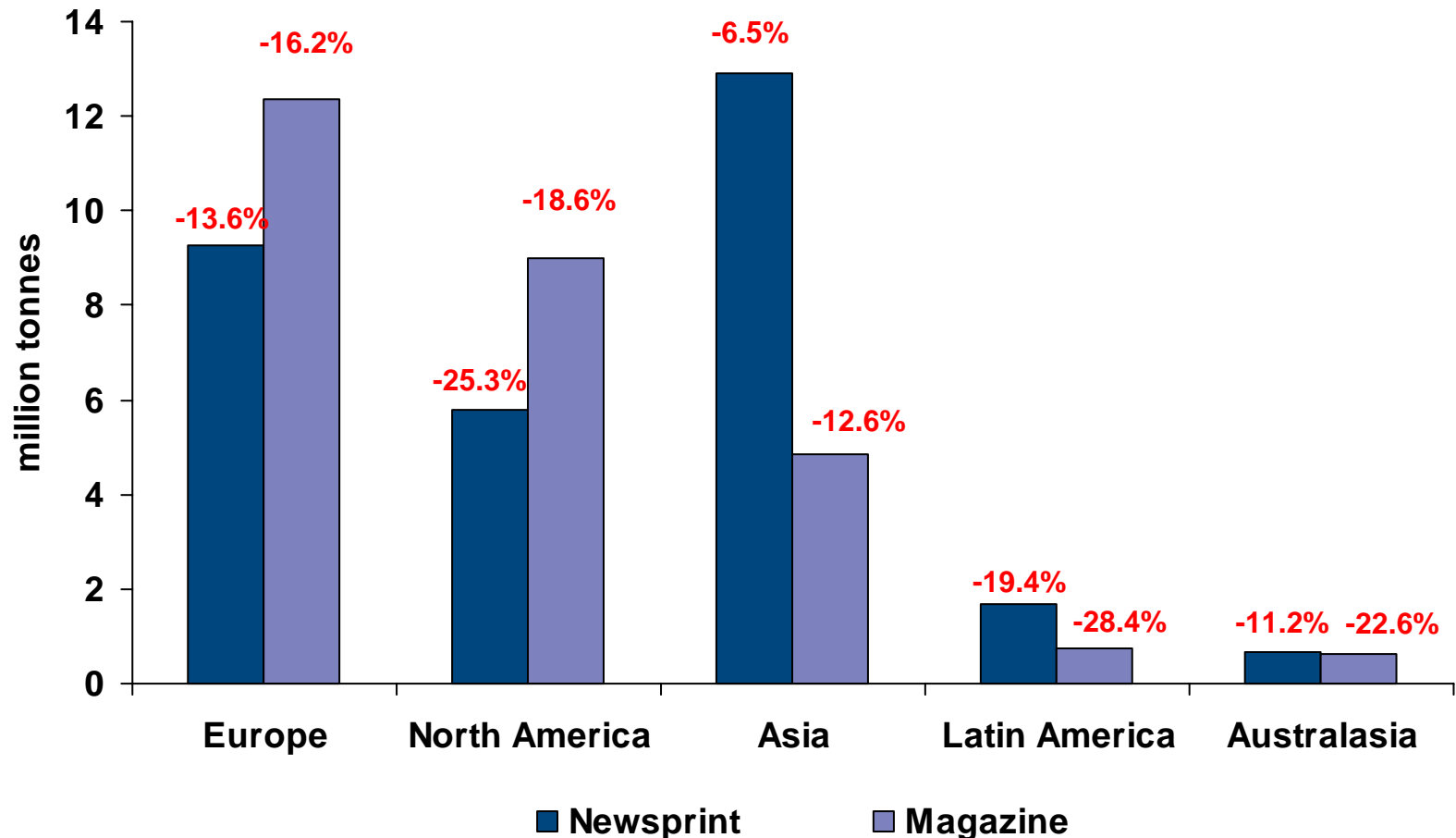
Pulp

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



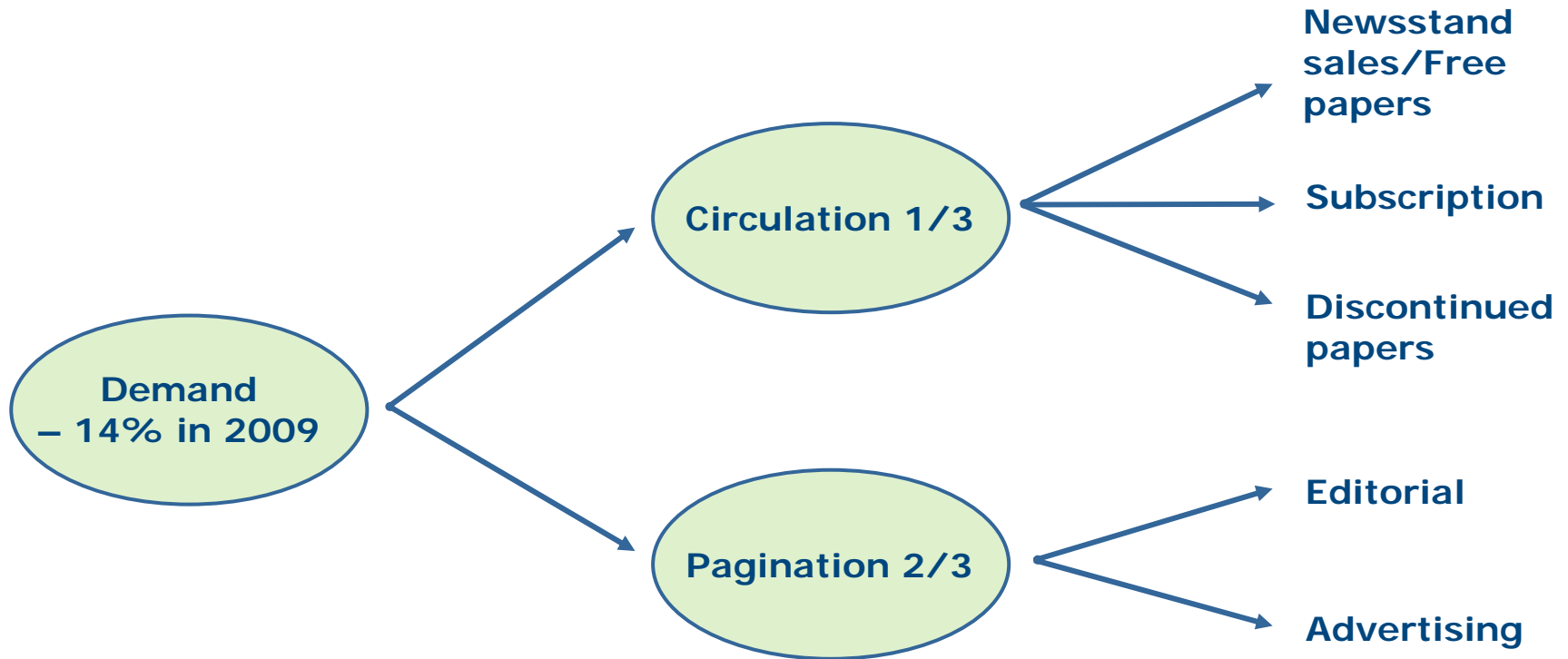
Regional demand for publication paper

2009 demand & change '09/'08



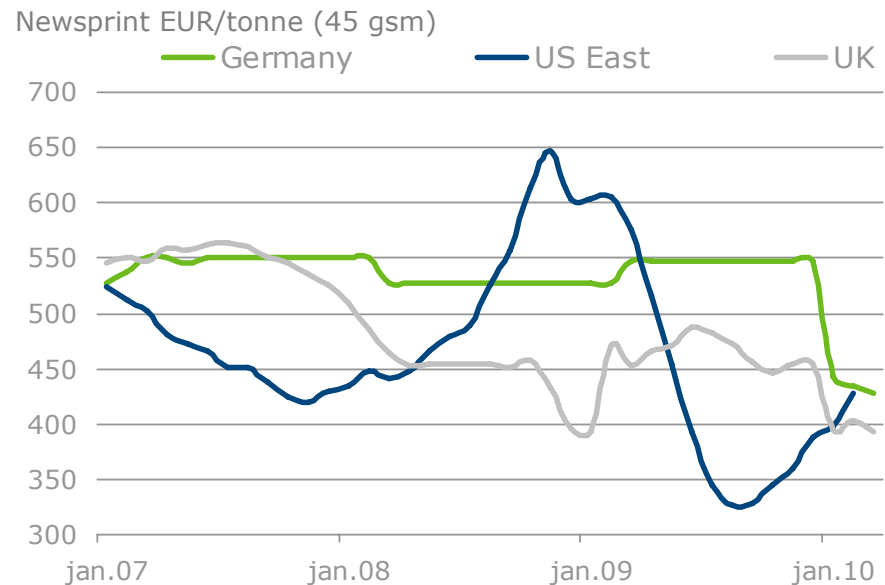
Sources: PPPC

