

# Norske Skog

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- Company specifics
- Market information
- Financials, costs and debt development



Company specifics

# A leading manufacturer of publication paper

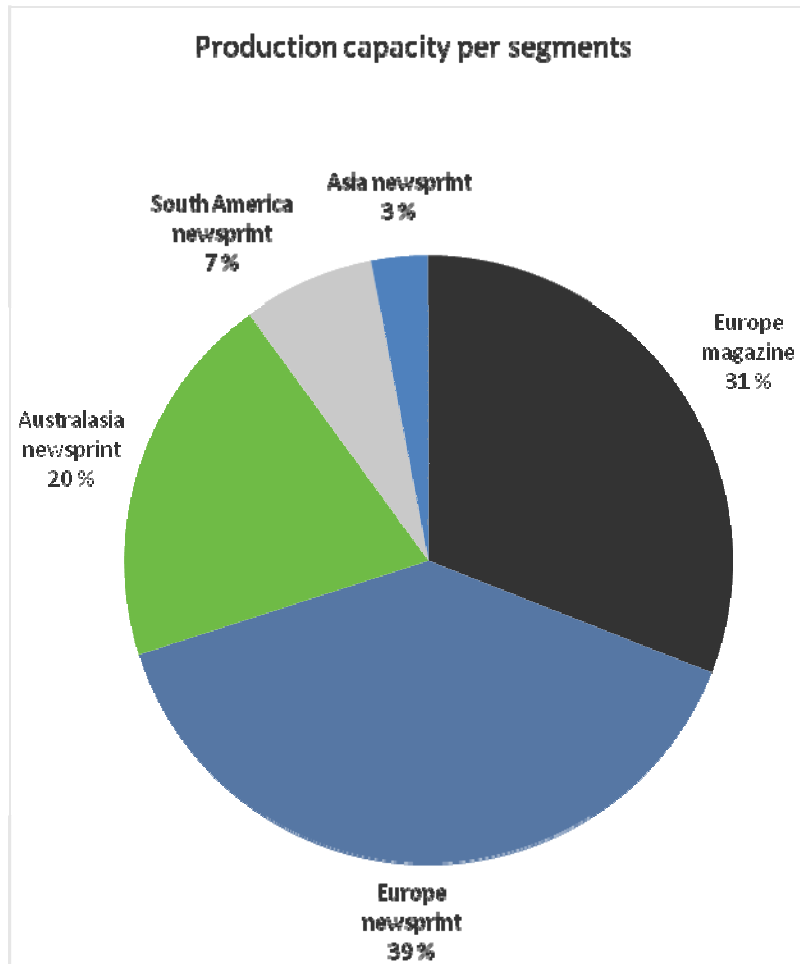


- 14 mills in 11 countries
- Revenues
  - YTD Q3-10 = NOK 13.8 bn (US\$ 2.3 bn)
  - 2009 = NOK 20.4 bn (US\$ 3.2 bn)
- 5 400 employees
- Listed on the Oslo Stock Exchange
  - No controlling shareholder; foreign ownership ~ 35 %
- Debt financing:
  - Bank loans ~30%
  - Dom & Int bonds ~70%
- Rating:
  - S & P → B- neg outlook
  - Moody's → B2 neg outlook

# Global presence



# Europe and Australasia are key markets



Total capacity 4.5 mill. tonnes

- Newsprint etc. 3.0 mill. tonnes
- Magazine 1.5 mill. tonnes

## Newsprint

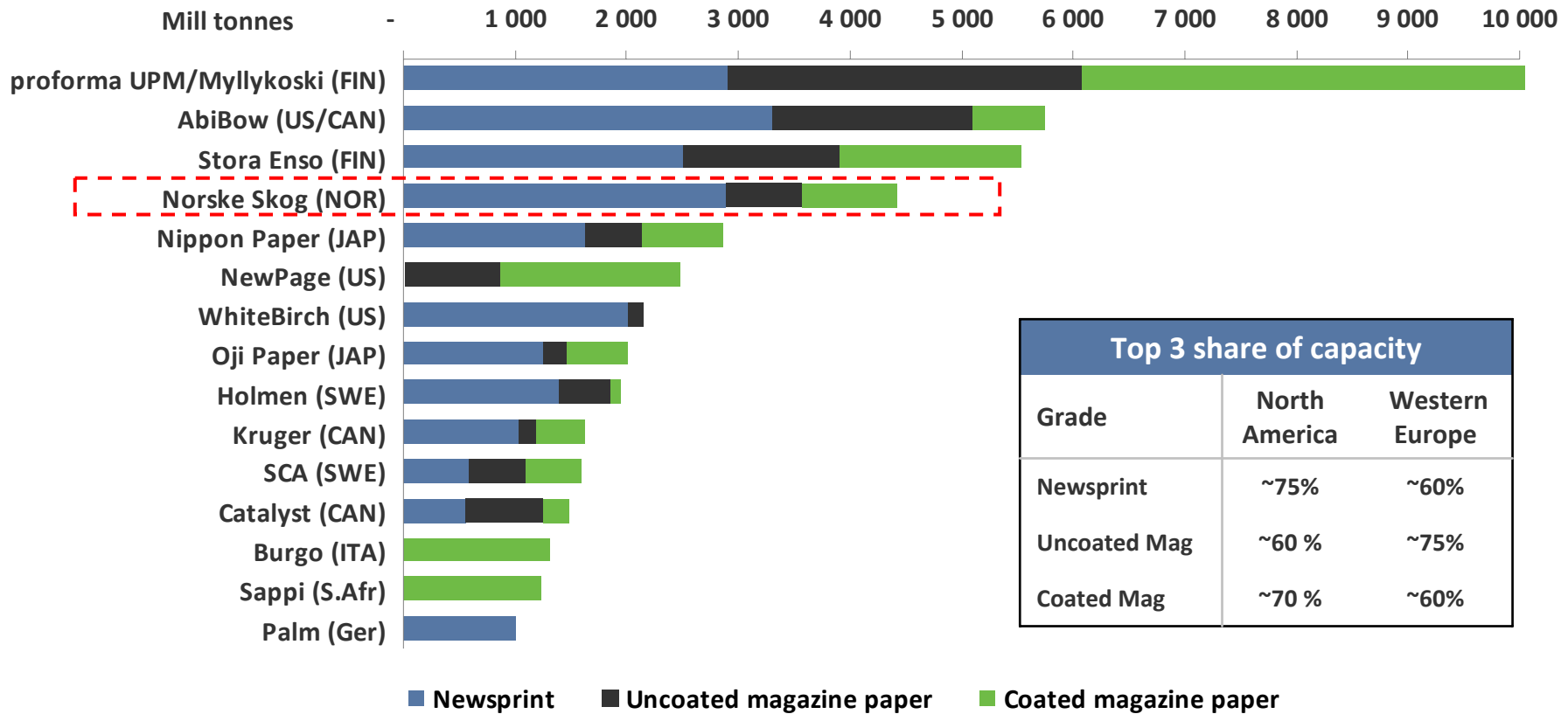
- Standard and improved grades for daily and free newspapers, advertising supplements and paperbacks
- World-wide operations, ex. North America

