

# Q1 2011 presentation

5 May 2011



# Q1 2011 results

Sven Ombudstvedt, President and CEO

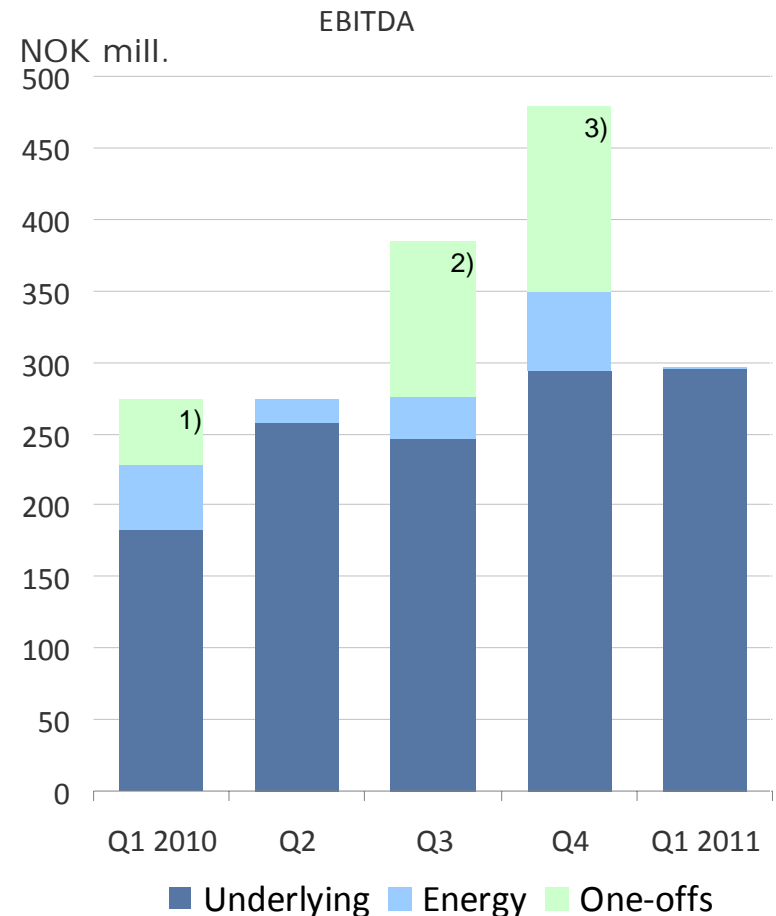
# Q1 highlights

- Reference prices for newsprint Europe up ~20%
- Reference prices for magazine paper up 5-8%
- Demand Q1 Europe: Newsprint -1.4% and magazine paper unchanged
- Operating rate impacted by fire at Saugbrugs
- Early May: Sale of forest in Brazil
- Still cost push on input factors
- Increase in working capital
- Stronger NOK



# Q1 2011 operational development

- Underlying EBITDA slightly up, but still weak
- Full effect of price increases in Europe expected next quarter
- Volumes seasonally down
  - Additional impact from fire at Saugbrugs
- No significant effect on EBITDA from Energy going forward



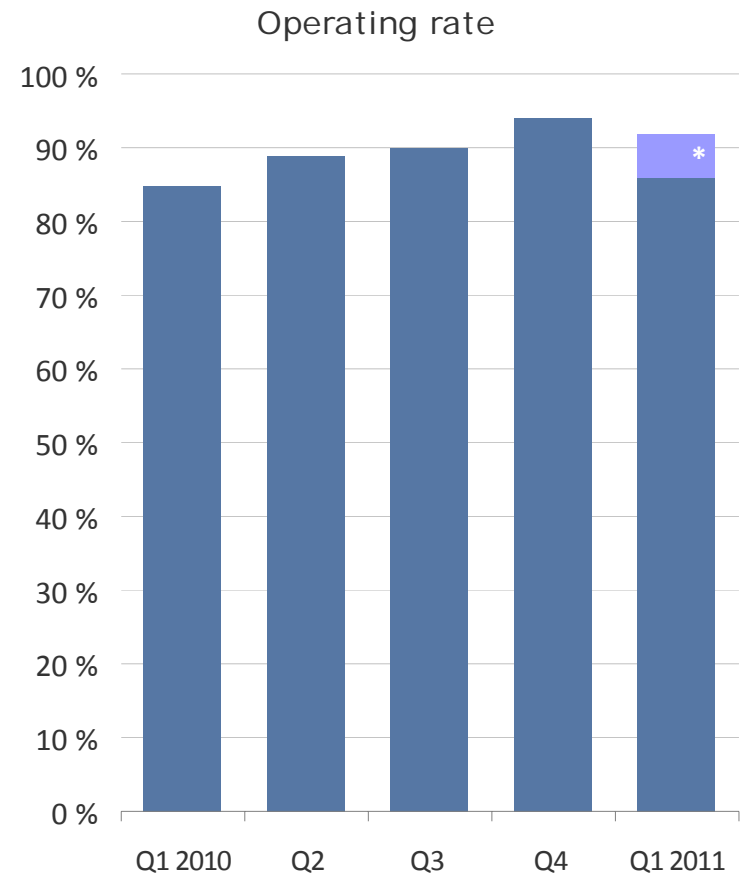
1) Reversal of AFP provision of NOK 47 mill.

