

*Future on Paper*

# Norske Skog

Deutsche Bank – 13th Annual European  
Leveraged Finance Conference  
11 June 2009

Odd-Geir Lyngstad, Treasurer and Deputy CFO





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# Overview

# Norske Skog Headlines

- **World's second largest producer of newsprint, fifth largest of magazine paper:**
  - 16 mills in 12 countries
  - Production capacity 5.2 mill tonnes,
  - Revenue (2008) ~ NOK 26.5 billion
- **Listed on Oslo Stock Exchange**
  - Good liquidity in the shares
  - 30 % foreign ownership
- **Norwegian and international bond loans**
- **Credit rating**
  - S&P: B+ neg outlook
  - Moody's B2 stable outlook





# Our Products

## Newsprint

- Standard and improved grades for daily newspapers, free newspapers, advertising supplements
- Second largest global producer of newsprint
- World-wide operations, ex. North America



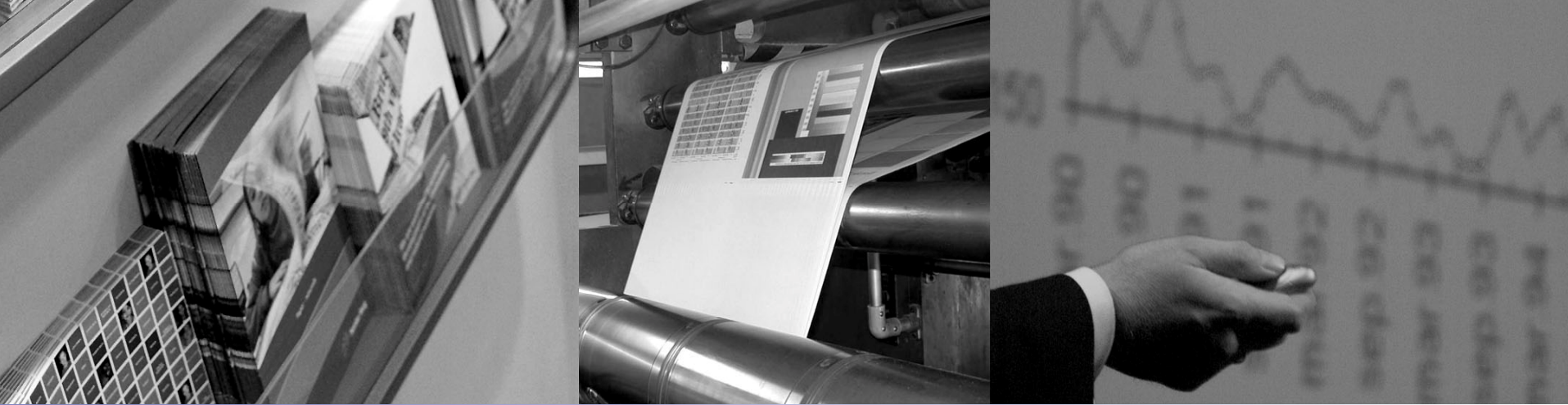
## Magazine Paper

- Magazine paper for magazines, periodicals and advertising purposes
- European operations only
- Two different grades:
  - SC - uncoated paper (supercalendered)
  - CMR - coated paper
- Fifth largest global producer



# Strong global position and industrial focus



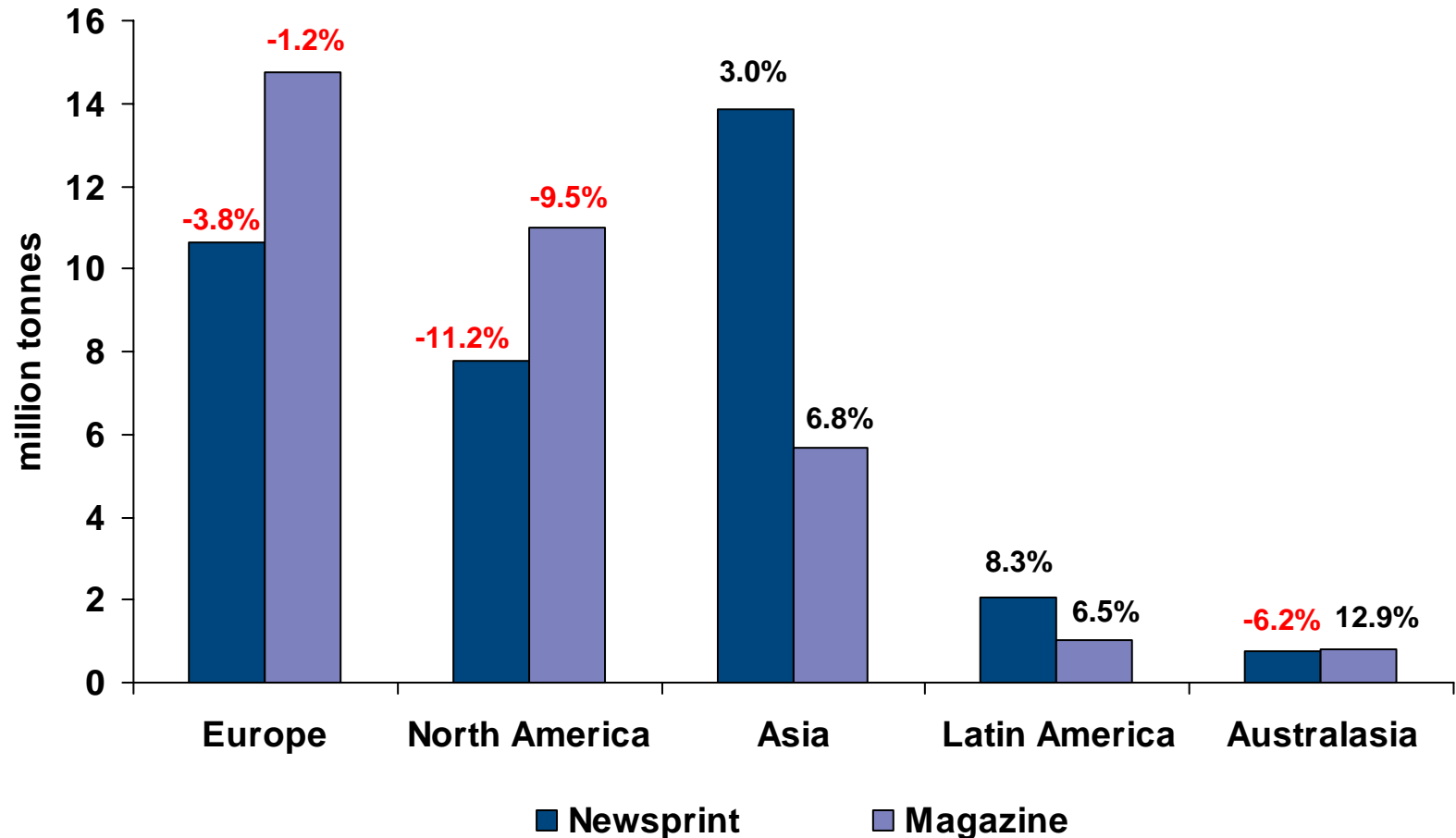


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# Market update

# Regional demand for publication paper

## 2008 demand & change '08/'07

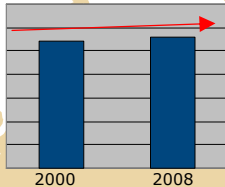


Sources: PPPC

# The global publication paper market

## Europe Newsprint

- Mature market
- Price increases for 2009
- Capacity curtailments to compensate for lower demand