## 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 global player

**Top global publication paper companies**

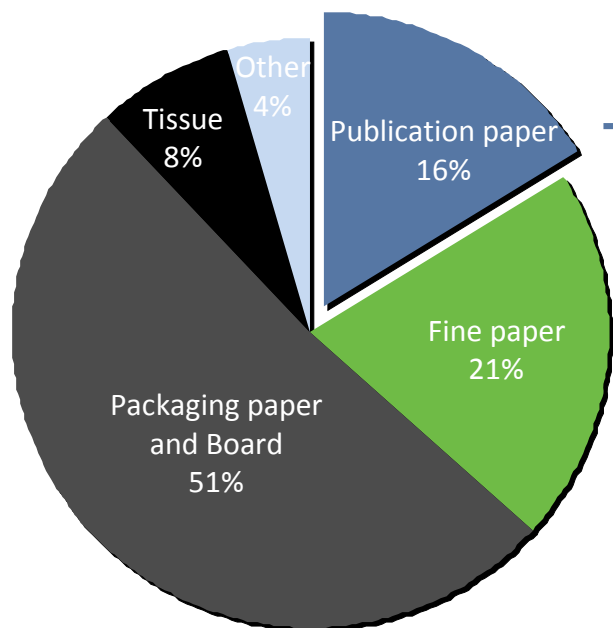


Source: RISI, PPPC, Company research

# Market information

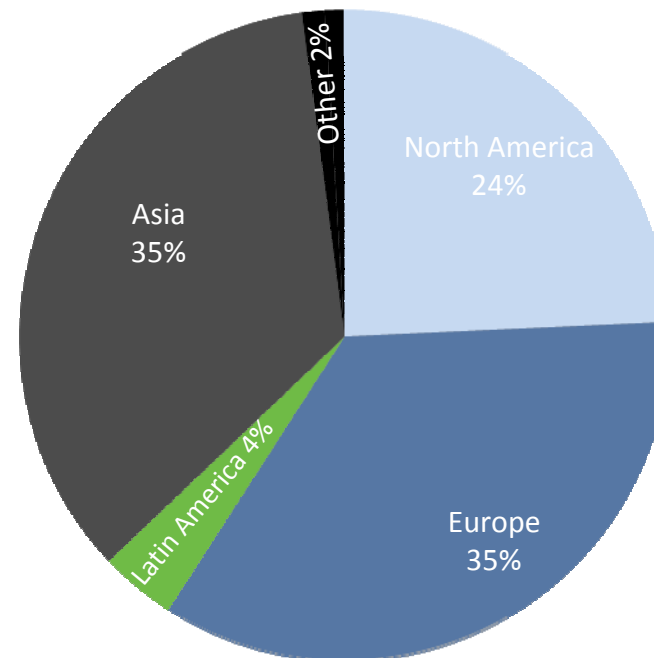
# Global paper production

**371 million tonnes (2009)**



Source: RISI Industry statistic 2009

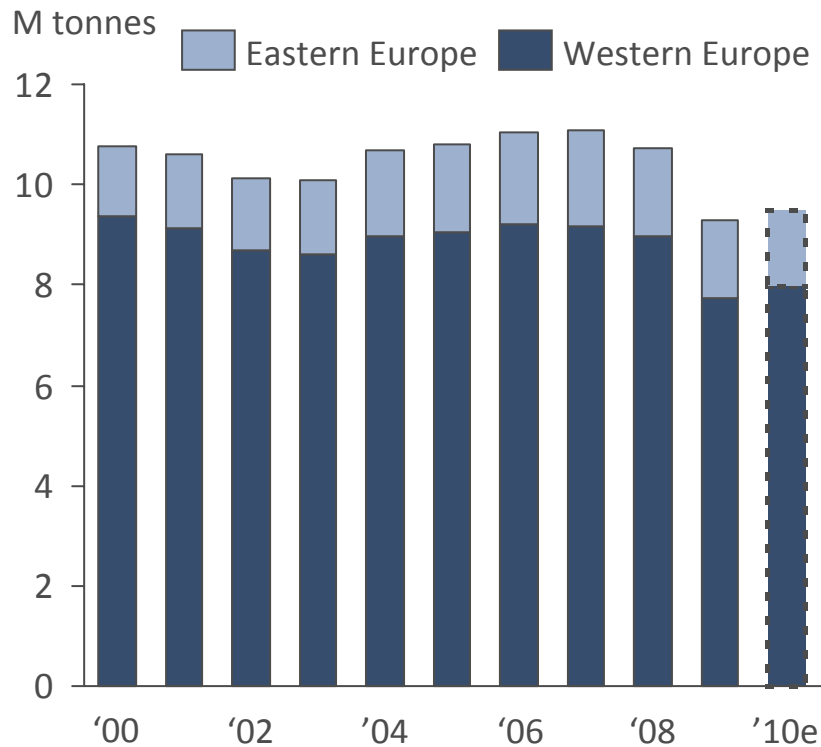
**Geographical production of publication paper (2009)**



