Norske Skog

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Norske Skog

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Company specifics

Norske Skog

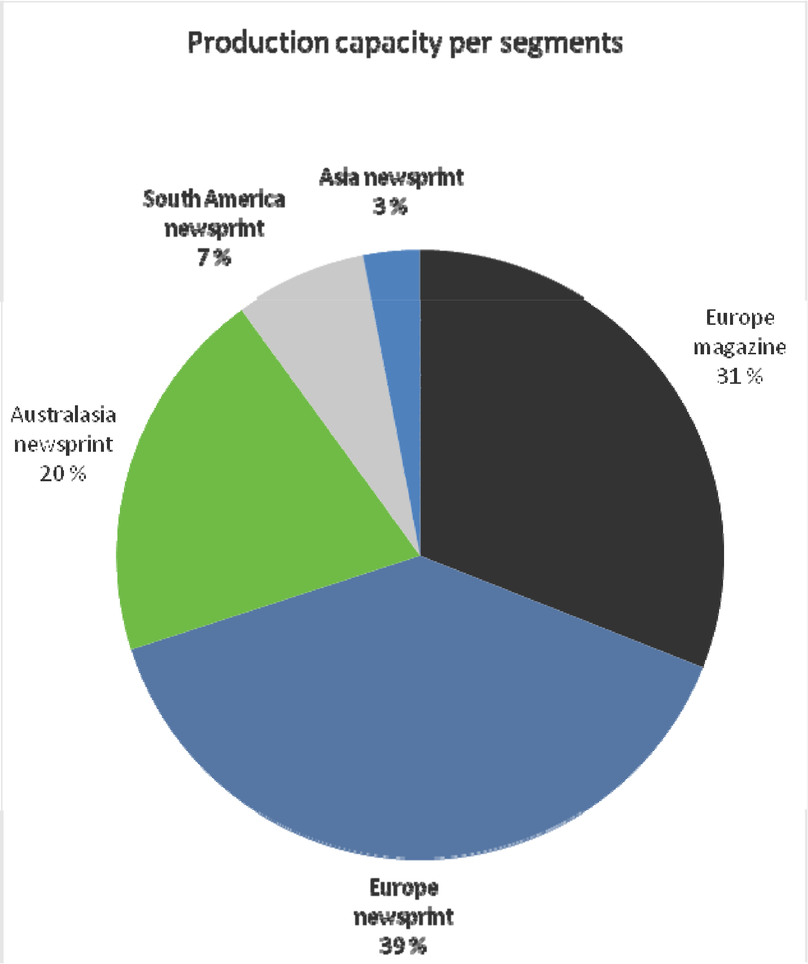
A leading manufacturer of publication paper

- 14 mills in 11 countries
- Revenues (2009)

  NOK 20.4 bn (USD 3.2 bn)
- 5 400 employees
- Listed on the Oslo Stock Exchange
  - No controlling shareholder; foreign ownership ~ 35 %
- Debt financing:
  - Bank loans ~30%
  - Dom & Int notes ~70%

Global presence - strong European footprint

Europe and Australasia are key markets



Total capacity 4.5 mill. tonnes

- Newsprint etc. 3.1 mill. tonnes
- Magazine 1.4 mill. tonnes

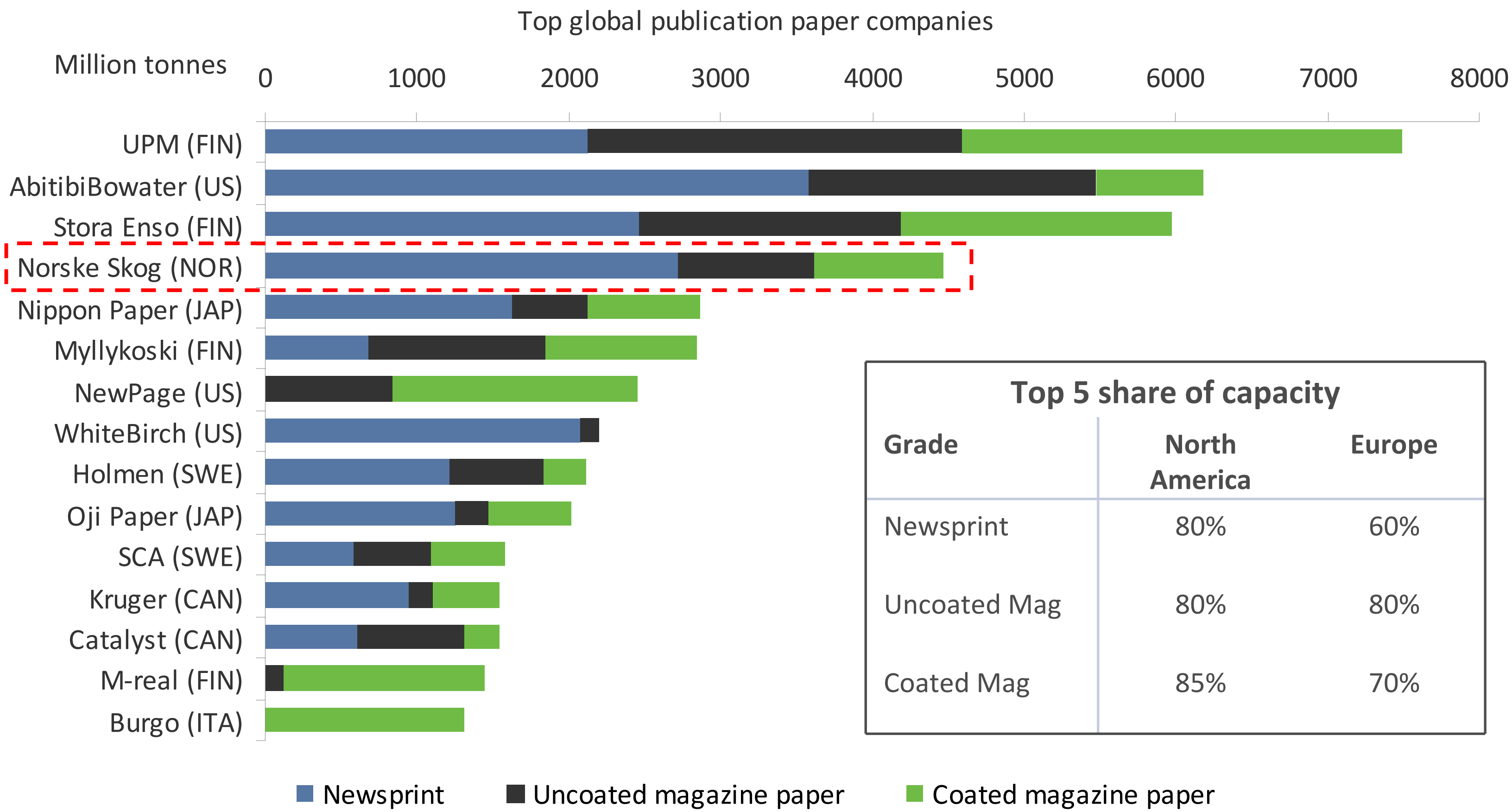
Newsprint

- Standard and improved grades for daily and free newspapers, advertising supplements and paperbacks
- World-wide operations, ex. North America

Magazine paper

- Magazine paper for magazines, periodicals and advertising purposes
- European operations only
- Two different grades:
  - SC - uncoated paper (supercalendered)
  - CMR - coated paper = LWC (Light-weight coated)

Major player in a fragmented industry



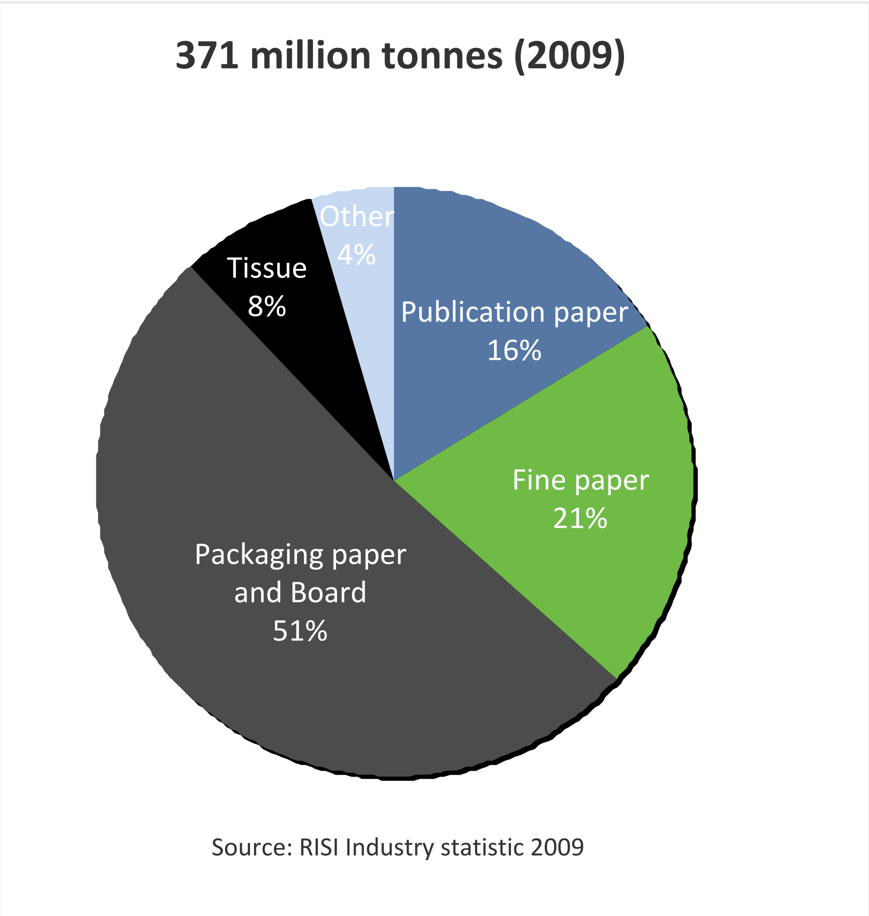
Top 5 share of capacity

Grade	North America	Europe
Newsprint	80%	60%
Uncoated Mag	80%	80%
Coated Mag	85%	70%