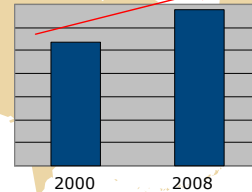


## Magazine paper

- Improved market balance in '08, sharp demand drop in '09
- Price increases in '08 and early '09

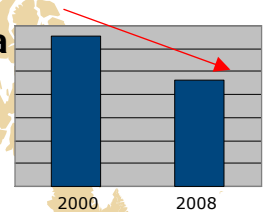
## Asia

- The world's largest newsprint market
- Long-term demand growth potential
- Prices spiked in '08, now down significantly



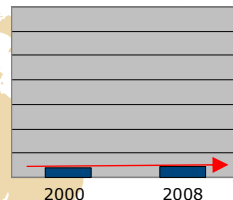
## North America

- Dramatic dip in newsprint consumption
- Large-scale shut-downs not sufficient for market balance
- Prices increased in '08, now falling
- Continued capacity curtailments needed



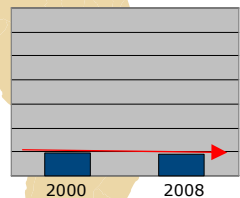
## Australasia

- Mature market
- Cost-competitive exports and limited imports
- Prices increasing from low levels
- Good cash flow



## South America

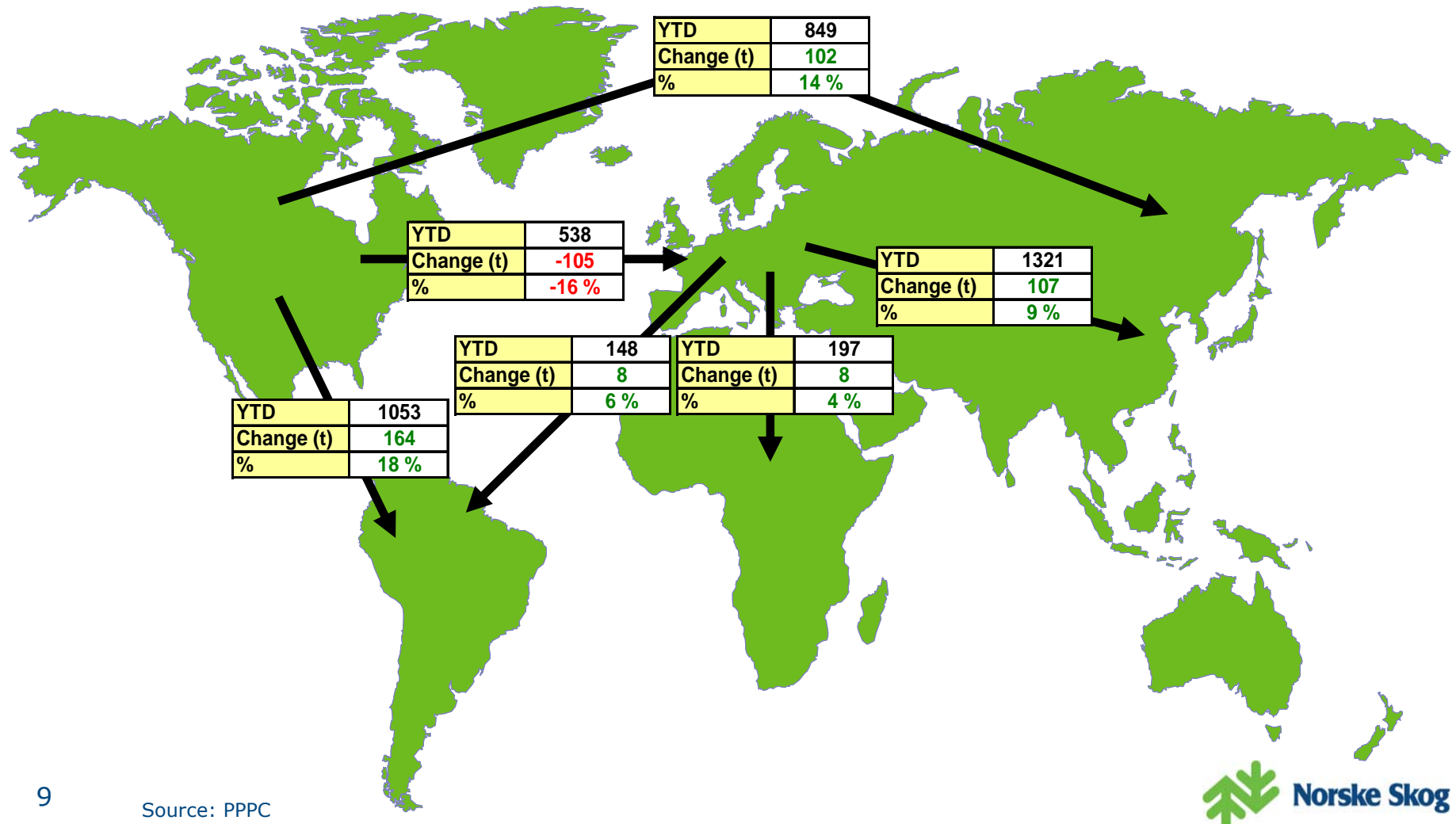
- Increasing demand
- Import region
- Good access to raw materials
- Low cost, but exposed to local currency volatility





# Main trade flows newsprint

Full year 2008 vs 2007 ('000 t)



# Capacity development

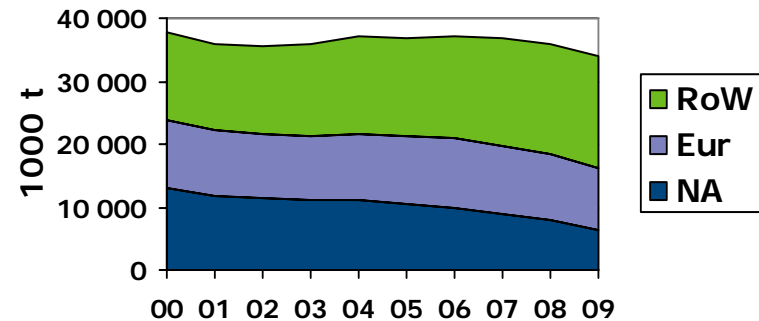
- Substantial closures in Europe and North America in 2008