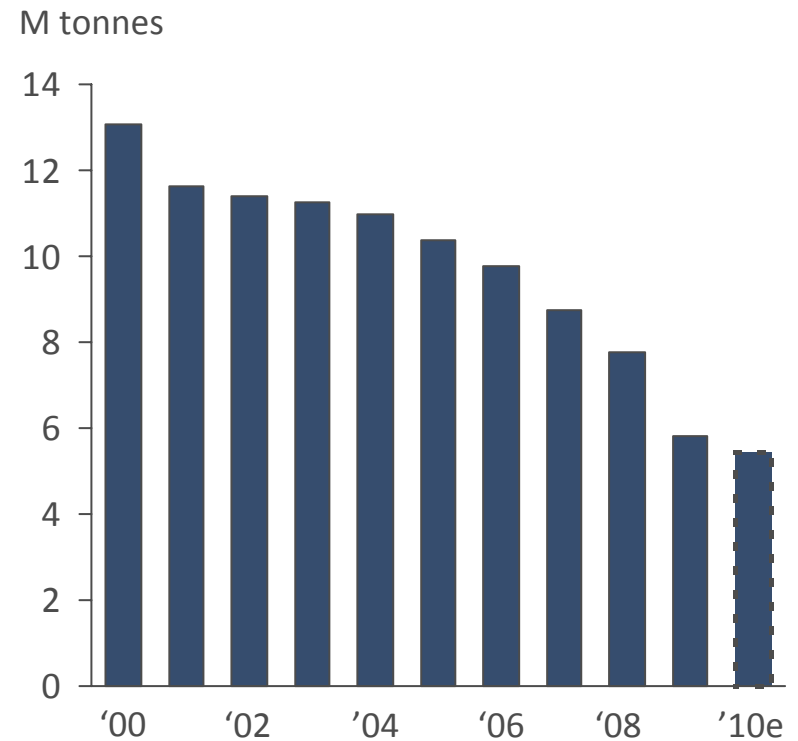
Source: PPPC 2010

# Demand newsprint 2000 – 2010e

## Europe



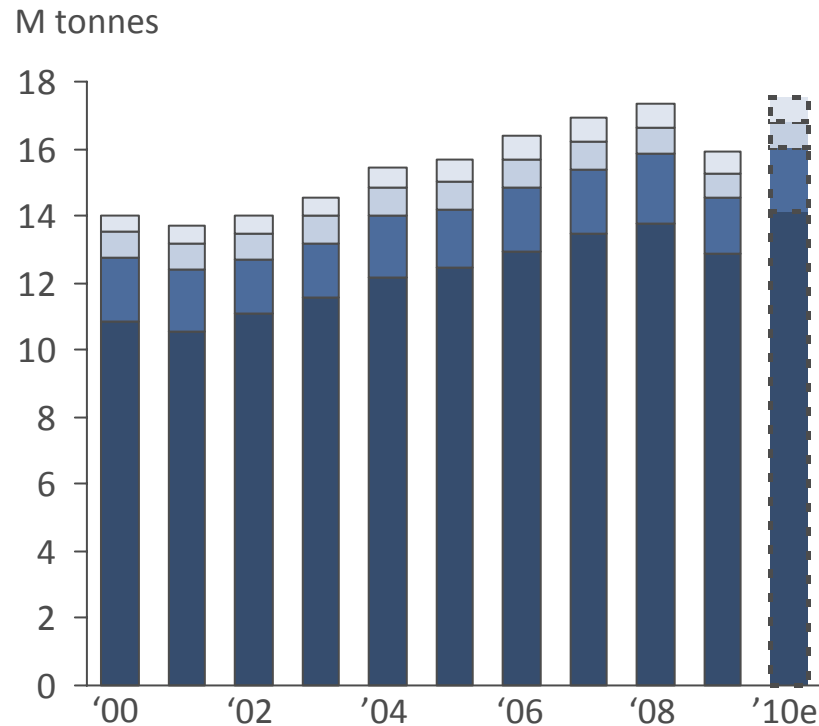
## North America



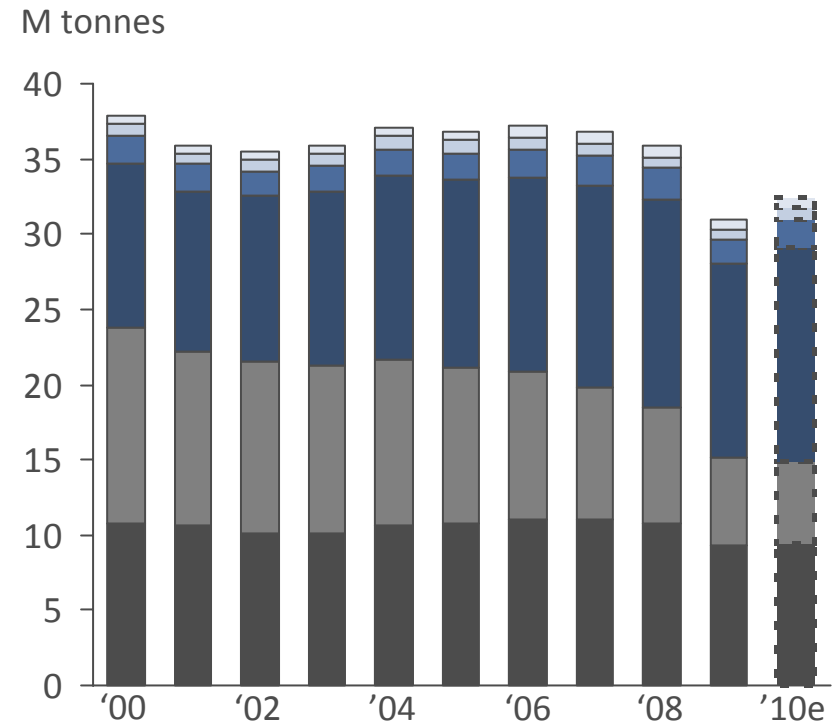
Source: PPPC

# Demand newsprint 2000 – 2010e

## Rest of the world



## World total



Africa
  Oceania
  Latin America
  Asia
  North America
  Europe

Source: PPPC

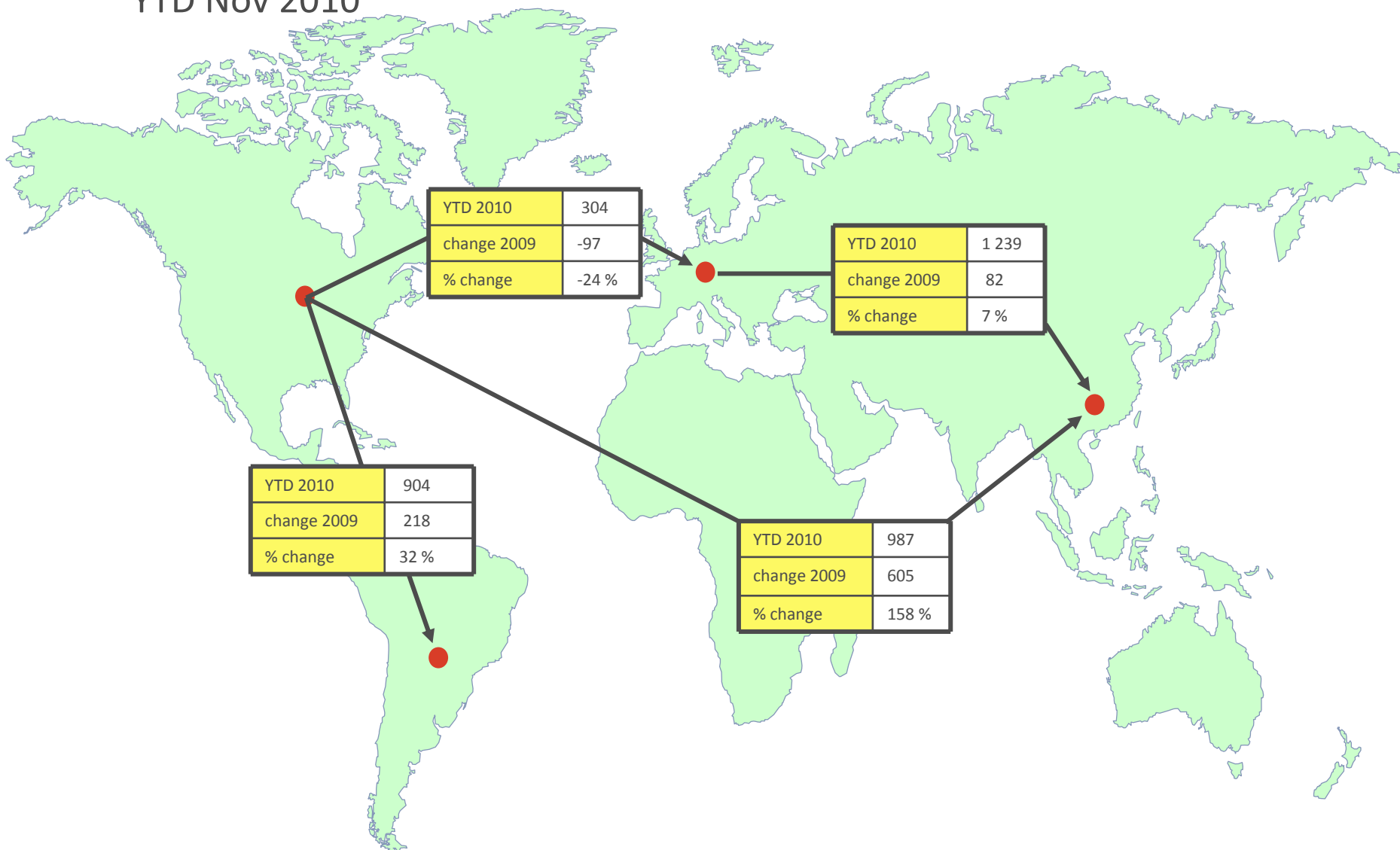
# Demand 2010 per region/segment

Region/segment	Annual change (YTD)*	Comments
World standard newsprint	1.6 %	
North America standard newsprint	-6.2 %	
Europe standard newsprint	1.0 %	Western Europe (+2 %) Eastern Europe (-1 %)
Europe magazine paper (incl. improved newsprint etc)	5.2 %	SC (-2 %) LWC (+10 %)
Non-Japan Far East Standard newsprint	5.0 %	Highest growth in India (+30%) China decreases (-2%)
Australasia standard newsprint	5.4 %	
Latin America standard newsprint	11.9 %	Highest growth in Brazil Increased customer inventories