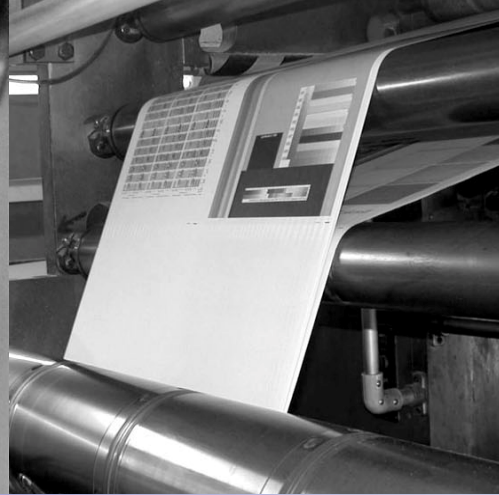
Demand decrease in newsprint Europe



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





Future on Paper

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

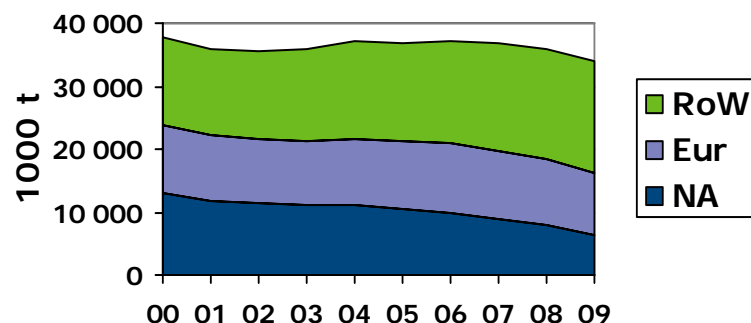
Capacity reductions: A prerequisite for better pricing environment

- 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:

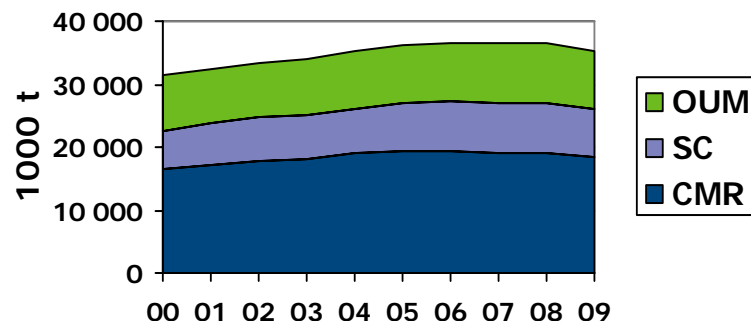
	N.A.	Europe
Newsprint	~11%	~7%
Magazine	~8%	~6%

- 2009: Norske Skog was the only company to close capacity; Parenco PM 2 in Netherlands