## 2008 capacity reductions:

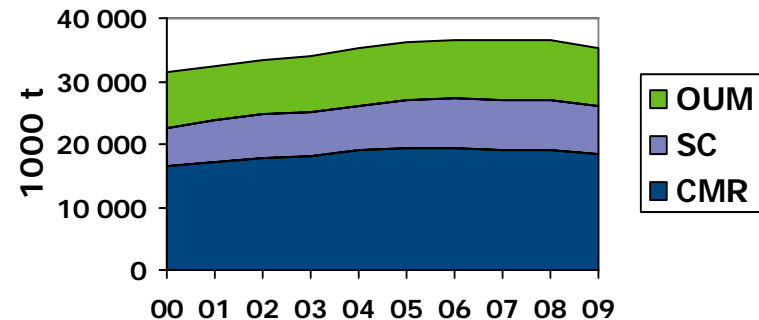
	N.A.	Europe
Newsprint	~11%	~7%
Magazine	~8%	~6%

- Slowing capacity growth in Asia

Newsprint capacity



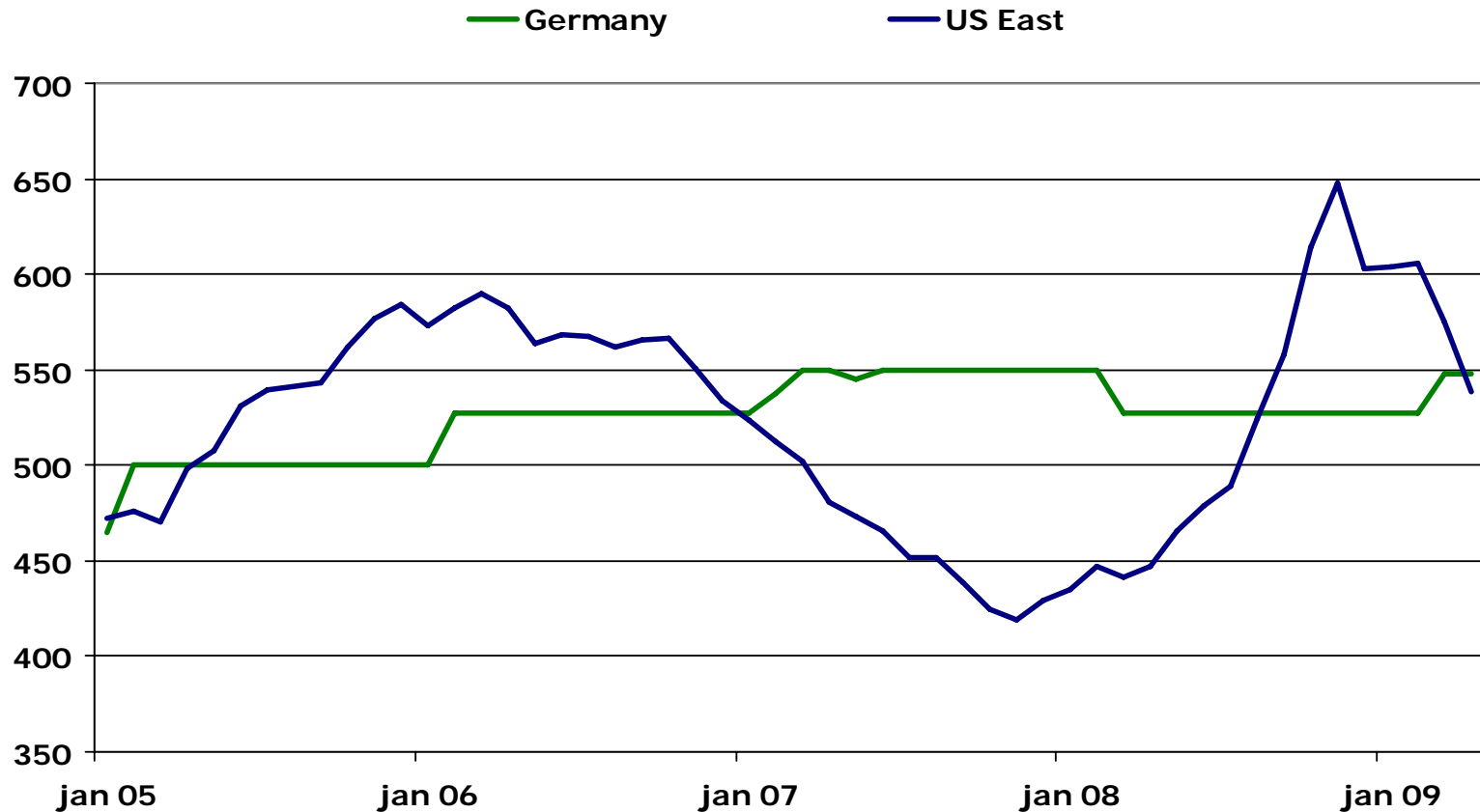
Magazine capacity



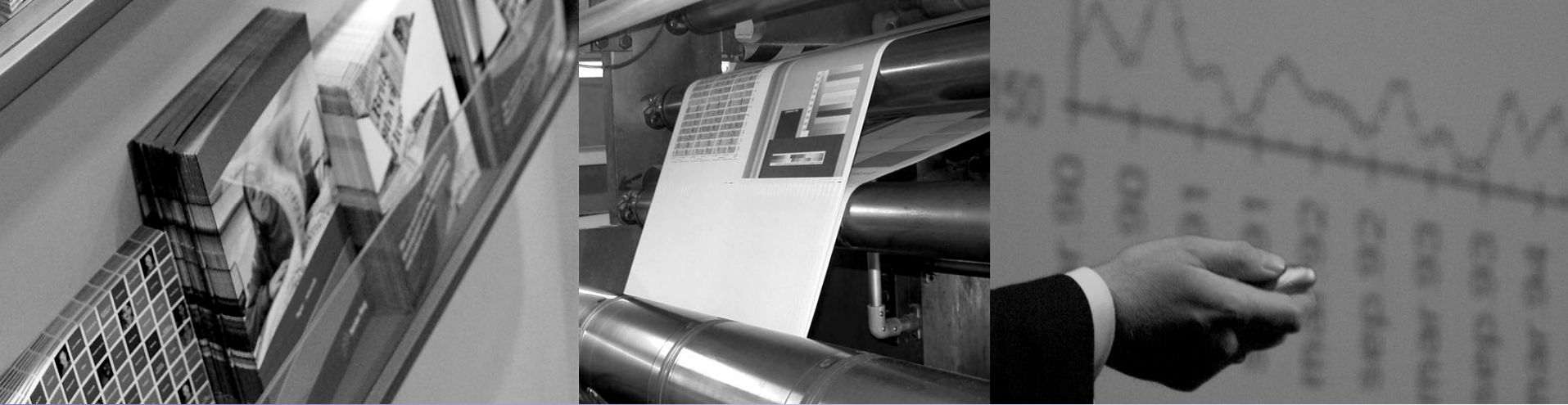
# Demand Q1 2009 per segment/region

Segment	To:	YTD '09 /YTD'08	Comments
World – Std news	Mar	-18.3%	Synchronous fall in all regions
N. Am – Std news	Mar	-32.2%	Very weak numbers through Q1
Europe – Std news	Mar	-14.8%	Similar declines in W.E. & E.E.
Europe – Magazine (incl. of improved news etc)	Mar	-20.0%	SC better (-6%), CMR (-27%) and UMI (-25%) weaker.
Non-Japan Far East – Std news	Mar	-17.8%	Some sign of improvement in demand from February, China positive vs 2008
Australasia – Std news	Mar	-14.6%	Both circulation and newspaper adspend down
Latin America – Std news	Mar	-20.7%	Brazil accounts for half of the decline in the region