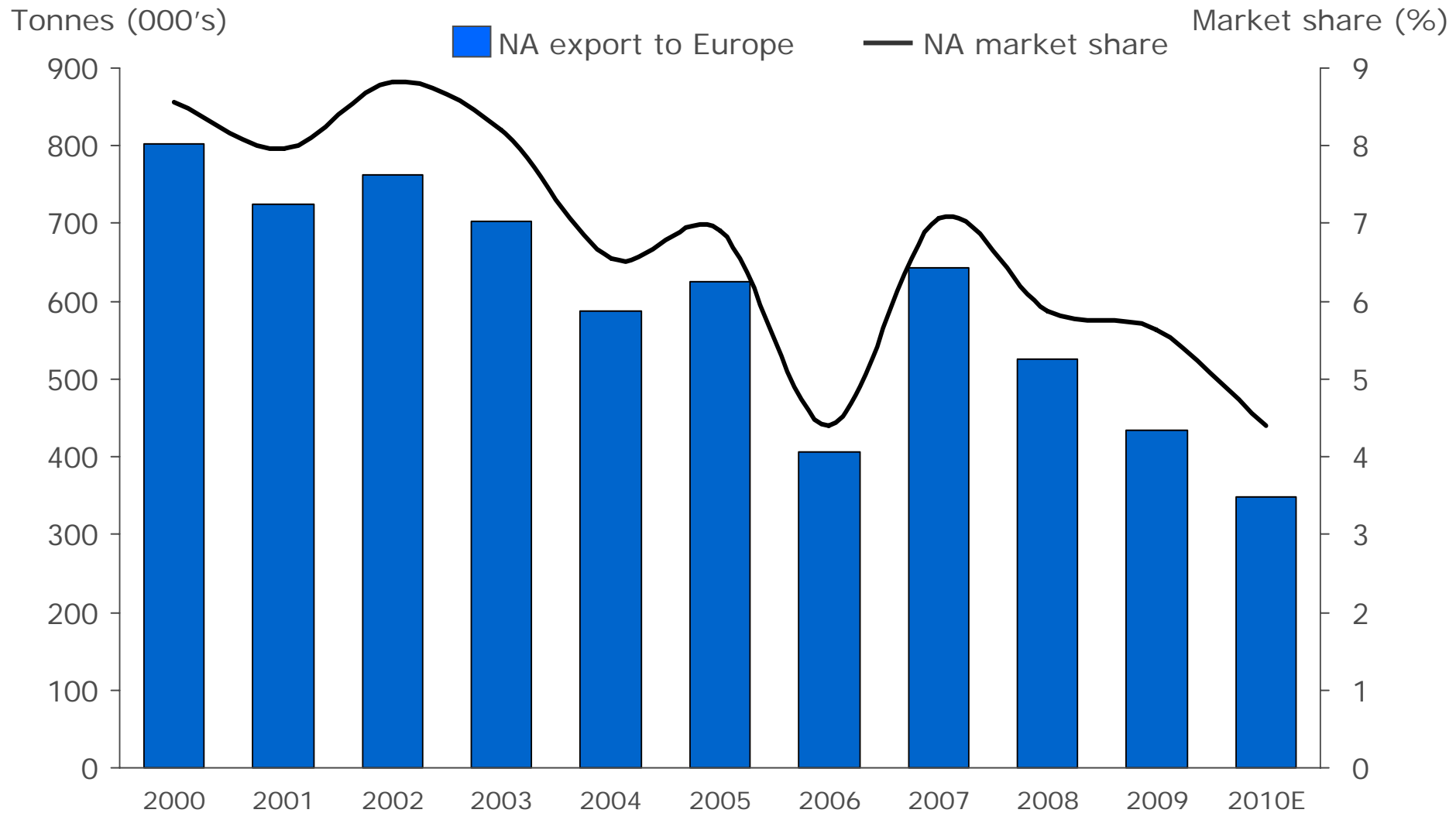
\*) Change from January-November 2009 vs same period in 2010, Source: PPPC, CEPIPRINT