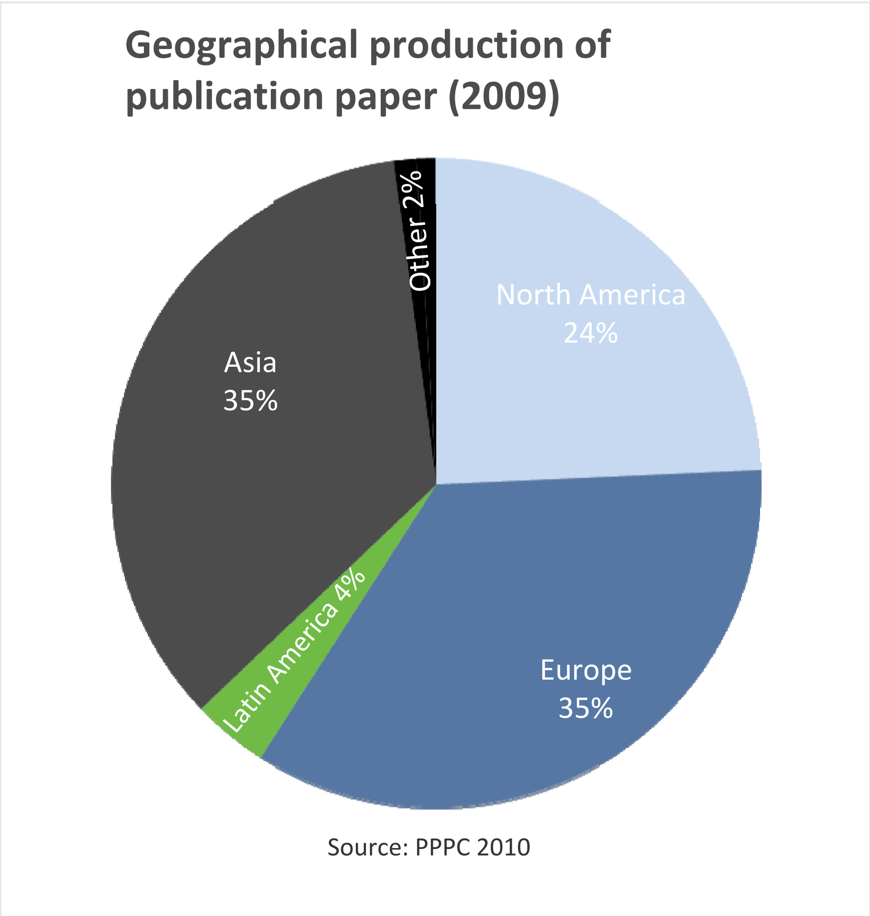
Source: RISI Dec 08, PPPC Oct 09

Market information

Global paper production

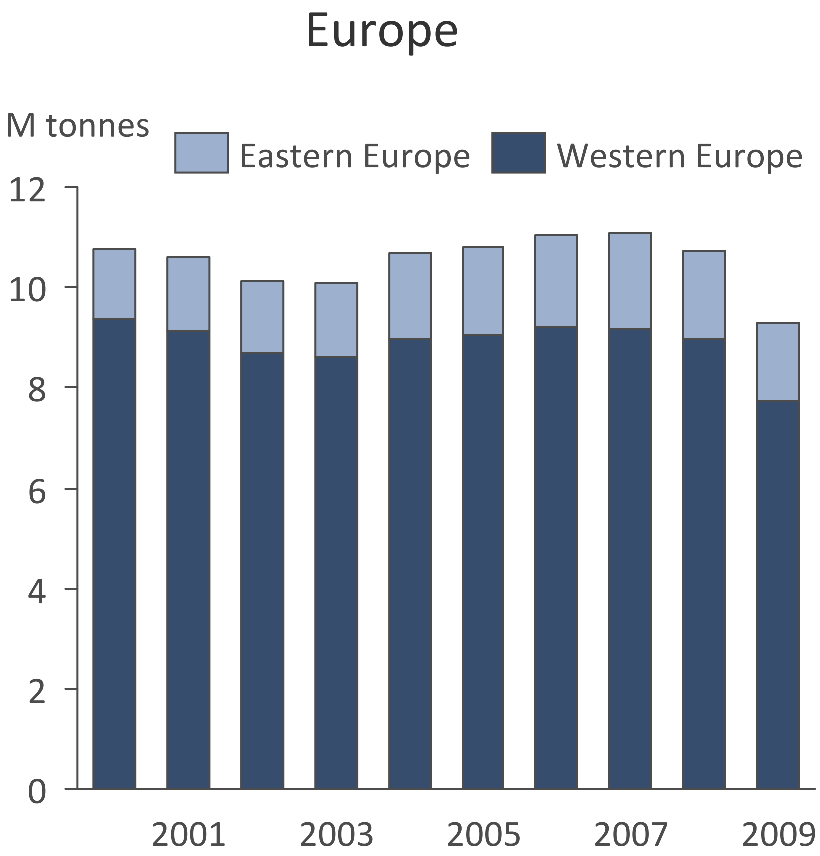


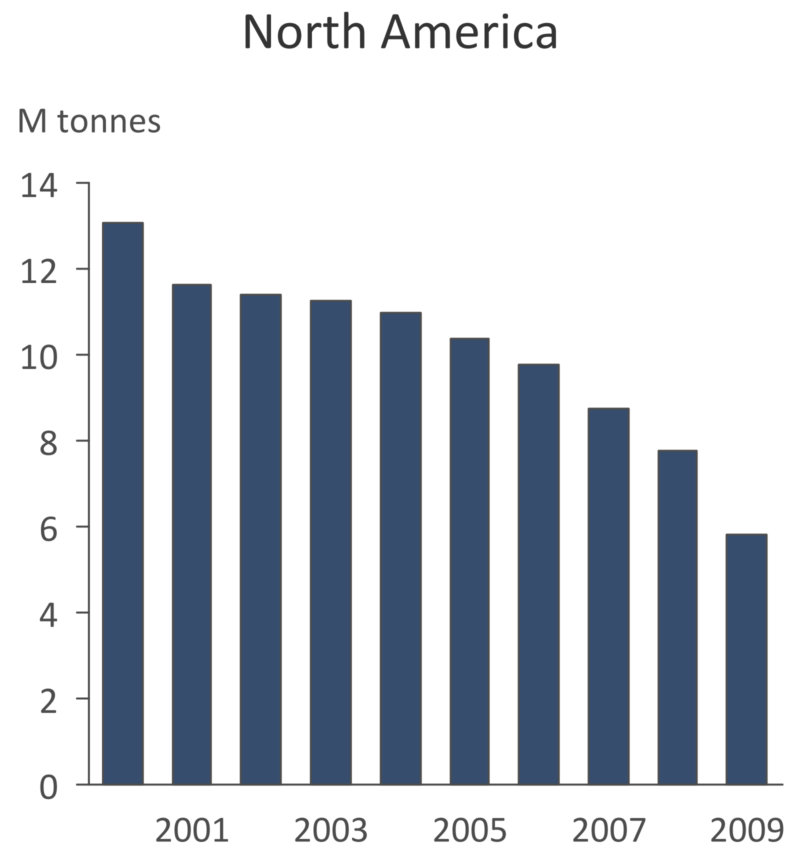
Source: RISI Industry statistic 2009



Source: PPPC 2010

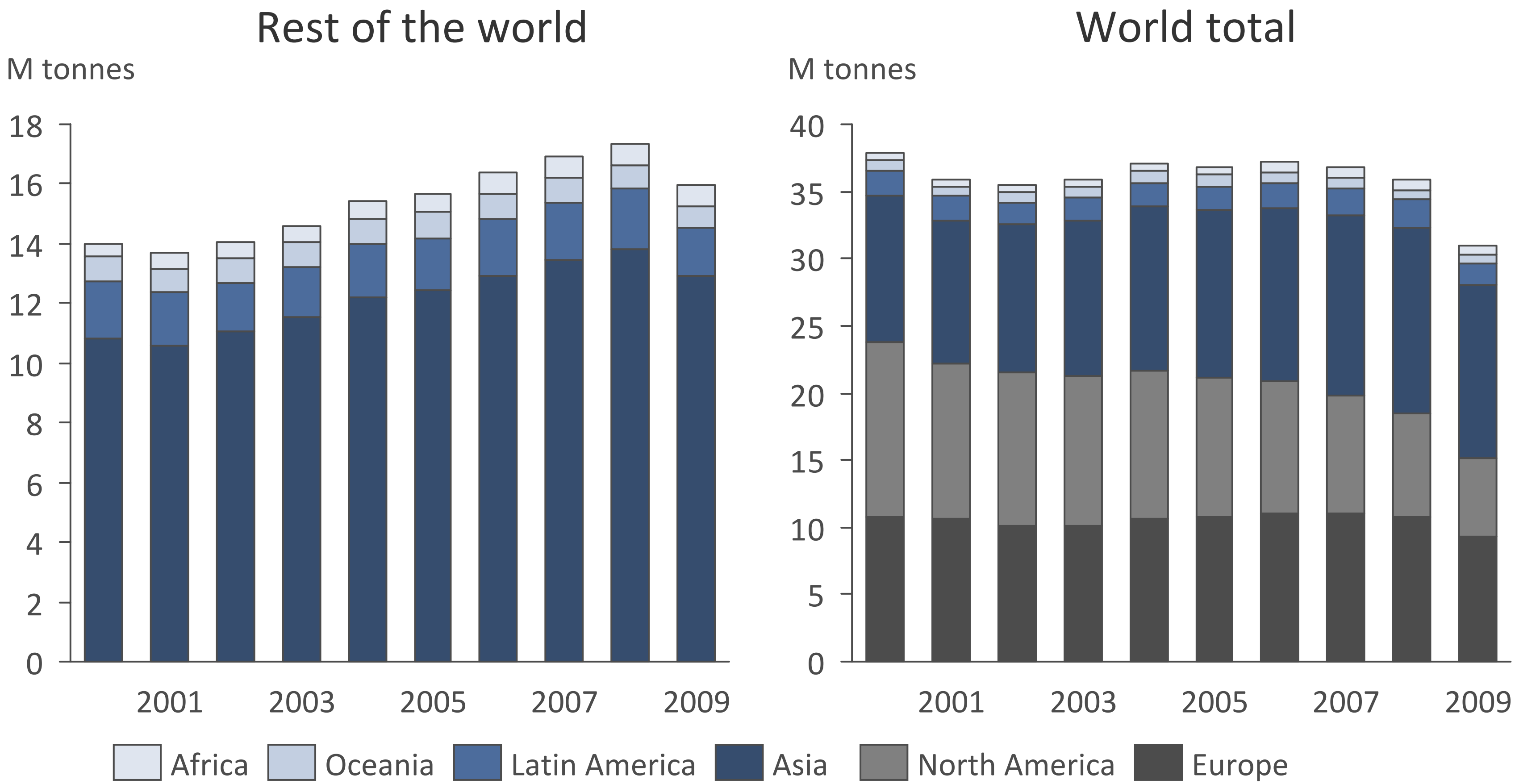
Demand newsprint 2000 – 2009





Source: PPPC

Demand newsprint 2000 - 2009



Source: PPPC

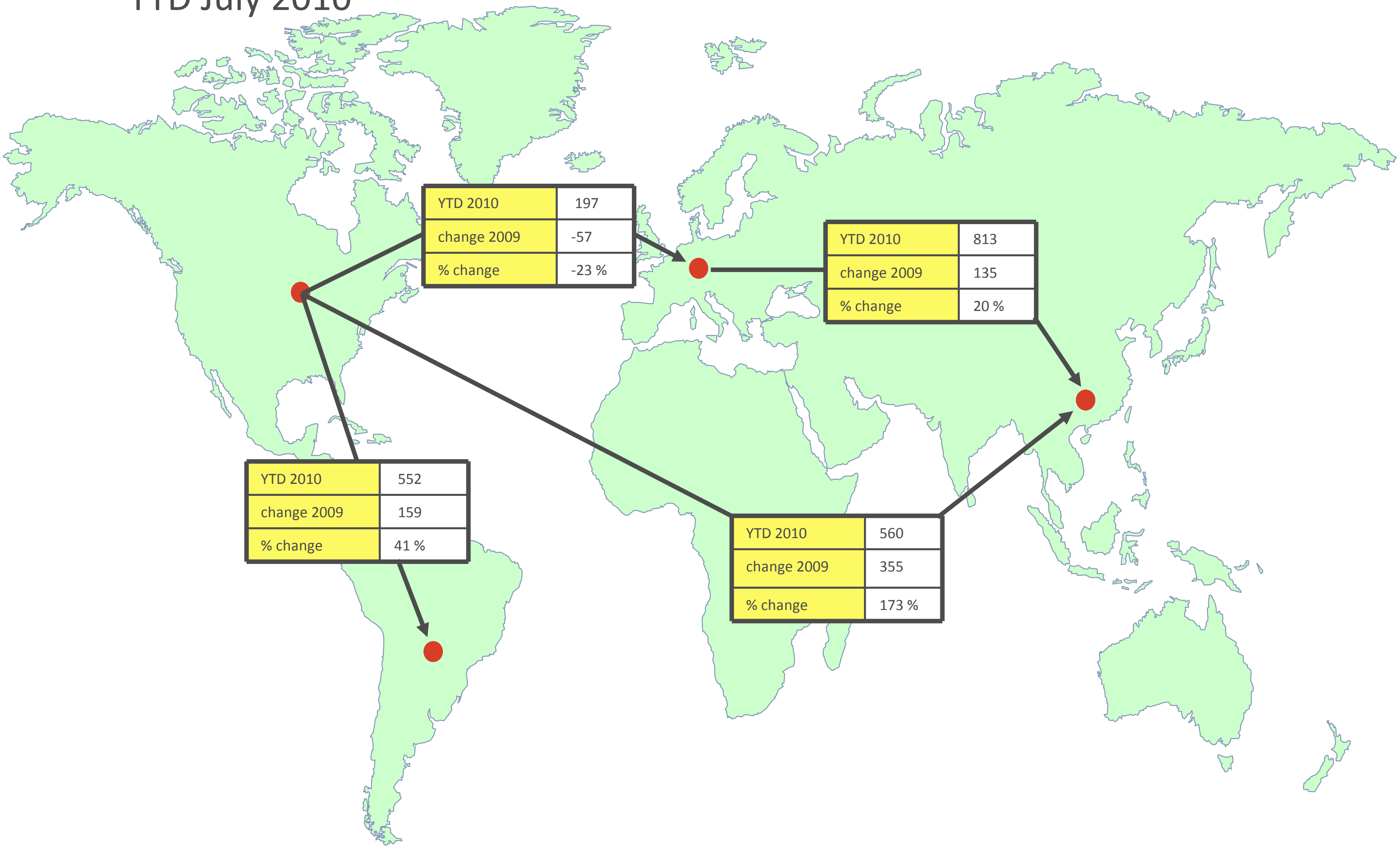
Demand YTD July 2010 per region/segment

Region/segment	Annual change (YTD)*	Comments
World standard newsprint	4.0 %	
North America standard newsprint	-2.7 %	Downward demand trend during 2010
Europe standard newsprint	0.2 %	Western Europe (+2 %) stronger than Eastern Europe (-8 %)