# Standard newsprint 45 gsm prices in EUR/t



Source: RISI



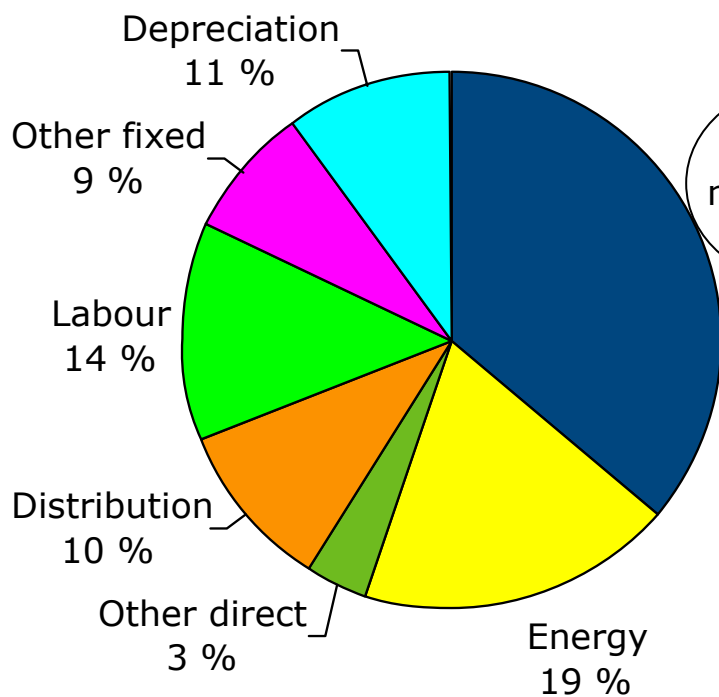
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# Cost development