# Main trade flows – Std newsprint

YTD Nov 2010

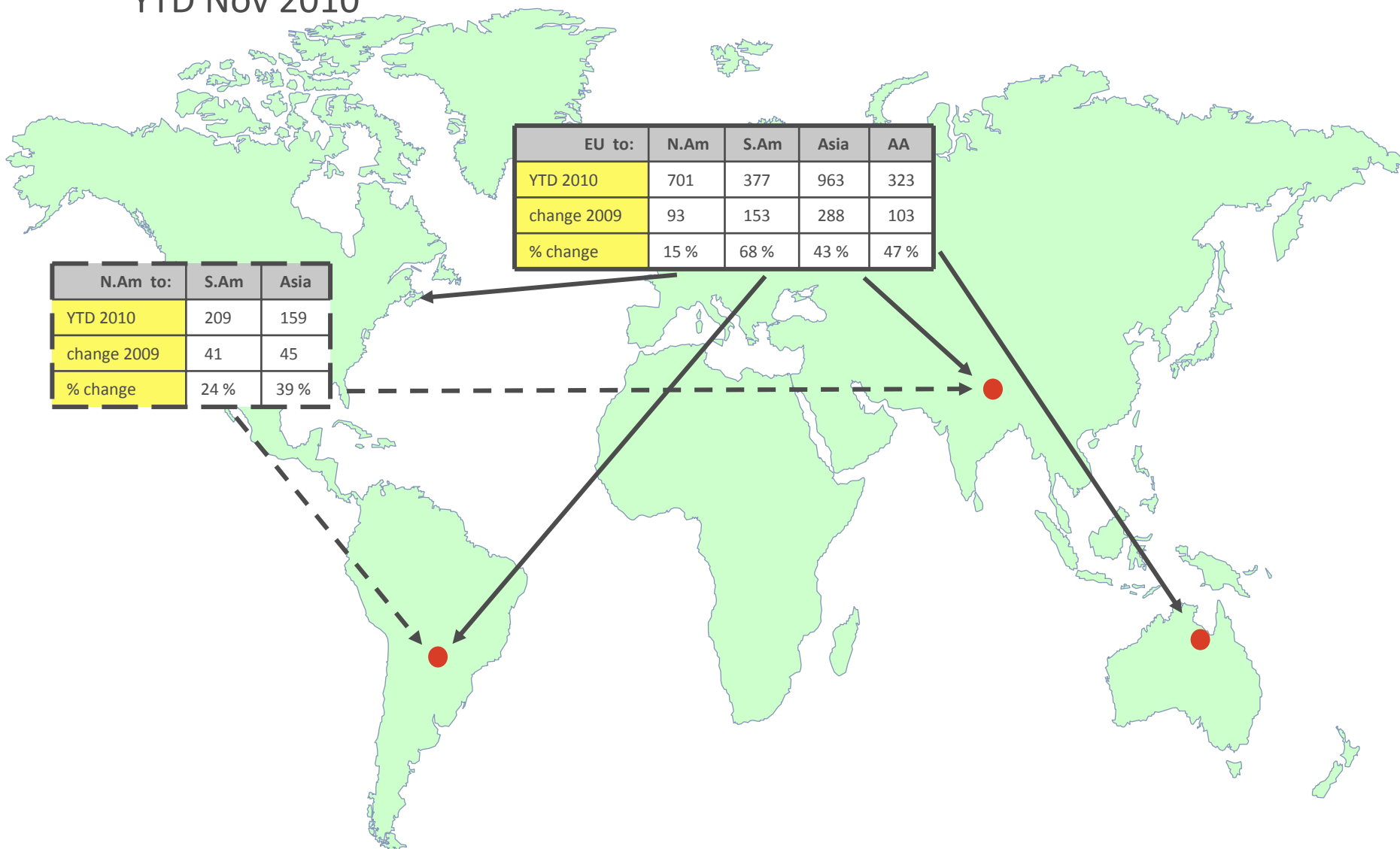


# North American newsprint shipments to Europe



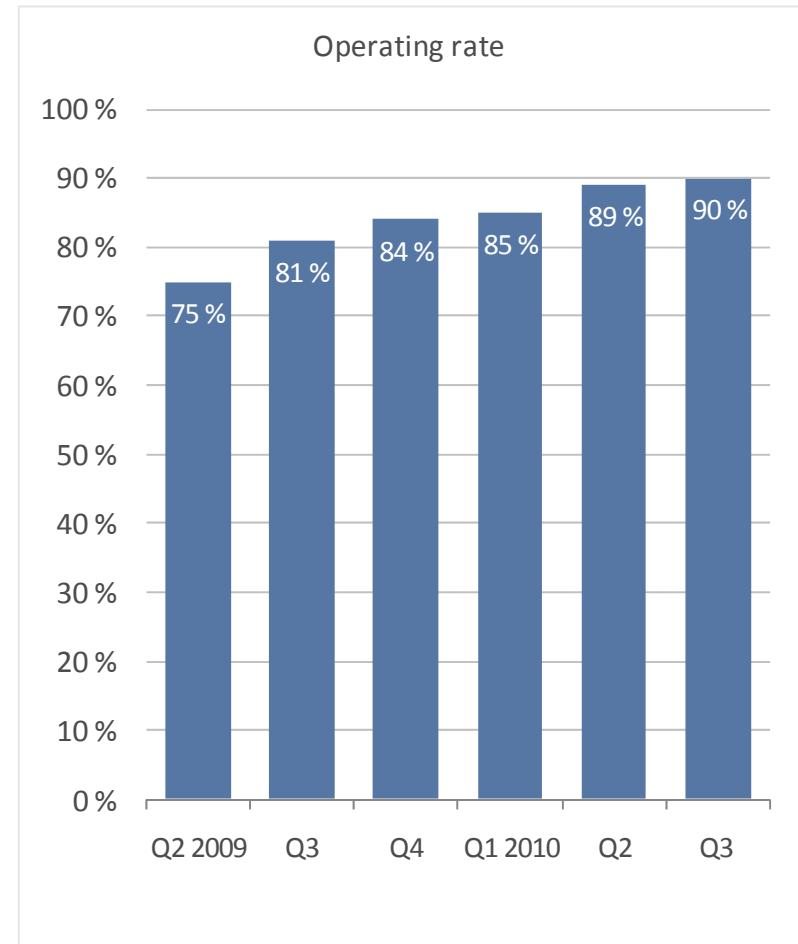
# Main trade flows – Magazine paper

YTD Nov 2010



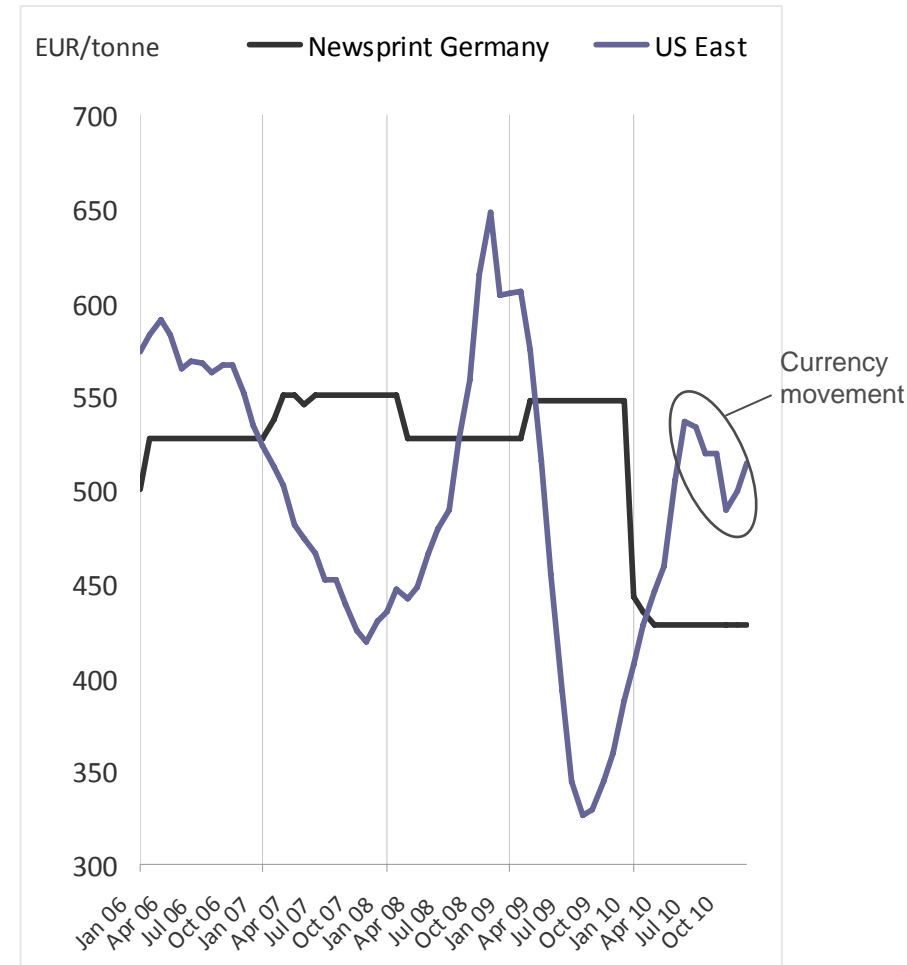
# Increased demand - higher capacity utilisation

- 90 % operating rate in Q3
  - Substantial growth in demand in Asia, Australasia, South America, and for magazine paper
  - Export from Europe to Asia remained high
  - Announced net capacity closures of ~600k tonnes of newsprint in Europe this year
  - Reduced imports from North America