Europe magazine paper (incl. improved newsprint etc)	5.7 %	LWC strong (+11 %) while is SC down (-3 %) due to substitution.
Non-Japan Far East Standard newsprint	11.6 %	Highest growth in China and India; increased customer inventories
Australasia standard newsprint	13.9 %	
Latin America standard newsprint	17.2 %	Highest growth in Brazil; increased customer inventories

*) Change from January-July 2009 vs same period in 2010, Source: PPPC, CEPIPRINT

Main trade flows – Std newsprint

YTD July 2010



YTD 2010	197
change 2009	-57
% change	-23 %

YTD 2010	813
change 2009	135
% change	20 %

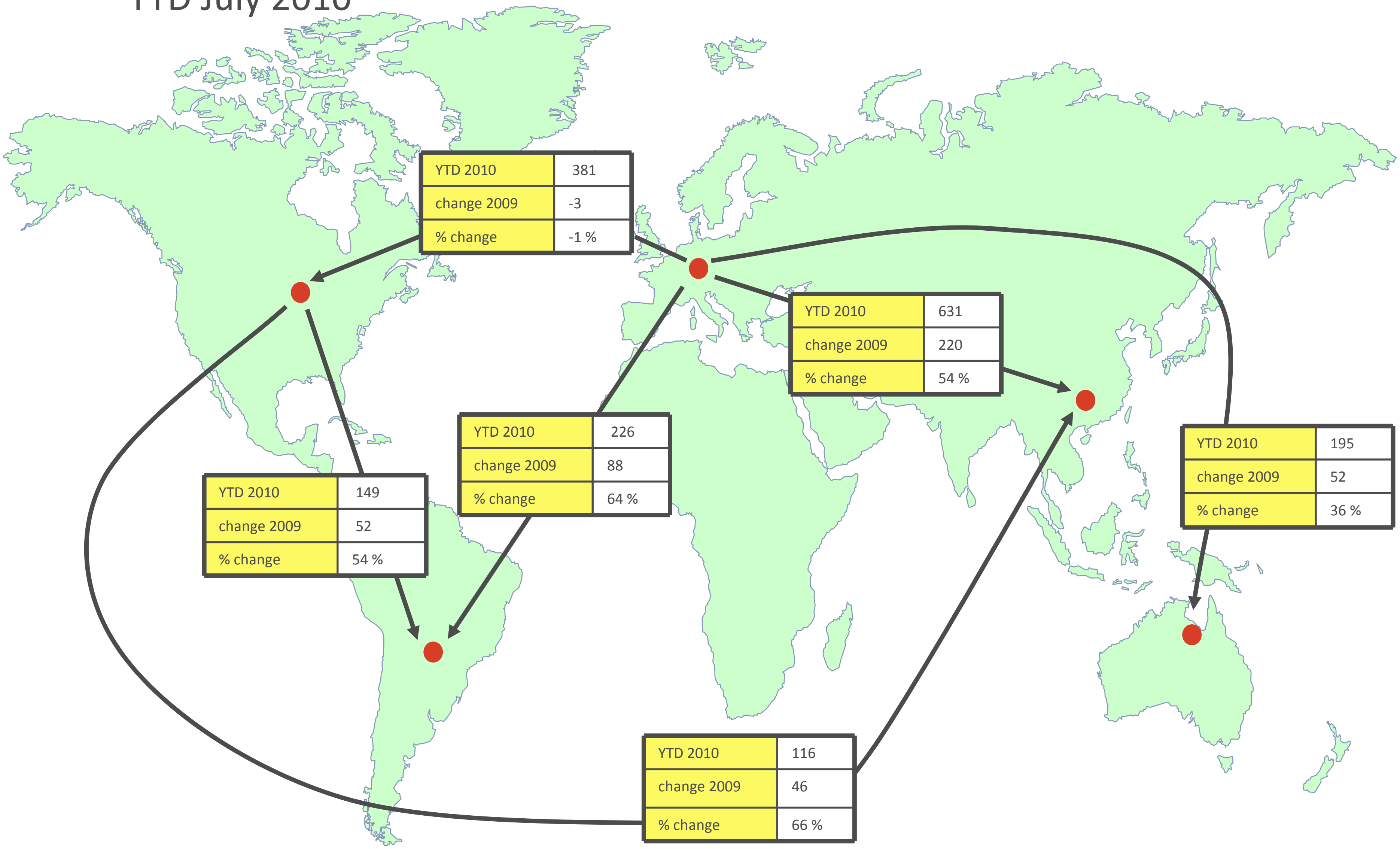
YTD 2010	552
change 2009	159
% change	41 %