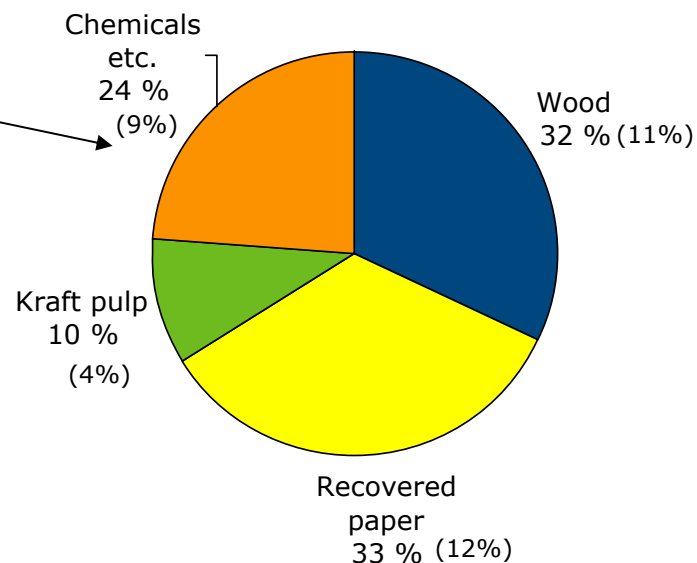


# Cost breakdown

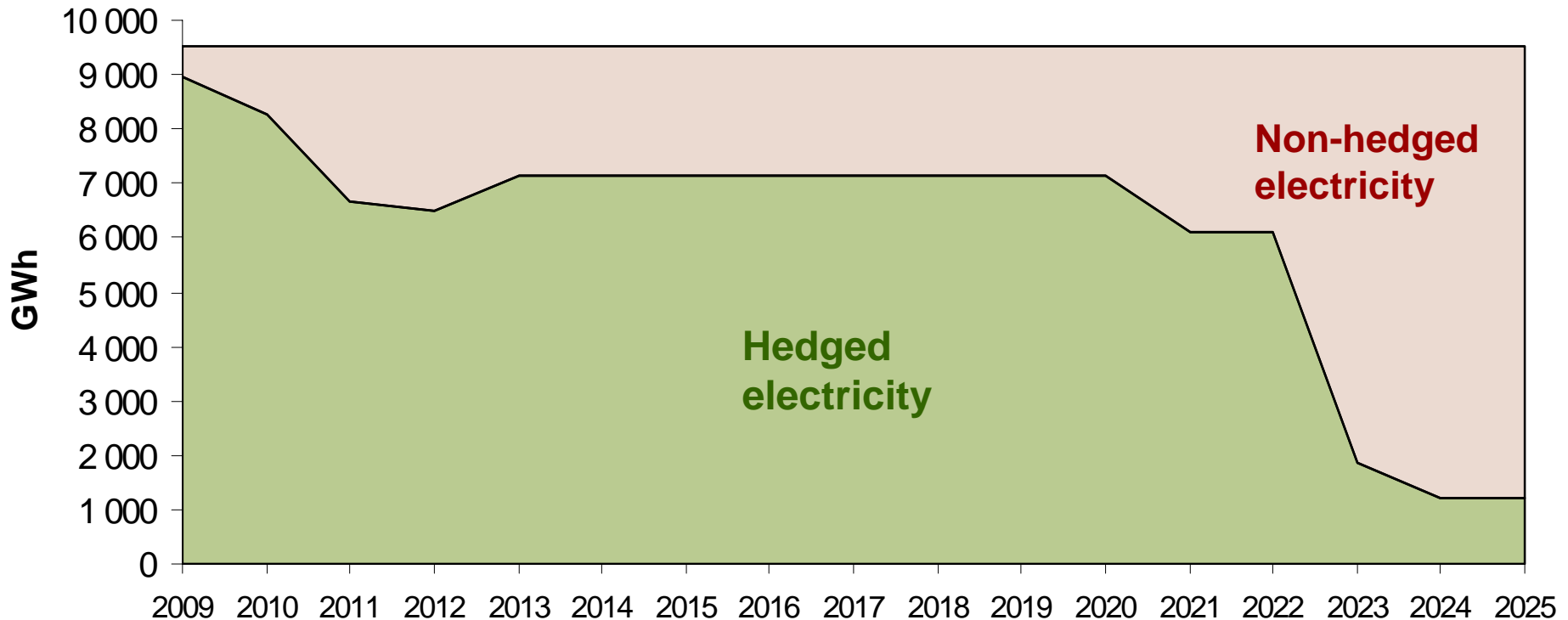
Total cost



Raw materials



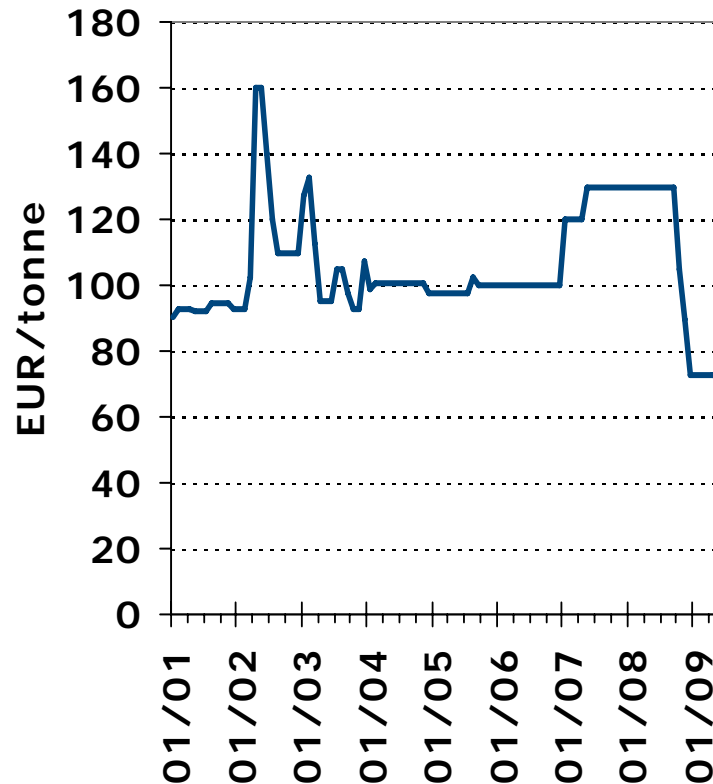
# Hedging & Consumption of Long-term Electricity



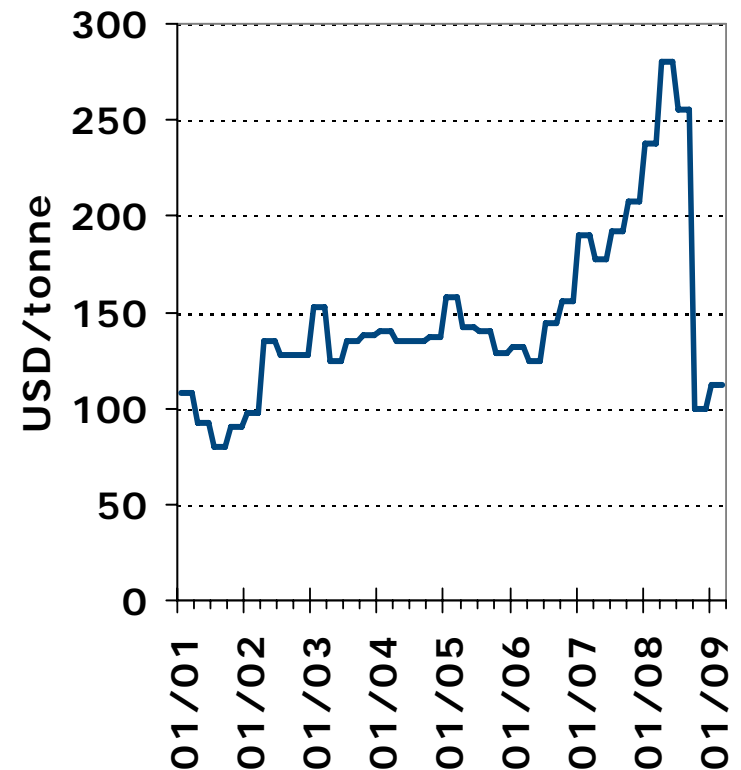
- Long term contracts in Norway, Australasia and South America
- Electricity exposure in spot market in continental Europe and Asia