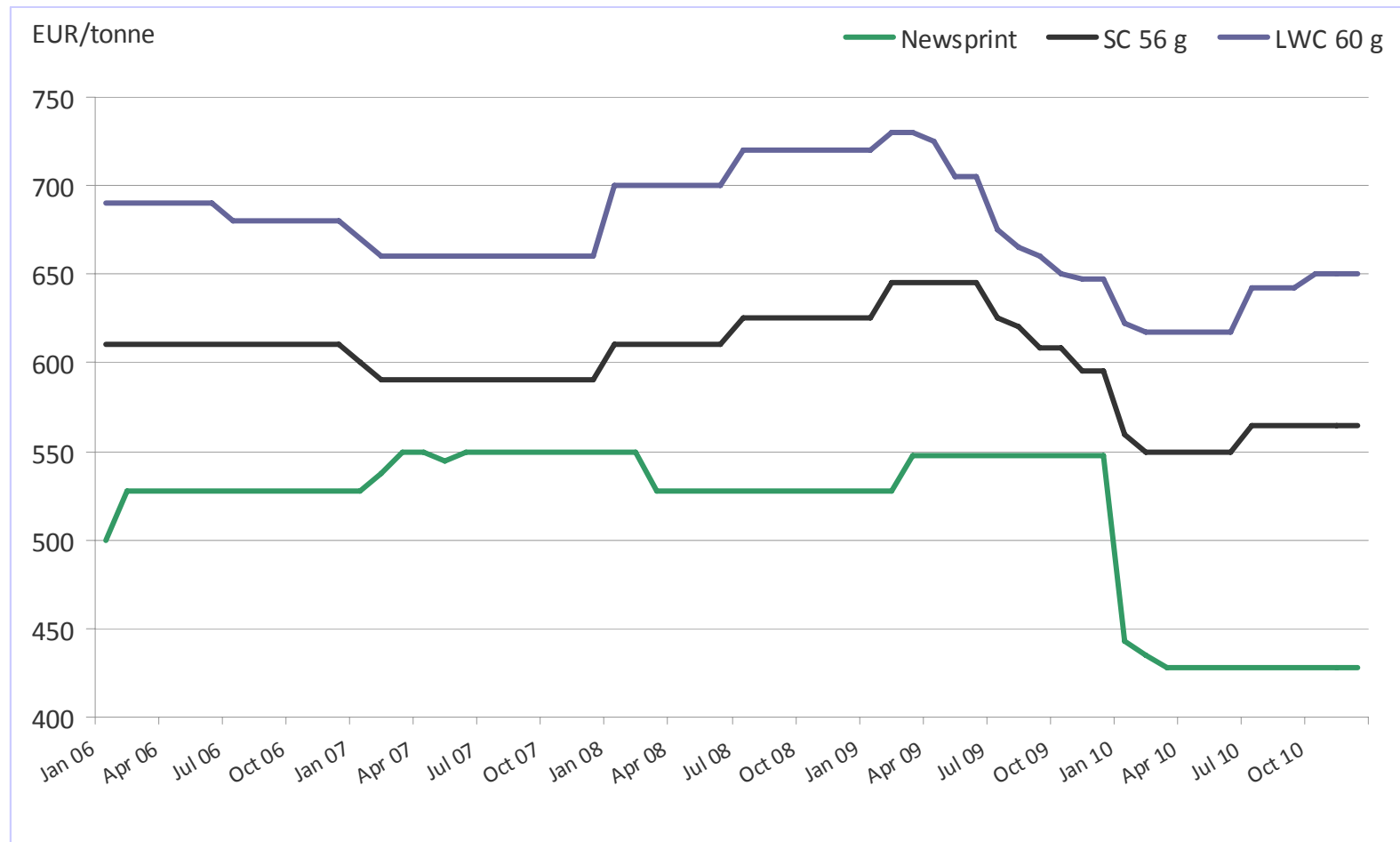
# Price development - Europe vs. USA

- US price change due to currency effects
  - EUR/USD = 1.31
- 20% price gap end Q4
- Average price in Europe last 15 years: € 550
- USD price in:
  - US = 680
  - Hong Kong = 675
  - India = 685



Source: RISI

# Price development - Germany

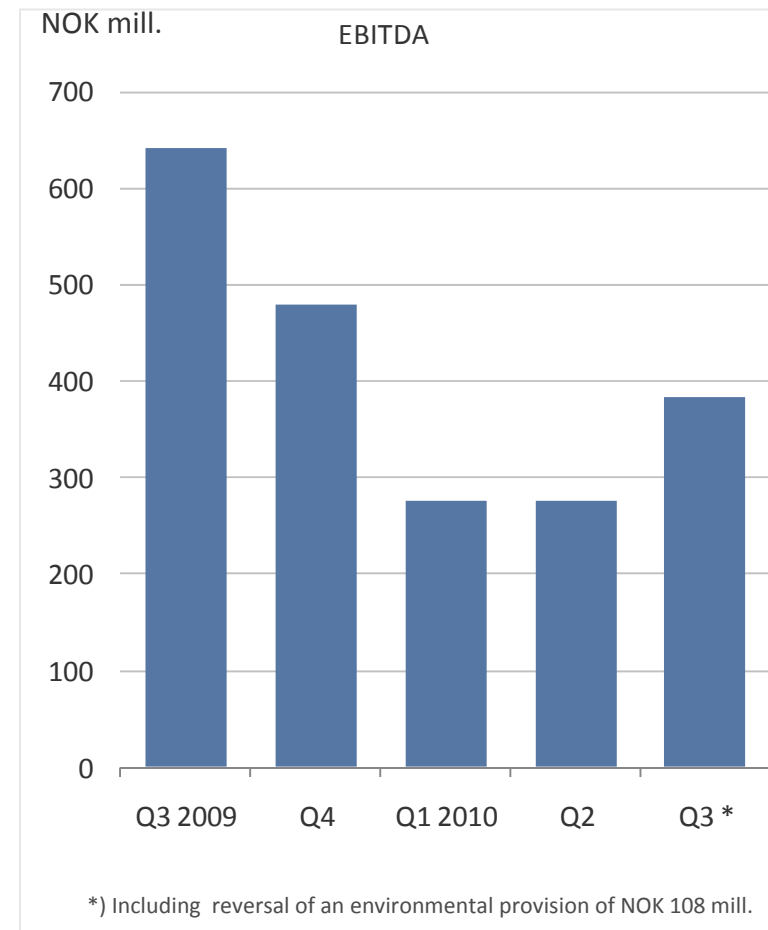


Source: RISI

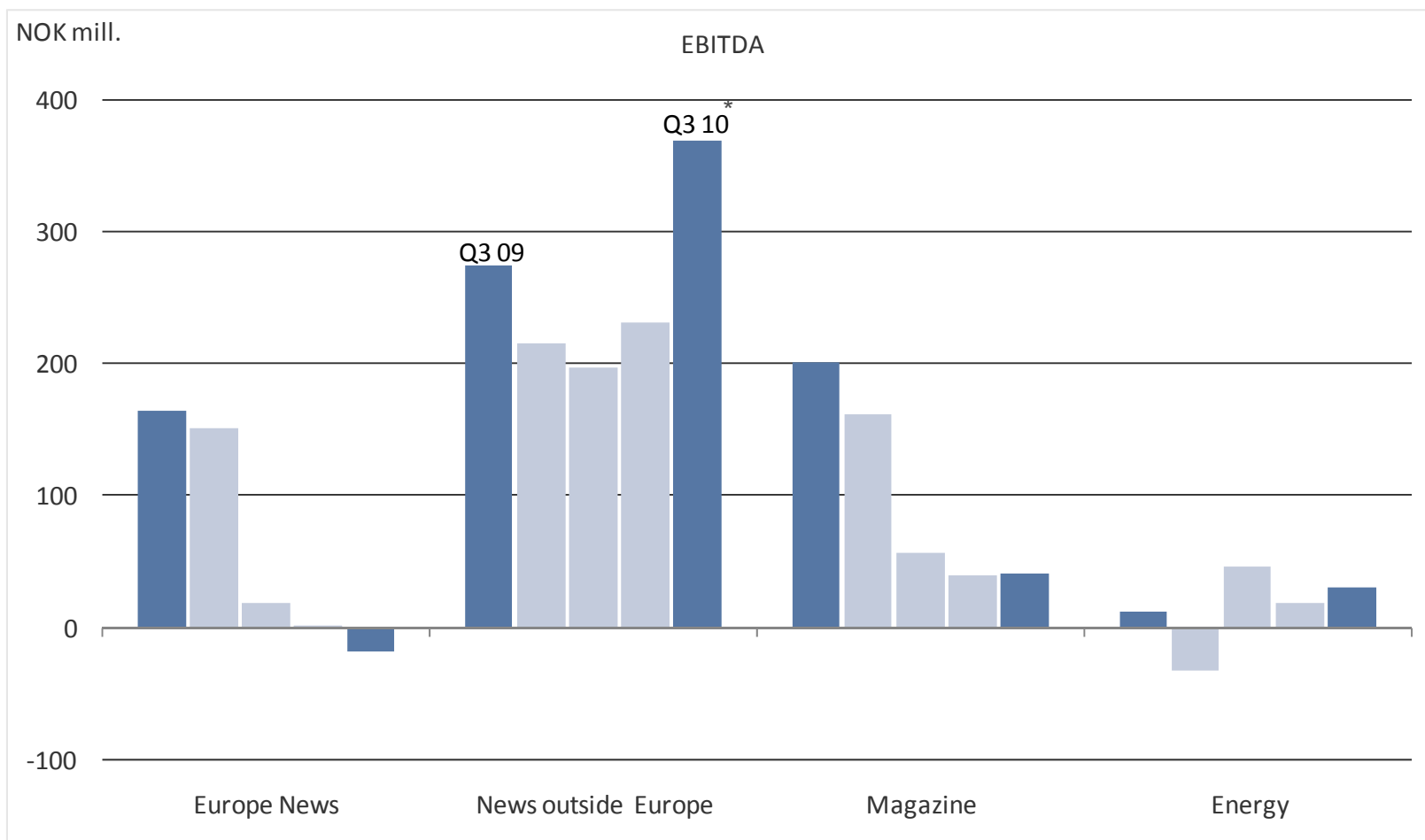
# Financials, costs and debt development