YTD 2010	560
change 2009	355
% change	173 %

Source: PPPC

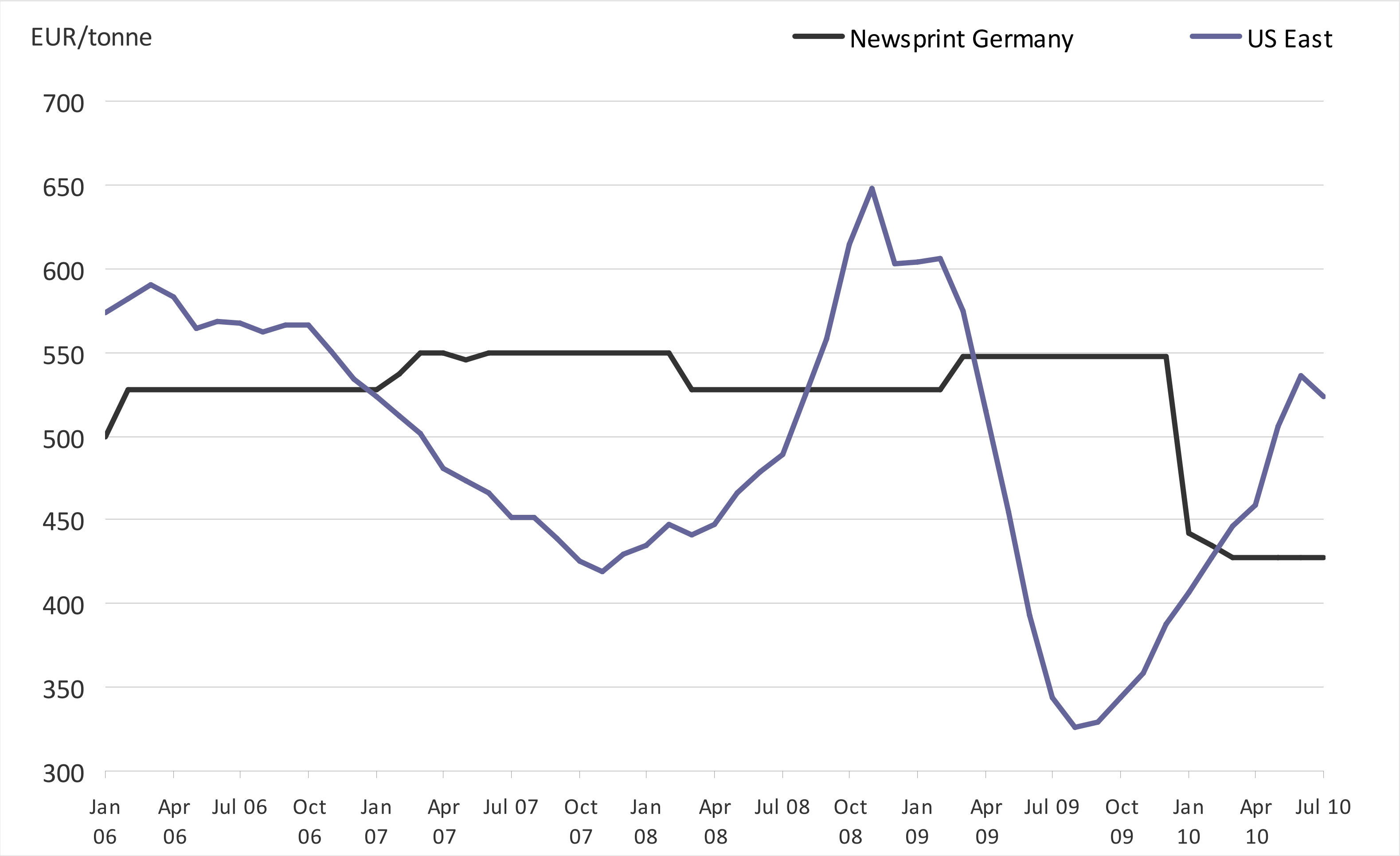
Main trade flows – Magazine paper

YTD July 2010



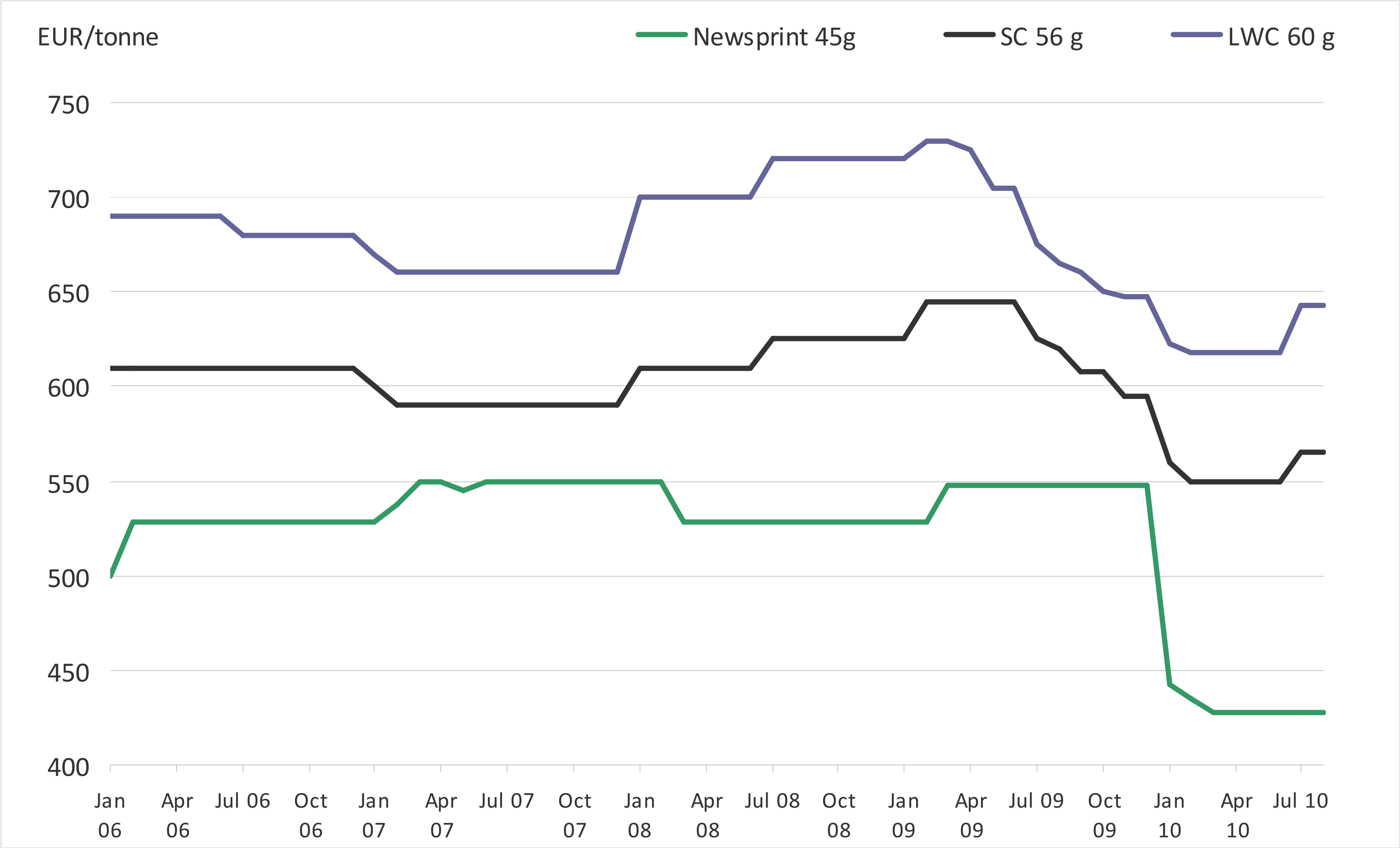
Source: PPPC

Newsprint prices Germany and US (45g/m²)