Newsprint capacity



Magazine capacity



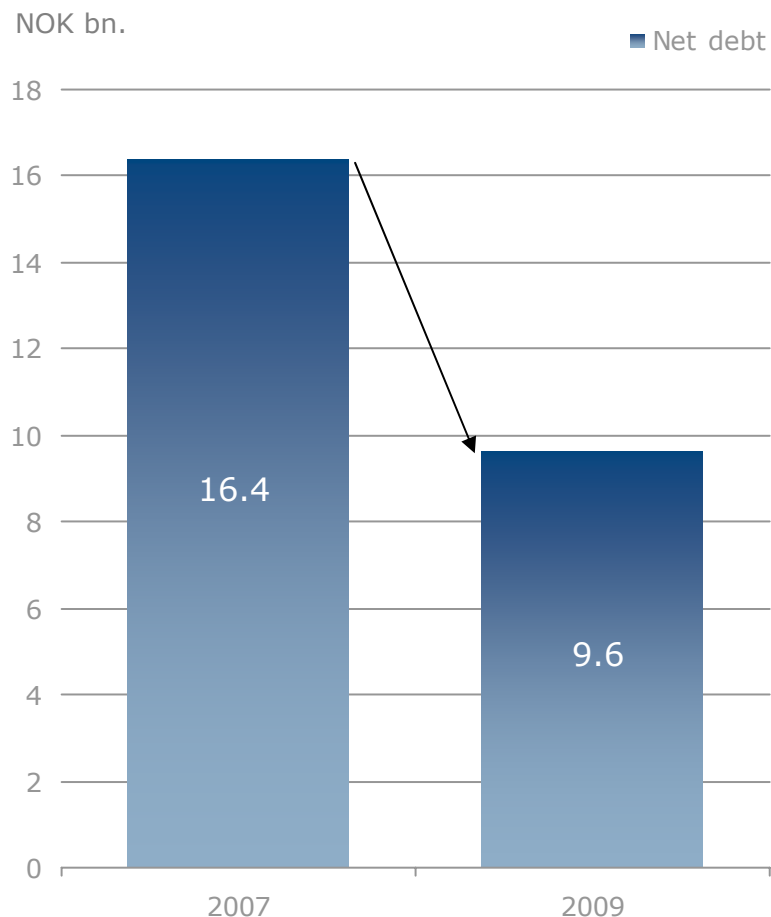
Cost and capex reductions

- 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 Parengo PM2
 - Reduced manning by 600 persons (9%)
 - Reduced maintenance costs
 - Headquarter cost reduction (20%)
- Annual cost reduction of NOK 600-700 million from 2010
- Continuous improvement programme at all business units