## YTD 2010 in brief

- Underlying Q3 EBITDA remained weak
  - Slightly improved market conditions
  - Higher prices on input factors
  - Capacity utilisation up to Q4 2008 level
- Net interest-bearing debt down by NOK 600 mill in 2010

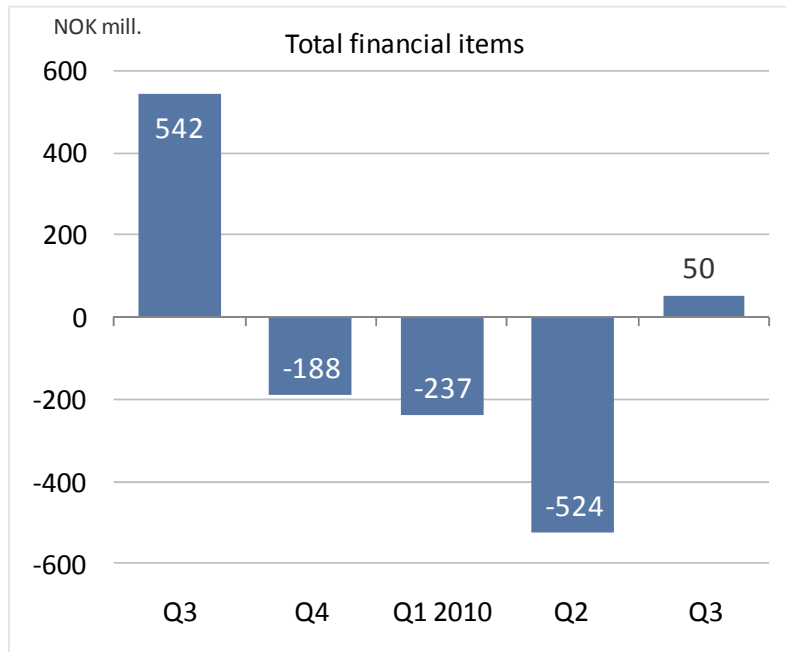


# Results - segments



\*) News outside Europe including a reversal of an environmental provision of NOK 108 mill, no cash effect

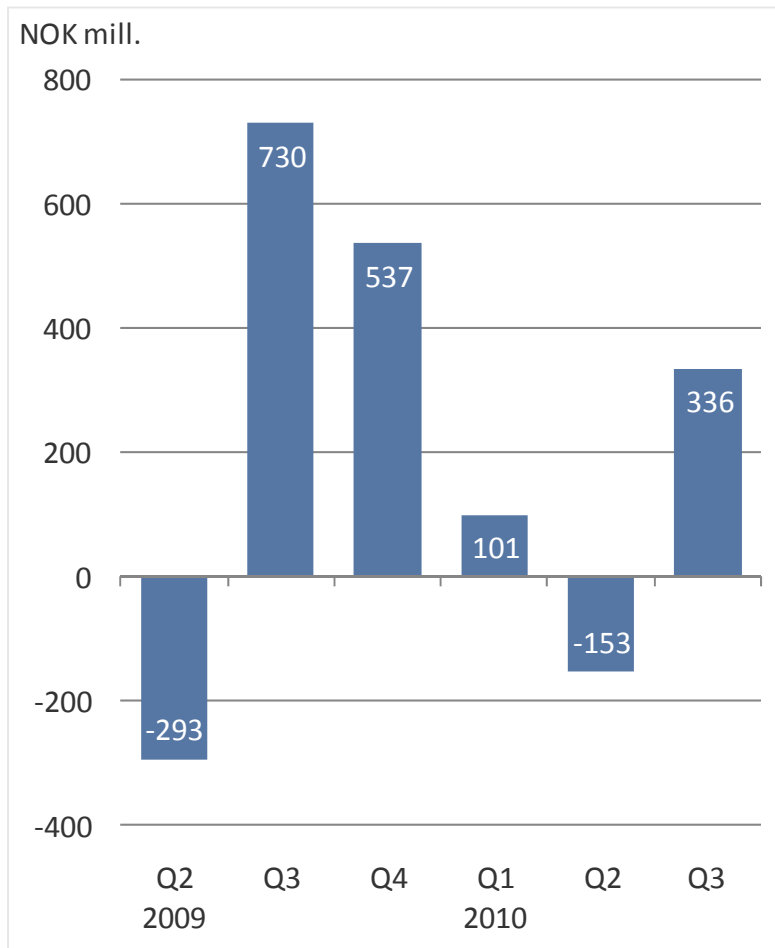
# Financial items: Positive currency effect



- Positive translation differences on balance sheet items not qualified for hedge accounting
- Realized and unrealized gain on cash-flow hedging

NOK mill.	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Currency elements	763	-11	-48	-329	261

# Cash flow



Cash flow from operations, after financial items and taxes

- Cash flow improvement of NOK 500 mill. from Q2
  - Realised gains on FX, and low interest payments
  - Reduced working capital

# Current cost picture (cash cost)

**Total cash  
cost 2009**

**NOK 18.0 bn**

**Focus**

**Fixed**    NOK    4.9 bn    ➔

Continuous programs to reduce costs

➔ Current run rate at NOK 4.3 bn, down  
NOK 0.6 bn compared with 1H 2009

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**Variable**    NOK    13.2 bn    ➔

Long term contracts to secure supply  
and provide cost stability

➔ Main cost drivers in 2010 (% of total cost)

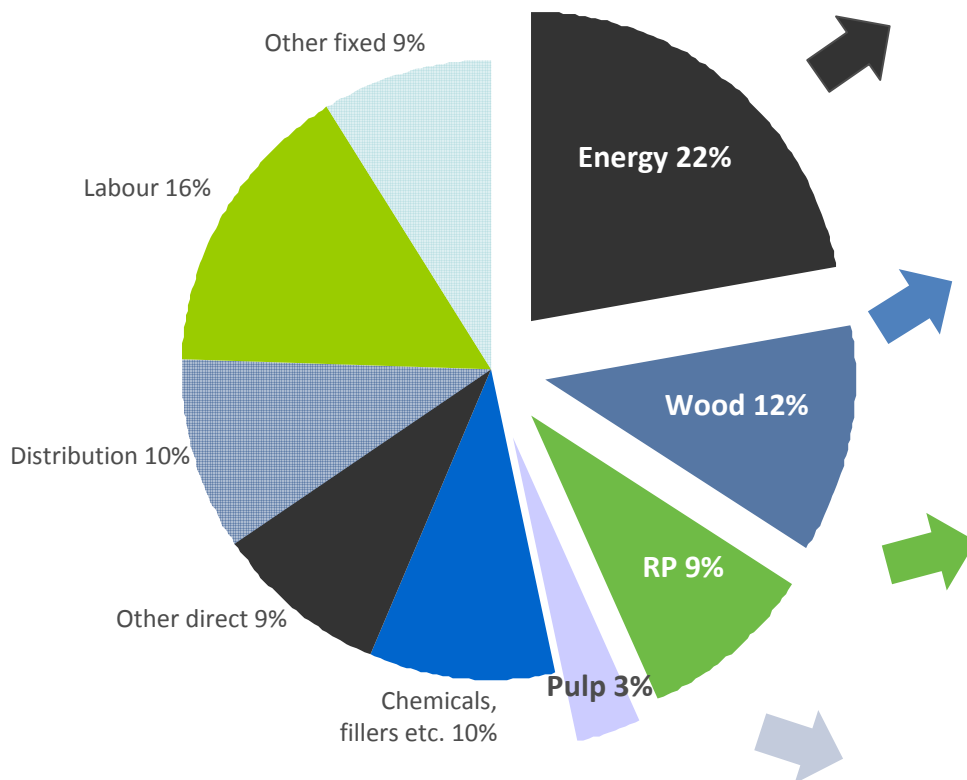
➔ Wood (12%)