Source: RISI

Publication paper prices - Germany

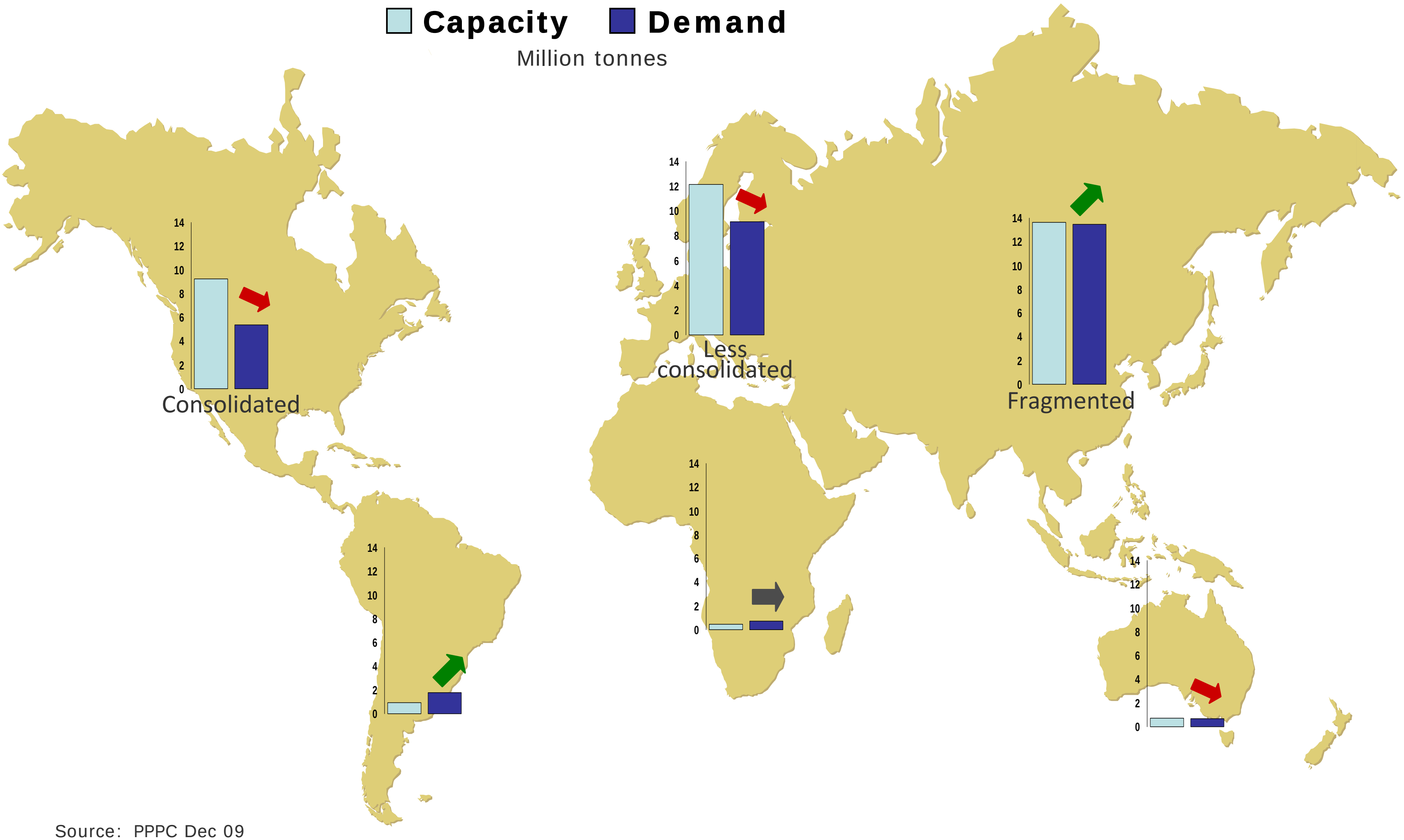


Source: RISI

Newsprint – Europe and North America is different

- Europe:
  - Large number of nations, languages and cultures
  - Strong tradition for newspaper readership and subscription in many of the countries
  - Well developed public transportation
  - Growth potential in Russia and other East European countries
- USA:
  - One nation, but hardly any national newspaper
  - Less tradition for newspaper reading
  - Less public transportation

Overcapacity in developed markets



Source: PPPC Dec 09

Q2 and financials

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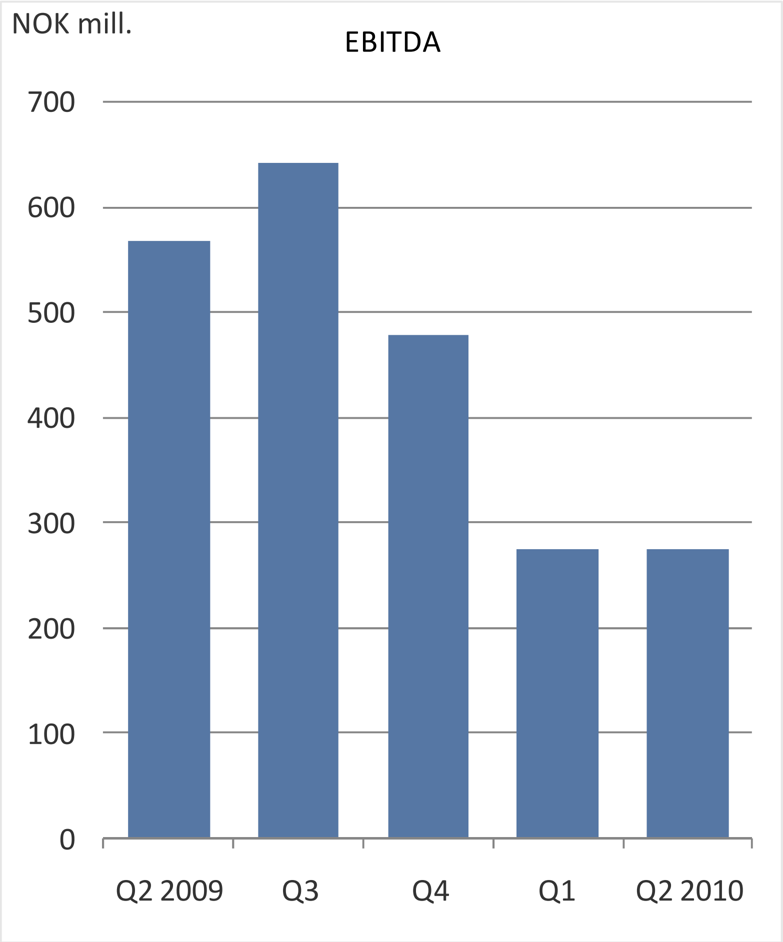
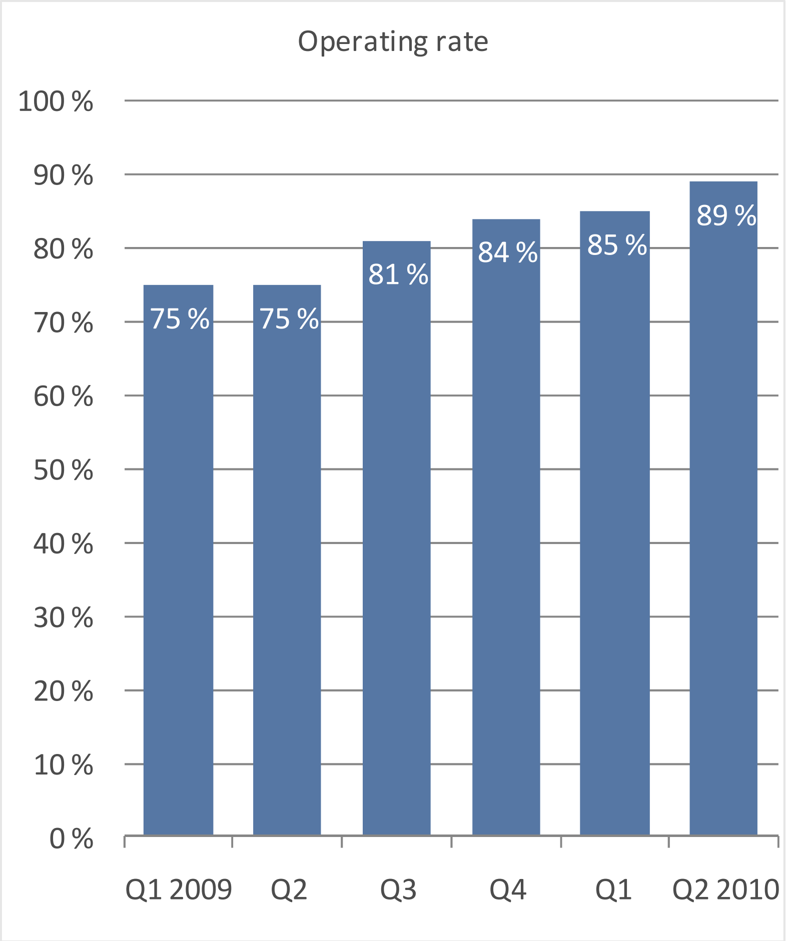
Q2 2010 in brief