Investment level reduction

CAPEX in 2010 ~NOK 500 million

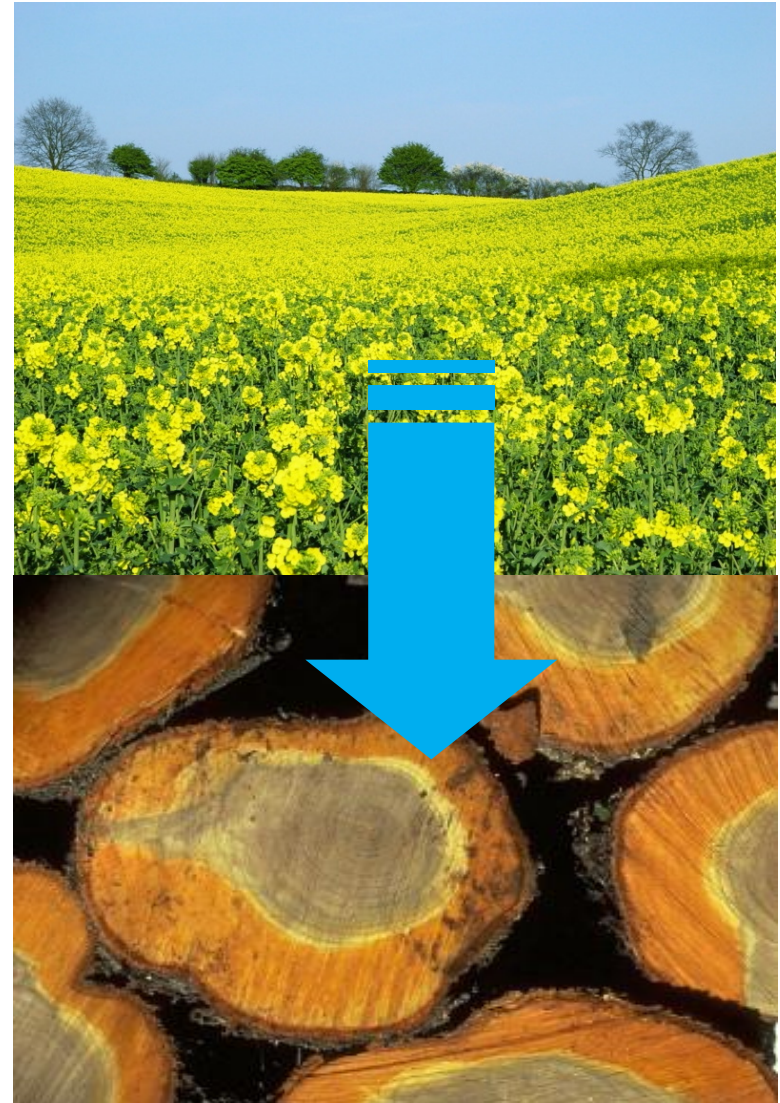
Considerable reduction in net debt

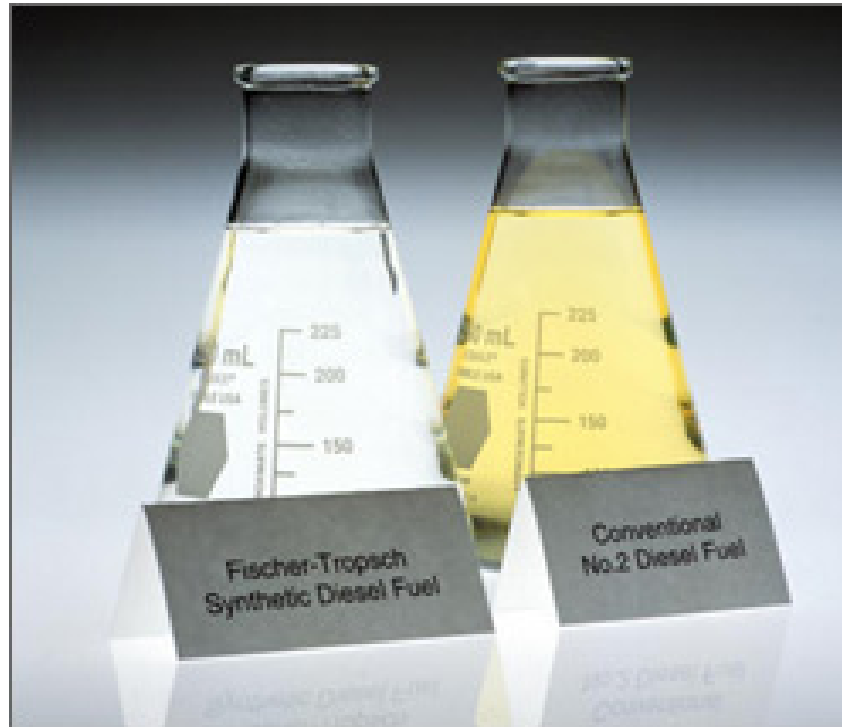


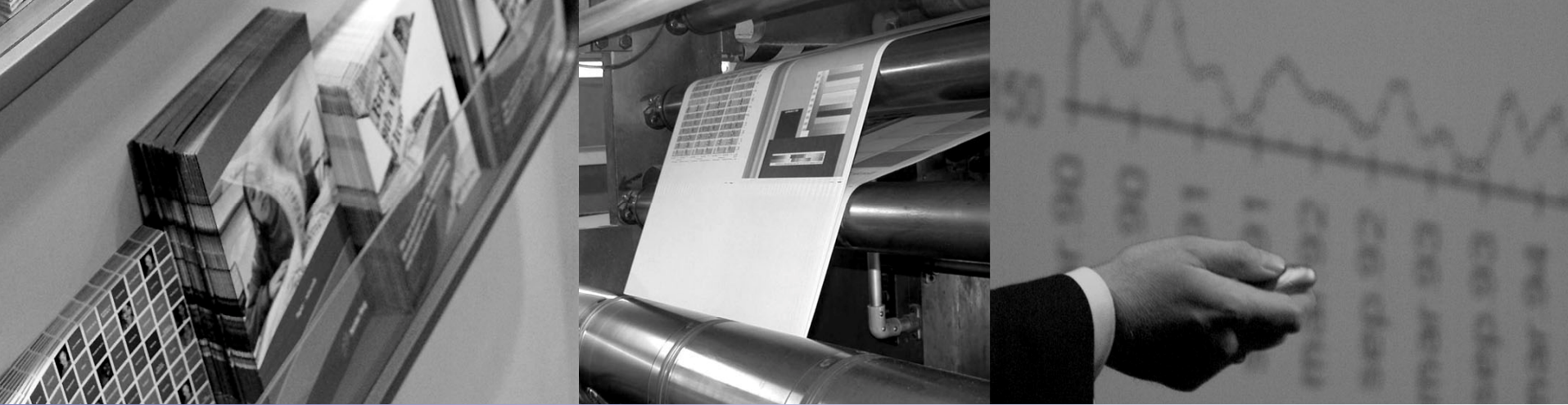
- Net debt reduced by NOK 6.8 bn. since end 2007
 - Retained free cash flow
 - Net debt effect from bond buy-back of NOK 643 mill. in 2008 and 2009
 - NOK 5.4 bn. through asset sales
- No material currency impact over this period
- Gearing: 0.80

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

- **1st Generation** (Biodiesel and Bioethanol):
 - Made from plant crops
 - Available on the market today
 - Limited CO2 reduction potential
 - Concerns about: sourcing of feedstock; impact on biodiversity, land use and competition with food
- **2nd Generation** (synthetic Biodiesel / cellulosic Ethanol):
 - Made from non-food feedstocks (woody biomass)
 - High CO2 reduction potential
 - No competition with food
 - High fossil substitution potential