➔ Recovered paper (9%)

➔ Pulp (3%)



# Current cost picture (cash cost)



## 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 2010

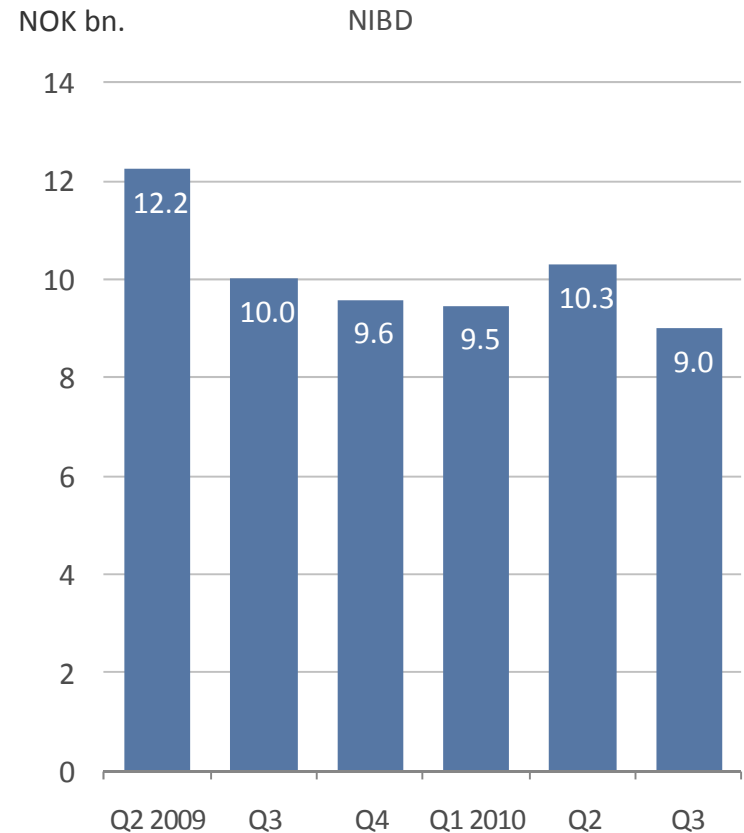
## Market pulp

- Significant price increase, but signs of lower prices during the autumn
- NSI has limited exposure
  - ~200kt in magazine production

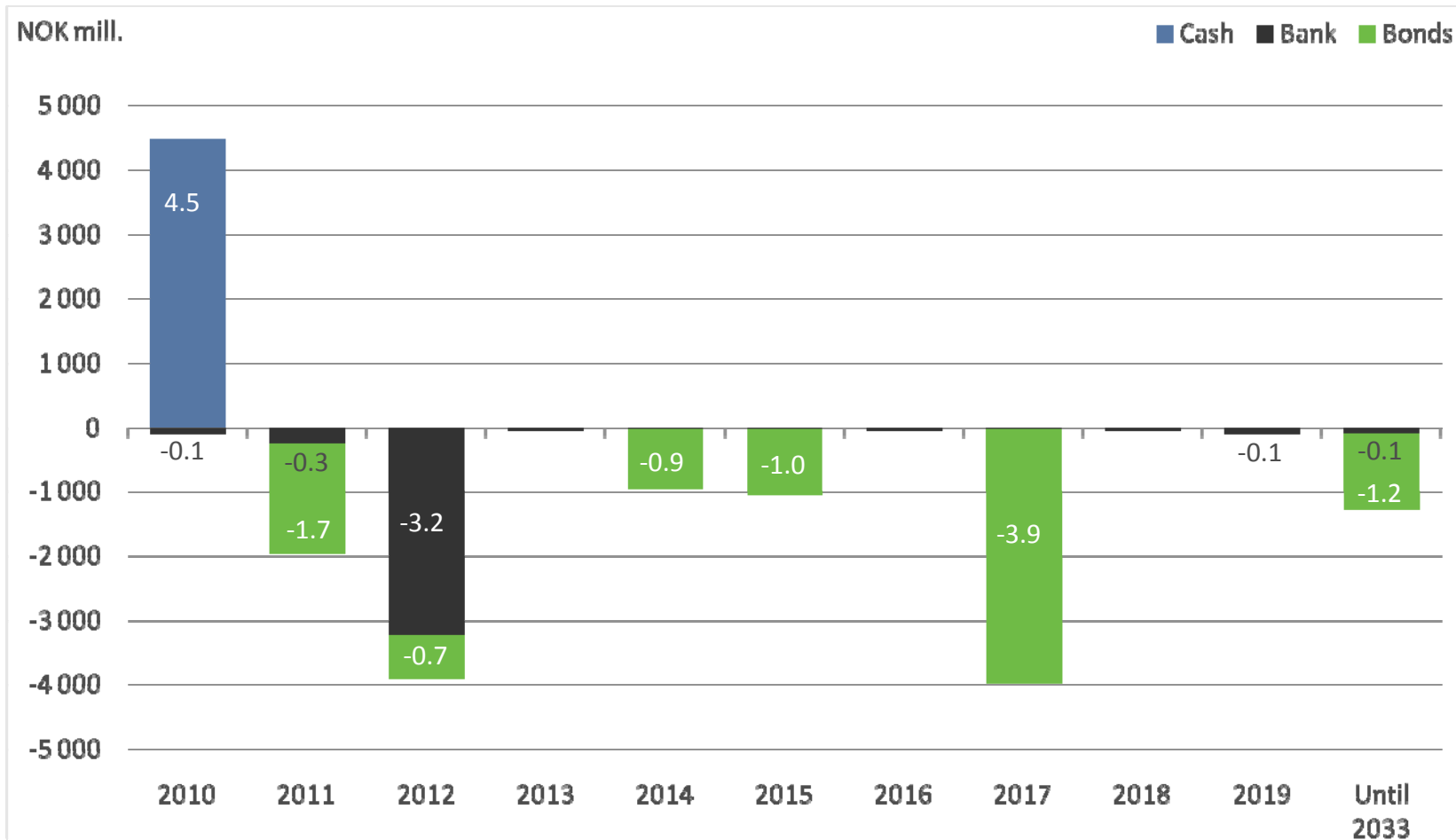
2009 figures, calculated to 90% operating rate

# Continued debt reduction

- Net interest-bearing debt down to NOK 9 bn in Q3.
  - Proceeds from sale of excess energy
  - Positive cash flow from operations
  - Stronger NOK vs. USD reduced debt value
  - Capex reduced further



# Cash and debt maturity profile



Per 30 September 2010

## Outlook:

- Significant price increases for newsprint in Europe, and quarterly contracts for main part of sales volume
- Price increases also for magazine paper
- Negative impact from cost increases on raw materials and energy

## Management focus:

- Re-establish earlier price level and margin in Europe
- Further reduction of debt and fixed costs
- Positioning for active role in industry consolidation

Q & A