- EBITDA remains weak
  - Low prices in Europe
  - Higher cost of input factors
- Increased capacity utilisation
- Sale of excess power in Norway
- New long-term contracts in Australasia signed

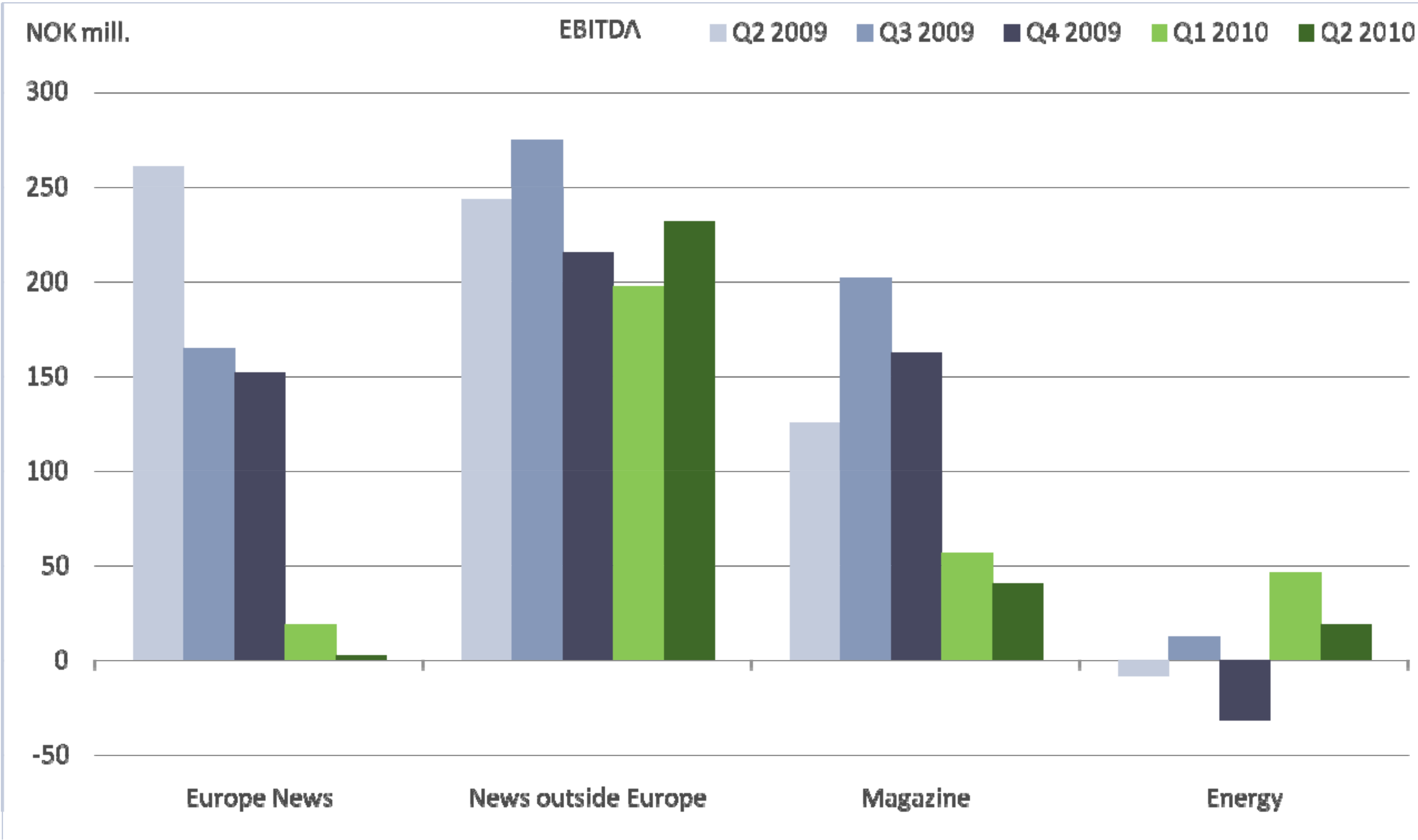


Higher capacity utilisation in Q2 2010

- 89 % operating rate, up from 85 % in Q1 2010
- Increased export from Europe to Asia, and less import from North America to Europe
- Substantial growth in demand in Asia, Australasia and South America
- Reduced capacity
  - PM2 at Parenco permanently idled in 2009
  - Divestment of Chinese operations in 2009



Results coming from outside Europe

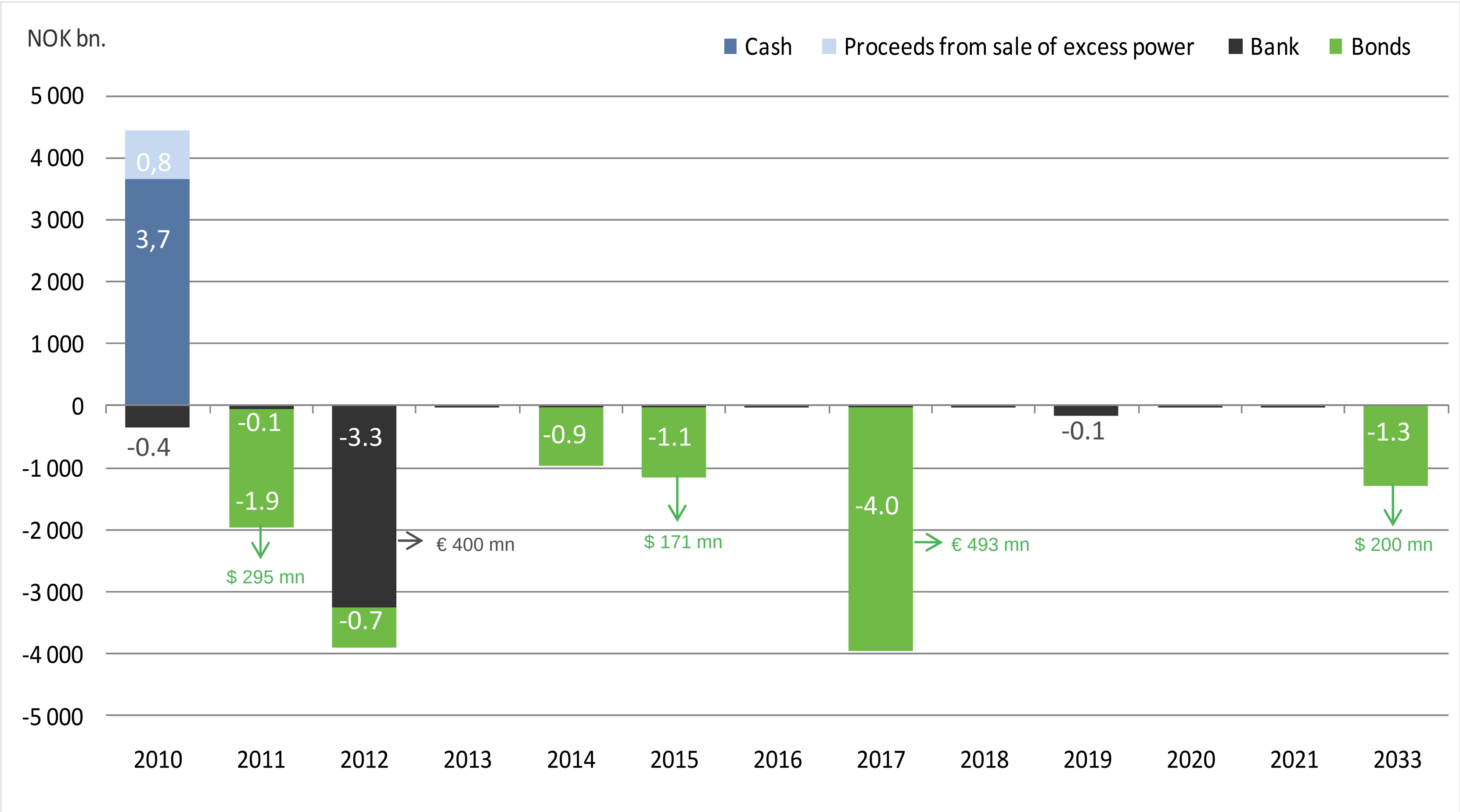


Norske Skog's bond financing

~70% of total debt financing

Maturity	Currency	Original amount	Outstanding amount
2011	US$	600 mn	295 mn
2015	US$	200 mn	171 mn
2017	EUR	500 mn	493 mn
2033	US$	200 mn	200 mn
2012-14	NOK (4 notes)	1.6 bn	1.6 bn