# Recovered paper prices in Europe and Asia

Newspapers (2.01) - Germany



Old News - China



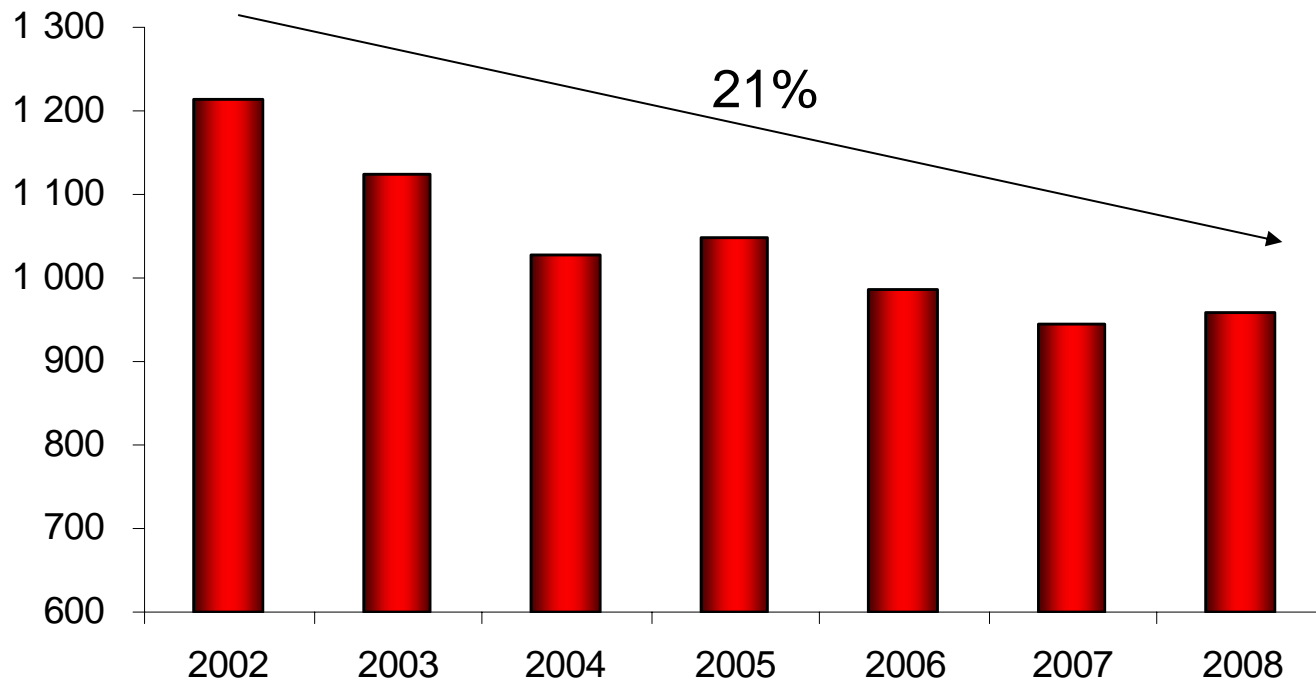
# Variable cost development

-in local currency

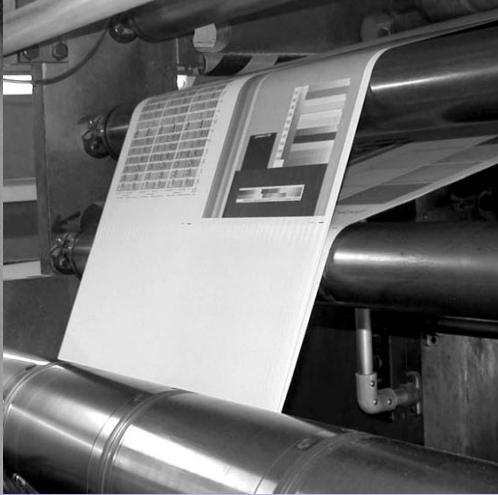
- Wood
  - Price reductions in Europe during 2009 expected
- Recovered paper
  - Low spot prices in early 2009
  - Average 2009 lower than average 2008
- Chemicals & Pulp
  - At present, low prices on pulp and oil-based chemicals
- Energy
  - Favourable long term electricity contracts in Norway, South America and Australasia

# Fixed cost development

-cash costs, NOK/tonnes produced





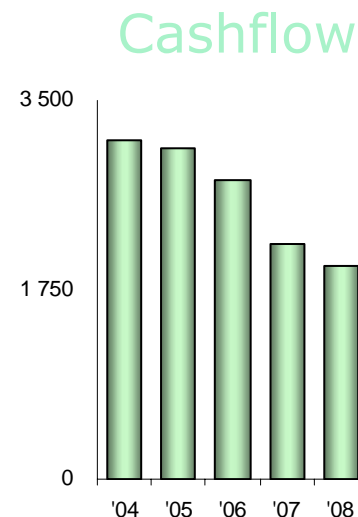
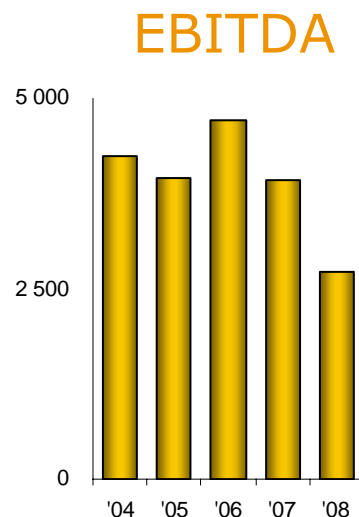
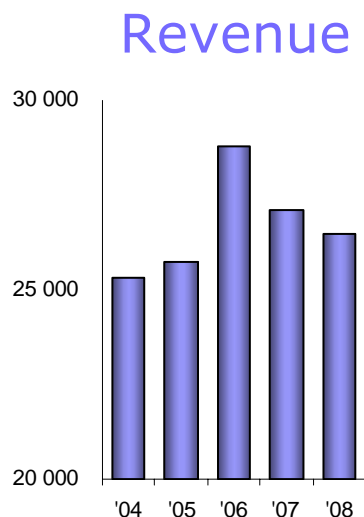


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# Financials

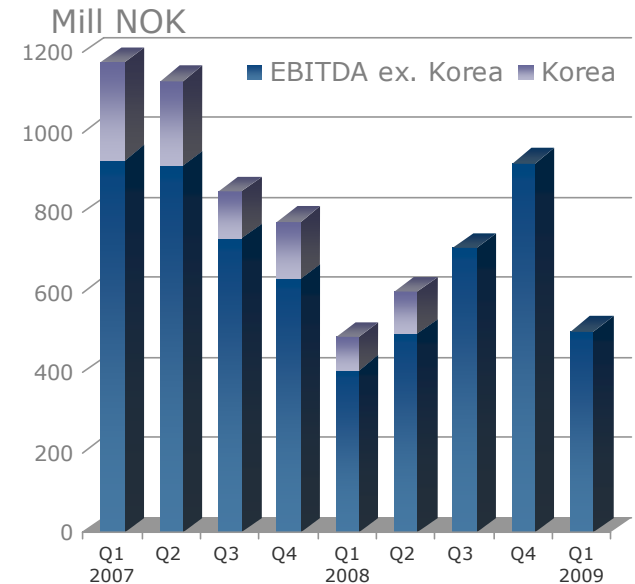
# Historical P&L figures

<i>mNOK</i>	'04	'05	'06	'07	'08
<b>Revenue</b>	25 302	25 726	28 812	27 118	26 468
<b>EBITDA</b>	4 240	3 950	4 704	3 932	2 723
<b>Cashflow</b>	3 132	3 061	2 763	2 166	1 977