Future on Paper

Financials and outlook

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

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

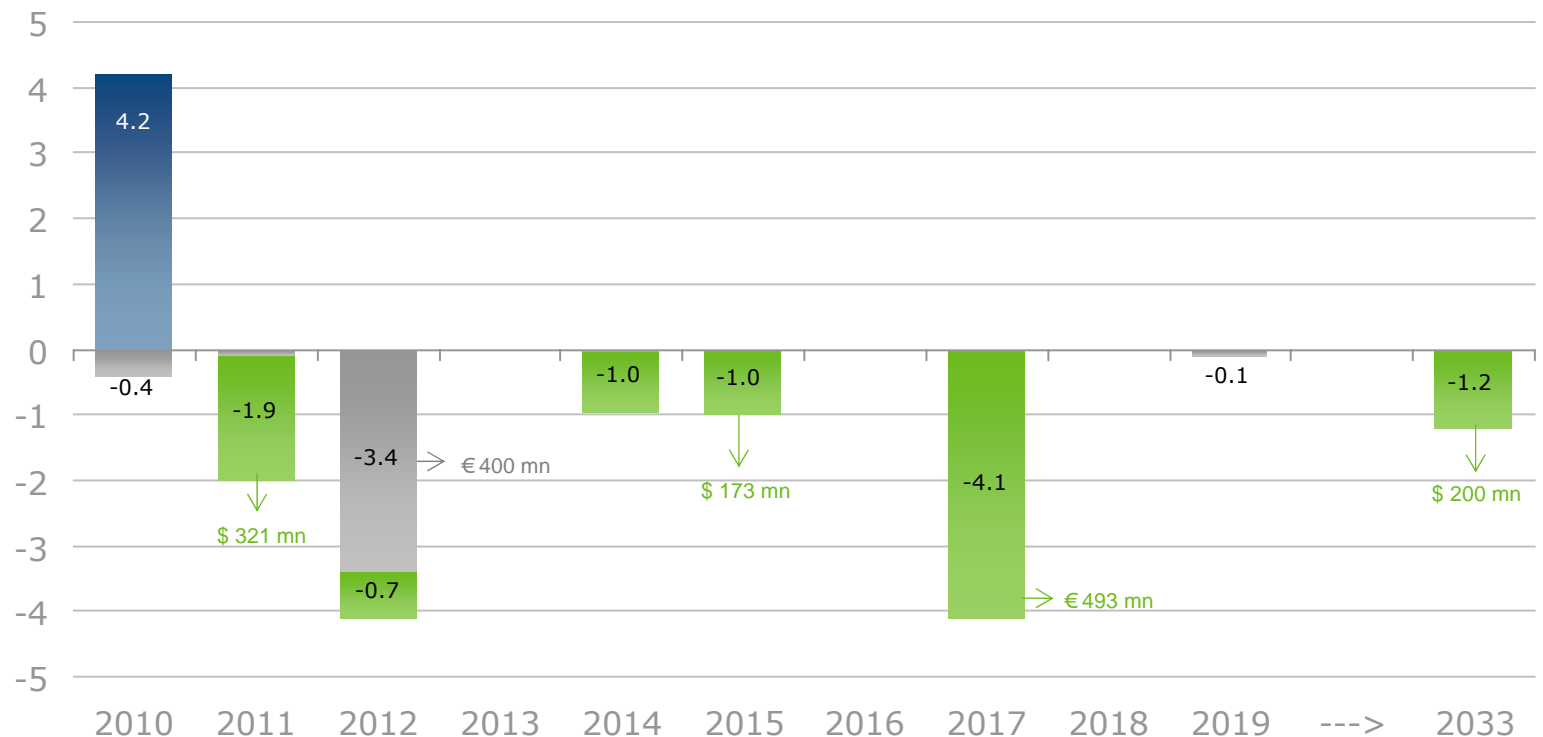
Covenants

- 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

NOK bn.

■ Cash ■ Bank debt ■ Bond debt



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

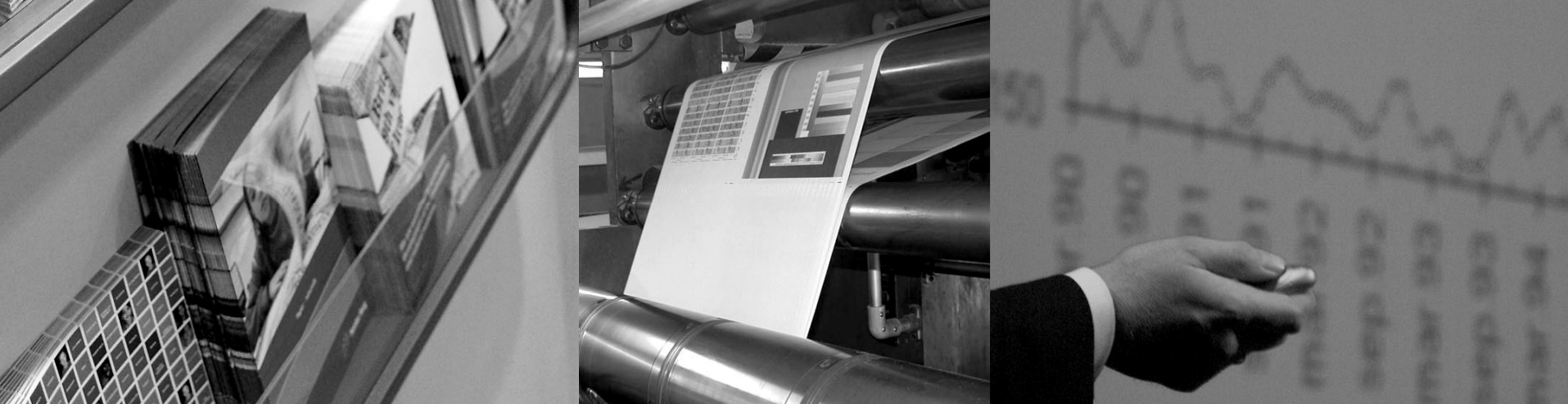
- Growth in economy, but volatile demand
- Lag vs. North American price hikes

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