Cash and debt maturity profile pro forma per 30 June 2010



Cost development

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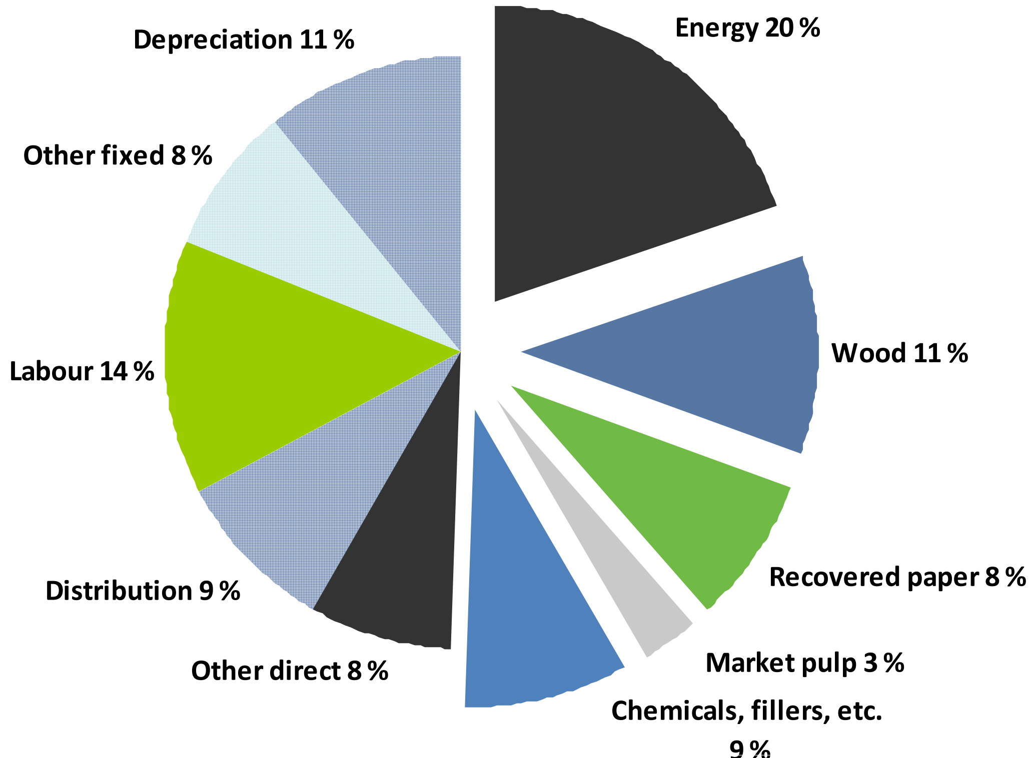
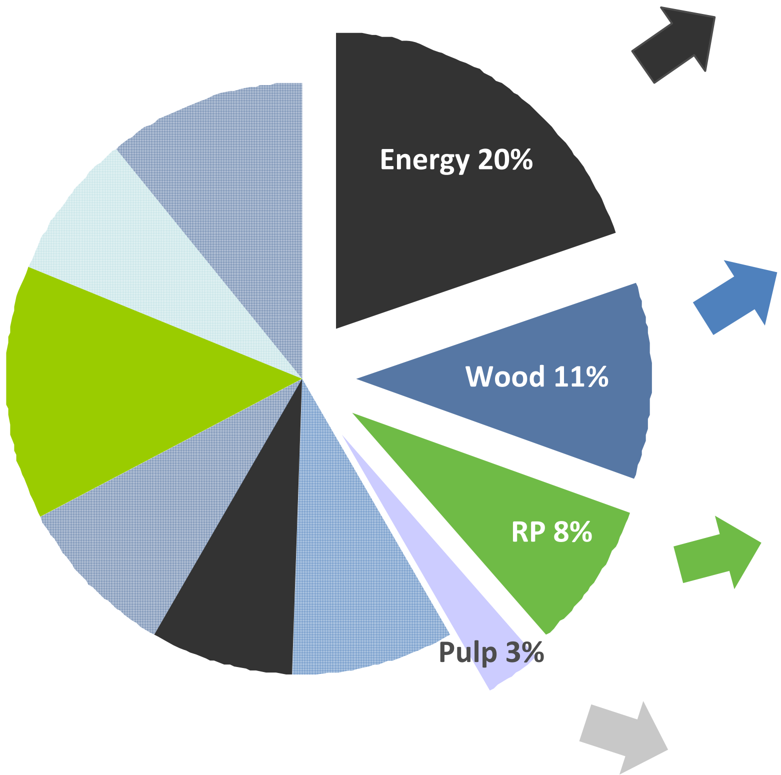
Cost distribution

Cost breakdown



2009 figures, calculated to 90% operating rate

Current cost picture



Energy

- 2/3 electricity of which most is bought under long term contracts

Wood

- S.America & Australasia:
  - Long term contracts at favorable prices
- Continental Europe
  - Market exposure, expect some price pressure
- Norway
  - Long term volume contracts, certain increase in 2H 2010

Recovered paper

- Reduced exposure after disposals in China and idling PM2 in Parenco
- Significant cost pressure in 1H 2010, probably easing in 2H

Market pulp

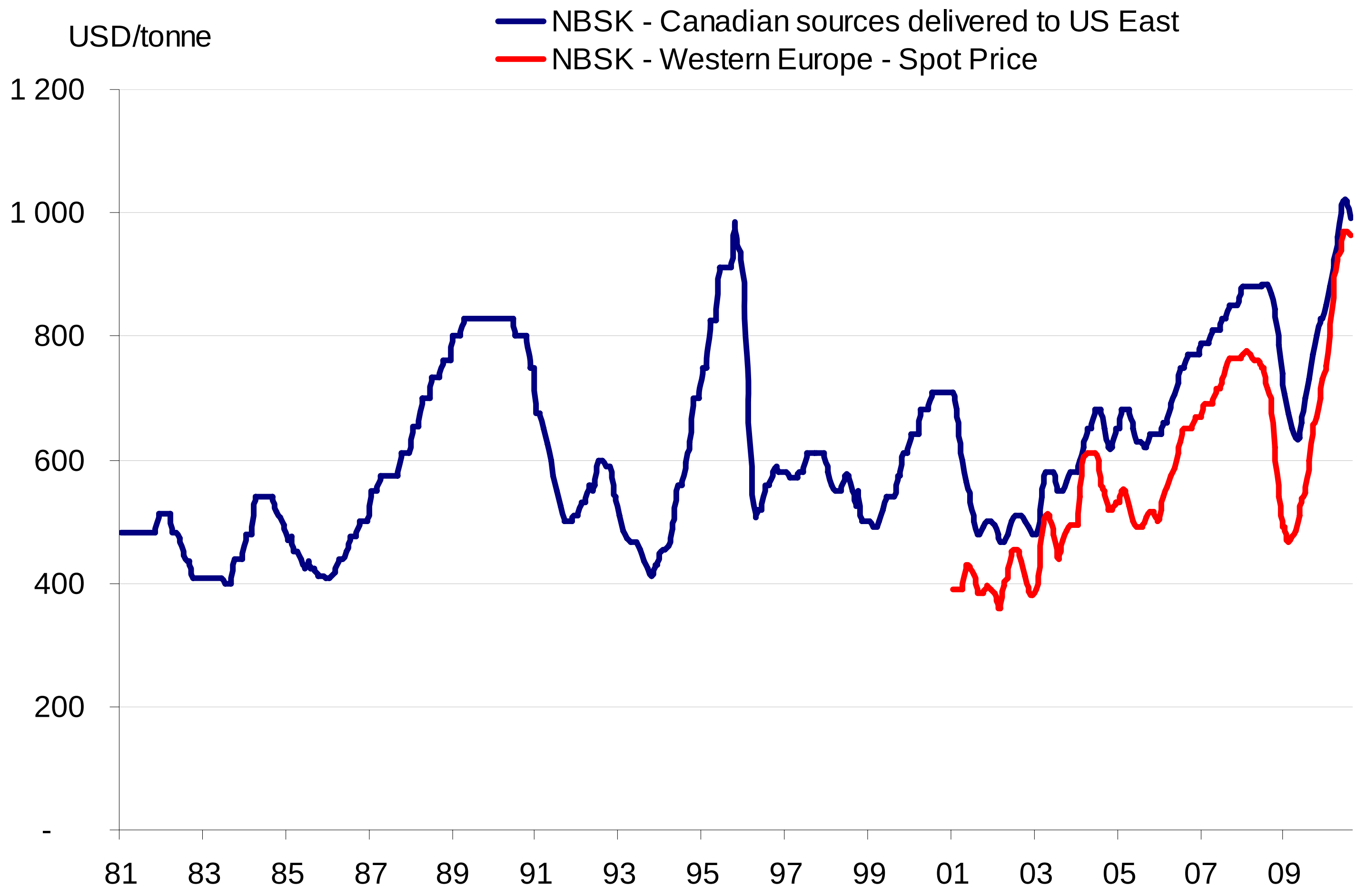
- Significant price increase, but clear signs of lower prices during the autumn
- NSI has limited exposure