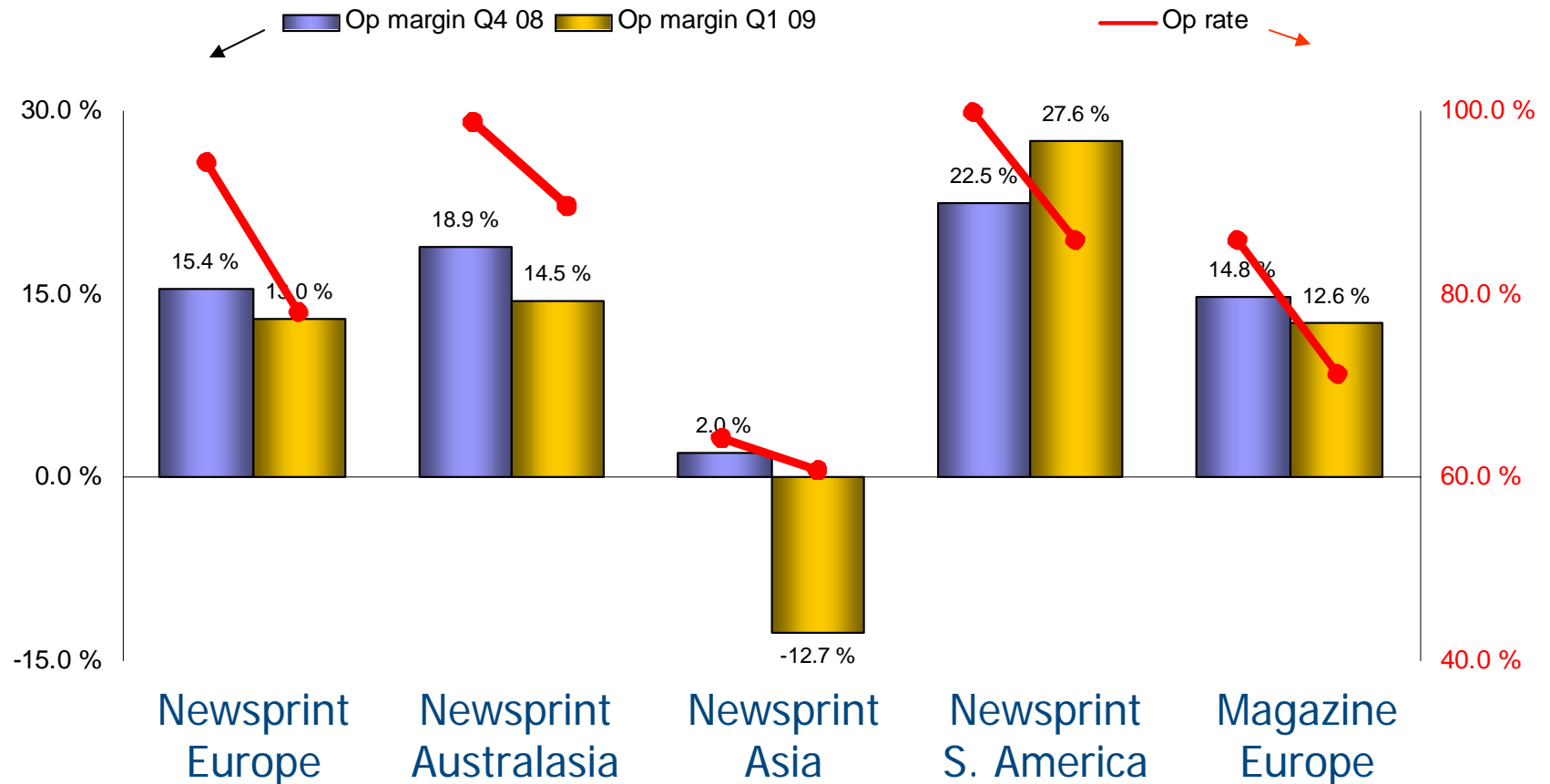


# Q1 2009 in brief

- EBITDA NOK 504 mill
  - NOK 922 mill in Q4 '09 and
  - NOK 406 mill ex. Korea in Q1 '08
- Operating rate only 76%
- Lower volumes reduce result
- Recession impacts advertising
  - Estimated drop in ad spend YTD '09 vs YTD '08 ~ 20%
- Structural decline in newsprint demand in mature markets

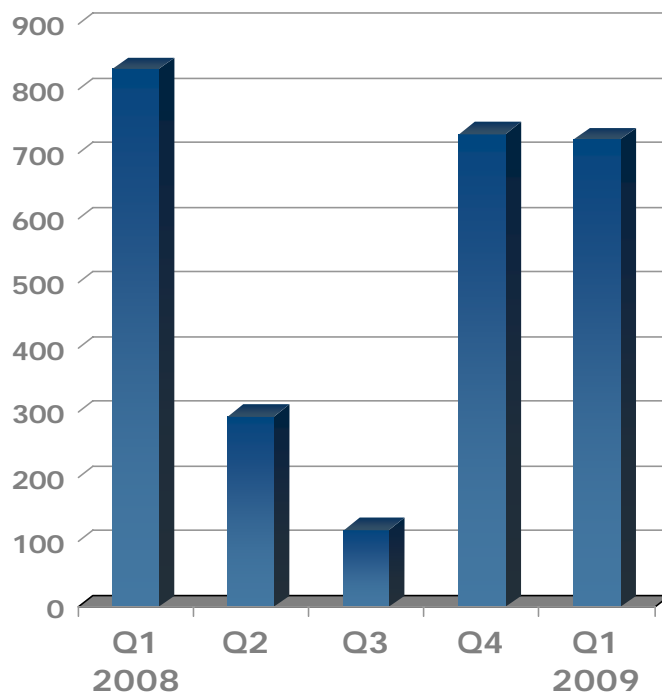


# Operating margin & rate by geographical regions



# Cash flow<sup>\*)</sup>

Mill NOK



- Cash flow NOK 723 mill
  - Cash effect of monetizing currency/ interest rate swaps: NOK 460 mill
  - Paid taxes NOK 26 mill in Q 1 vs NOK 290 mill in Q 4
- Low capex level in Q1 – NOK 138 mill
- Full-year capex: Approx. NOK 900 mill



# Financial strategy

## Reduce debt

- Improve cash flow from operations
- Strong capex discipline
- Possible asset divestments

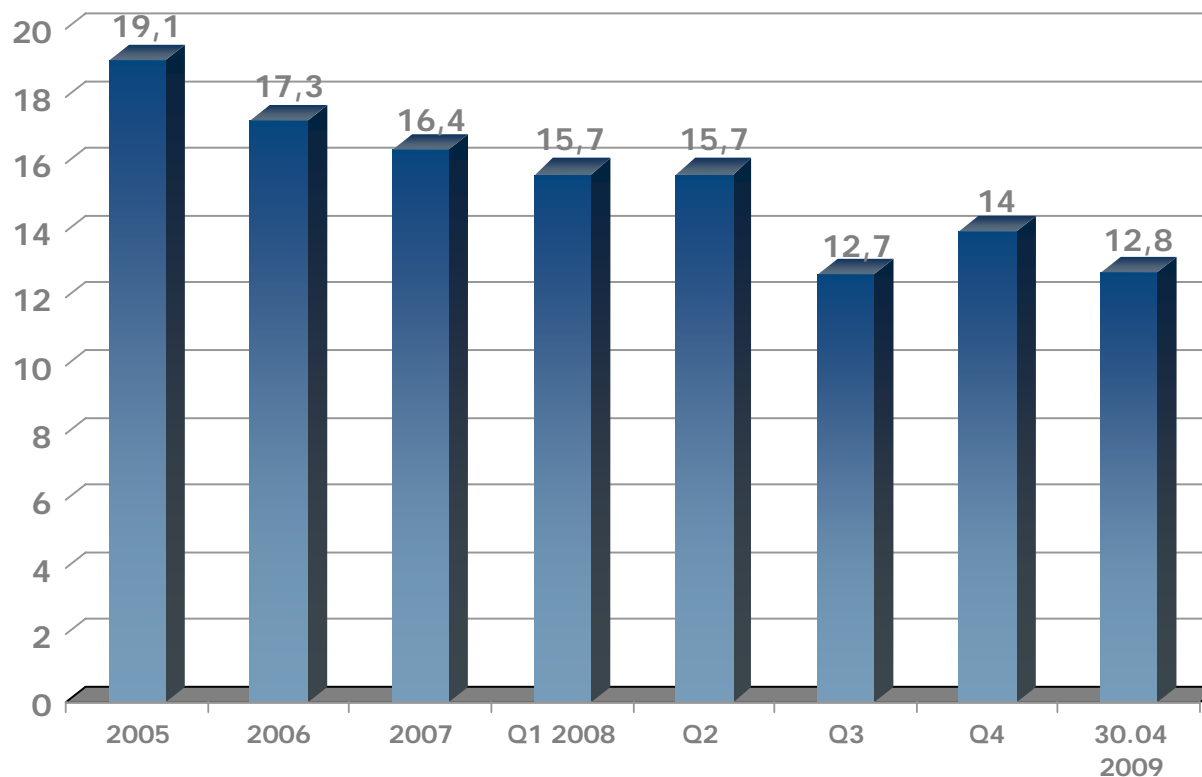
## Improve maturity profile

- Average maturity 5.8 years at March 31
- No significant refinancing need in '09 and '10, focus on instalment peaks in '11 and '12
- Q 2, 2009: New NOK 250 mill/12 years loan at a favourable rate
- Exploring other financing options (e.g. Norwegian Government Bond Fund/ SOF)

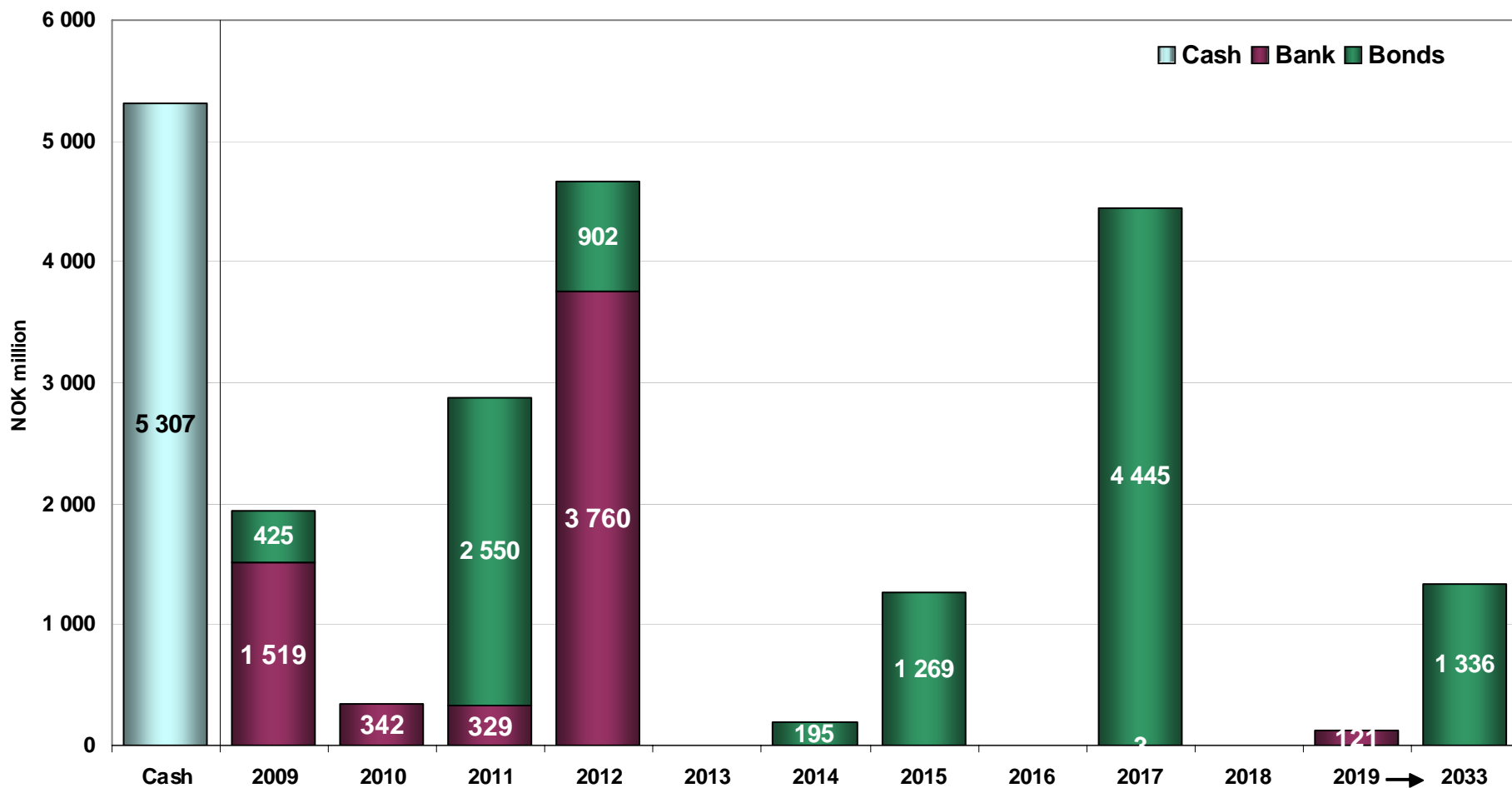
# Pro forma 30.04.09: Debt reduction

Gearing 31 March: 1.08

■ Net debt NOK bn

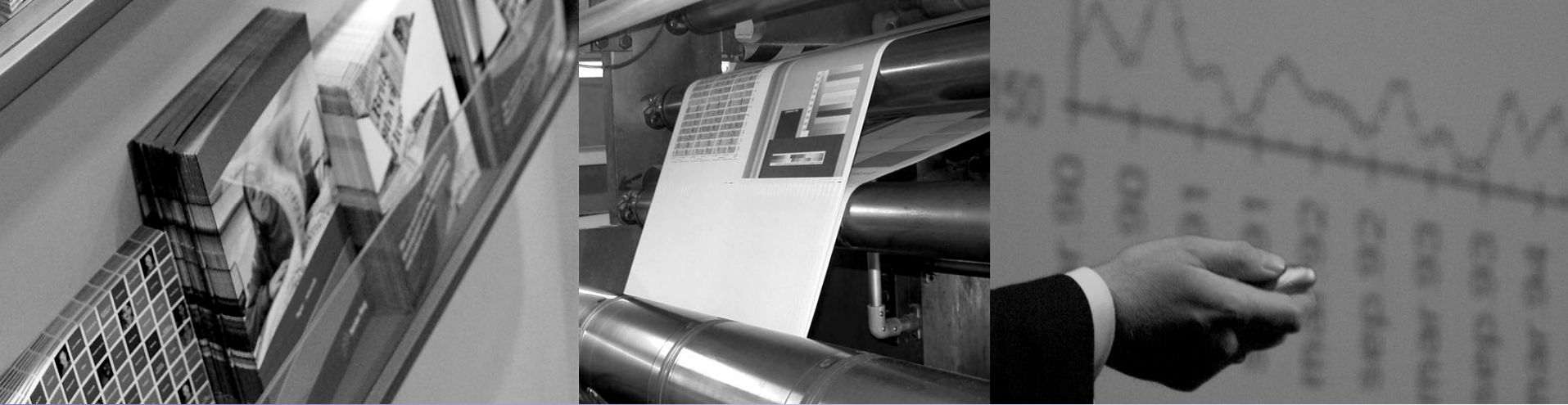


# Debt maturity profile as of 31 March



# Firm actions required

- Temporary/permanent reduction of capacity
  - Further curtailments in all regions
  - Permanent capacity closures under evaluation
- Reduce cost
  - Temporary lay-offs
  - Further cost reductions in all units
  - New improvement program implemented
- New business opportunities
  - Energy



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