  ~200kt in magazine production

Recovered paper

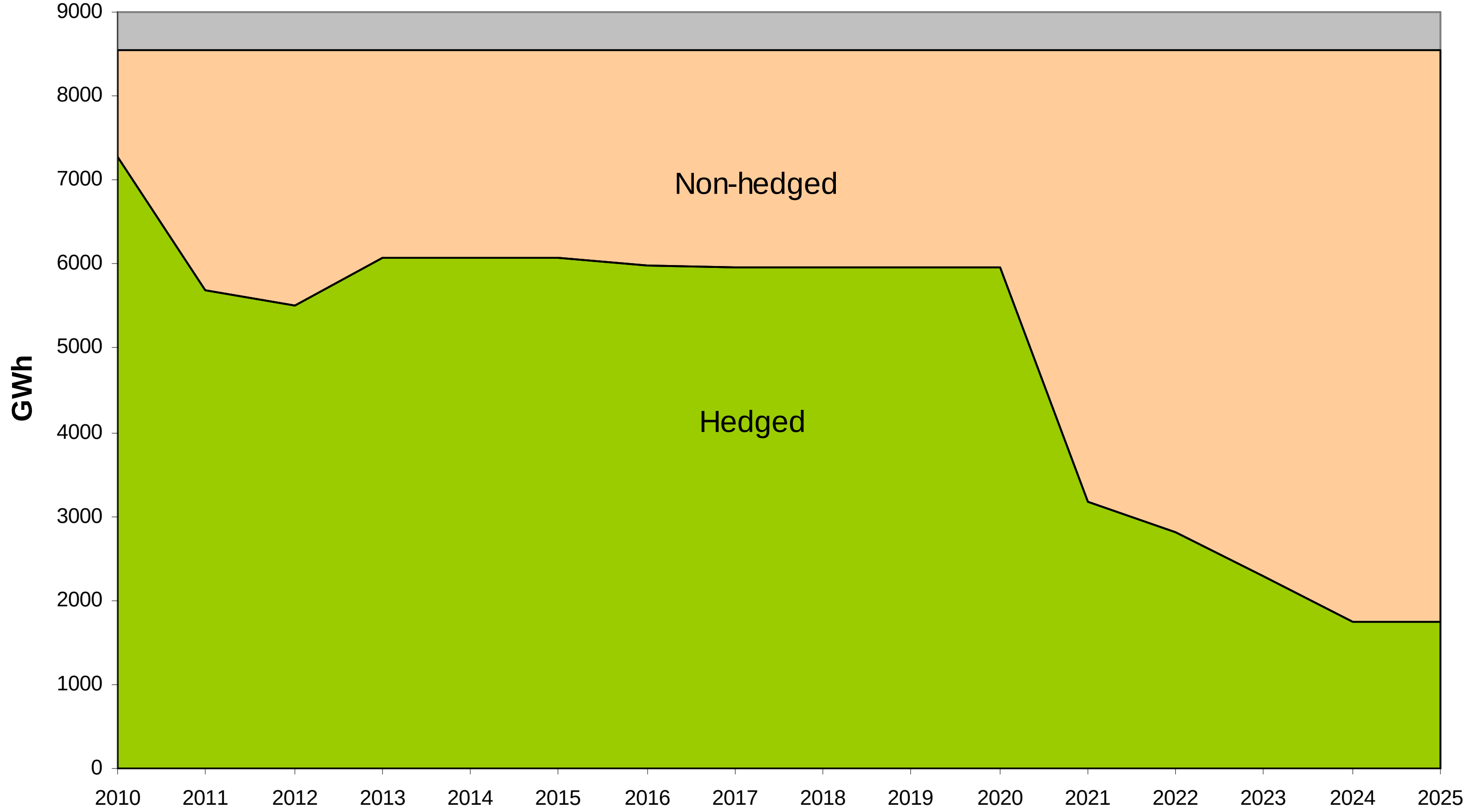
Source: RISI

Market pulp



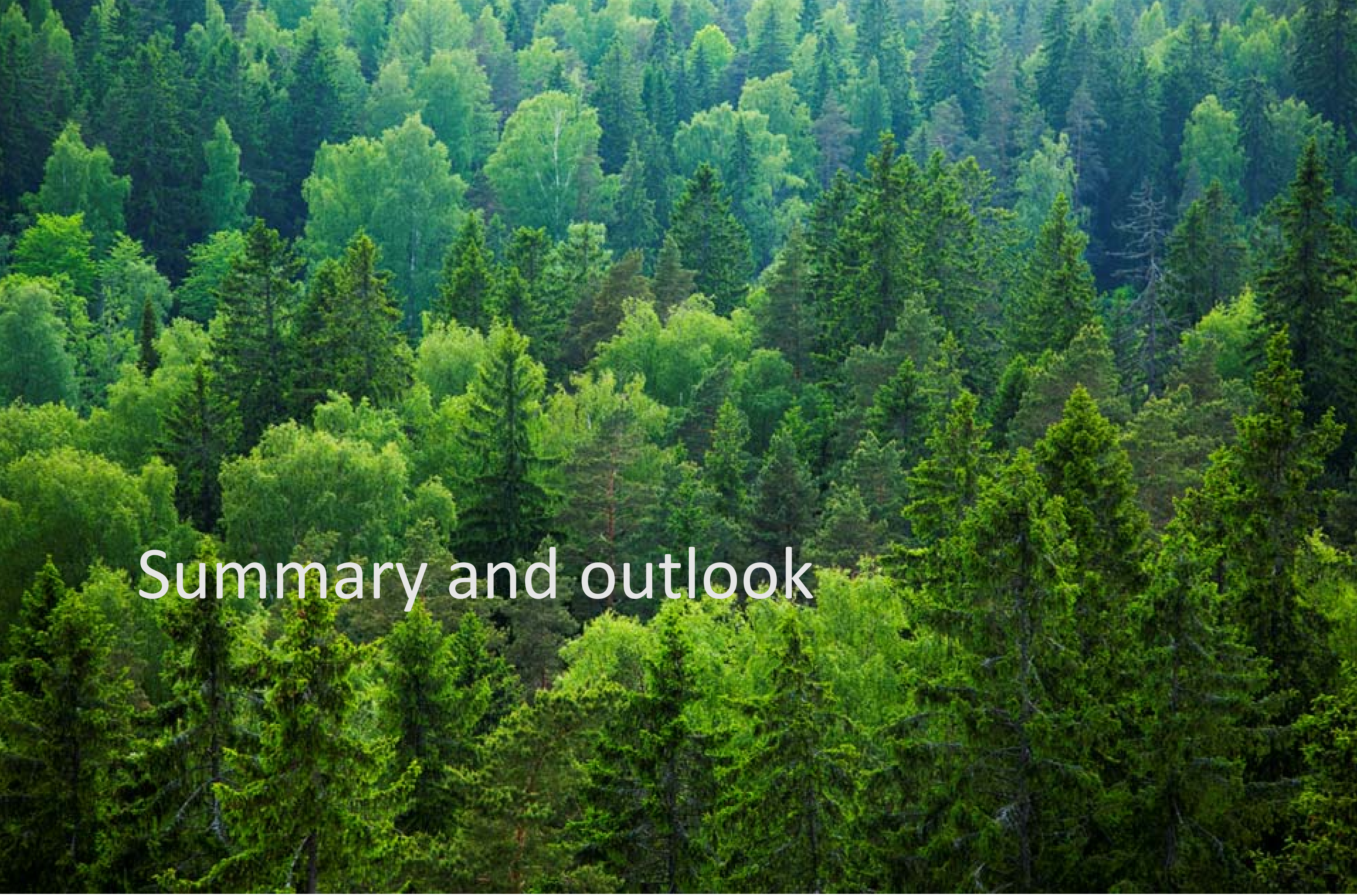
Source: RISI

Electricity coverage



- Expected normalized op.rate at 90%
- Only el.consumption, excl gas, coal and bio

Summary and outlook



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Ambitious cost and capex reduction programmes

- 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%)

Annual cost reduction of NOK 600-700 mill from 2010

Going forward:

- Additional program of NOK 150-200 million
- Continuous improvement programme at all business units
- Investment level reduction
  - CAPEX in 2010 ~NOK 500 million

Further debt reduction initiatives in 2010

- Divestment of Klosterøya property (former Union site)
- Divestment of Brazilian forest property – around 50k acres of productive forest (20k hectare)

➡ Could reduce debt by additional NOK 200 – 700 mill. by the end of 2010

Klosterøya, Skien, Norway (Photo: Varden)

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Outlook second half of 2010

- Demand
  - No *clear* signs of increase in demand for newsprint in Europe and North America
  - Further increase expected in Asia, Australasia, and South America
  - Seasonal increase for magazine paper
- Prices
  - Newsprint prices in Europe expected to remain at low levels while increasing in South America, Asia and Australasia
  - Higher magazine prices for large part of volumes
- Costs
  - Market pulp and recovered paper prices to level off
  - Slightly higher prices on wood in Norway

This is a sustainable business

"The newspaper business is growing, and our coupon business is fantastic."

- US customer:

"We earn our money from newspapers and magazines which are doing well. We will continue to invest."

- German customer

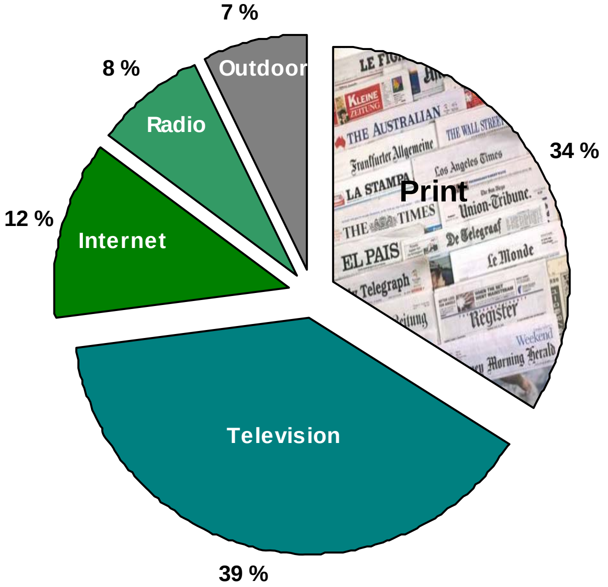
"Our print house is very efficient, and we will look at high utilisation for our recent investment."

- UK customer

"All in all, our volumes are quite stable."

- Norwegian customer

Worldwide advertising spending - 2009e



Source: World Association of Newspapers 2009