2) Reversal of environmental provision of NOK 108 mill.

3) Reversal of provision and income related to pension schemes

# Still tight market balance

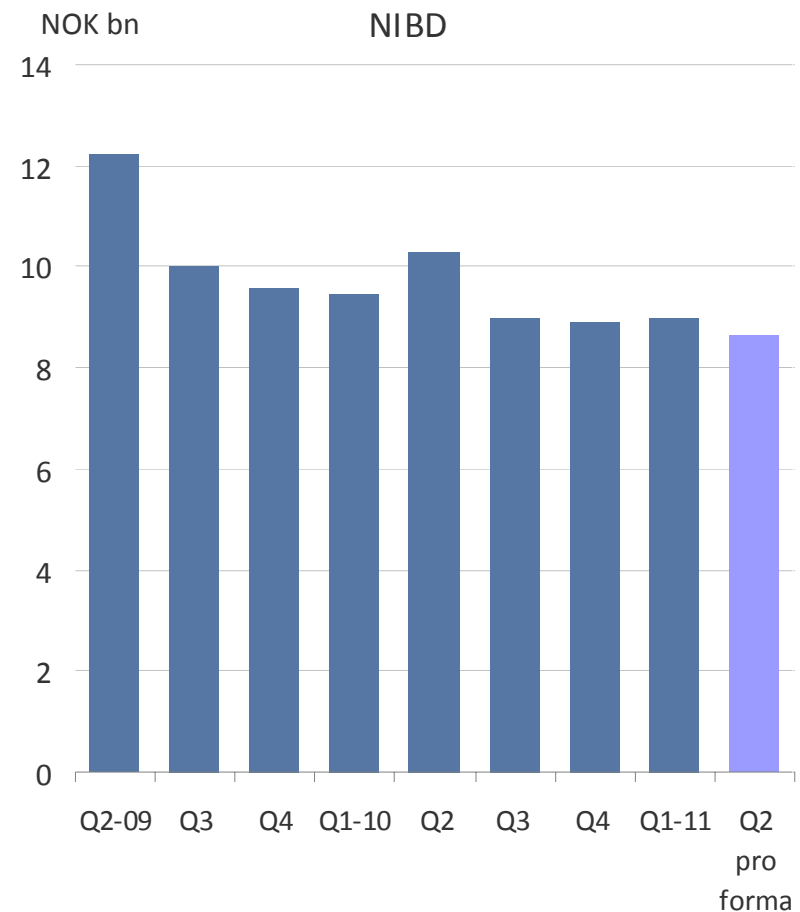
- Operating rate 86%
  - Down from 94% in Q4
  - Fire at Saugbrugs
  - Seasonality
- Newsprint Europe
  - Operating rate 96%
  - Highest since Q3-08
- Still reduced imports from North America
- Export market from Europe satisfactory



\*) Adjusted for capacity at Norske Skog Saugbrugs

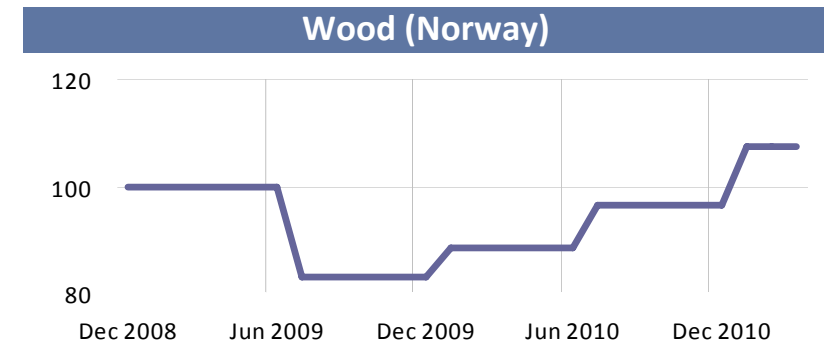
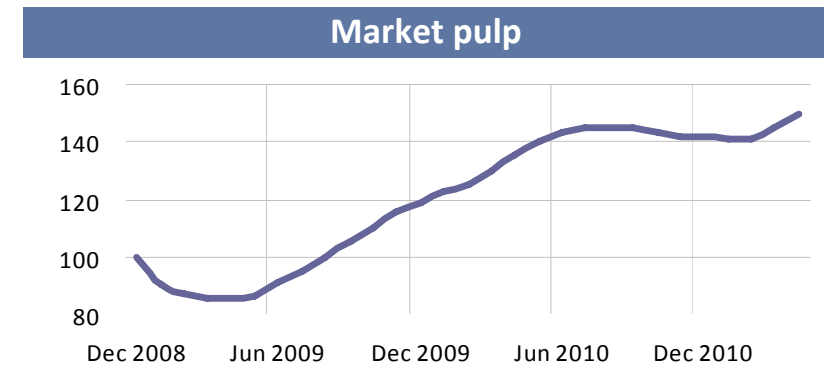
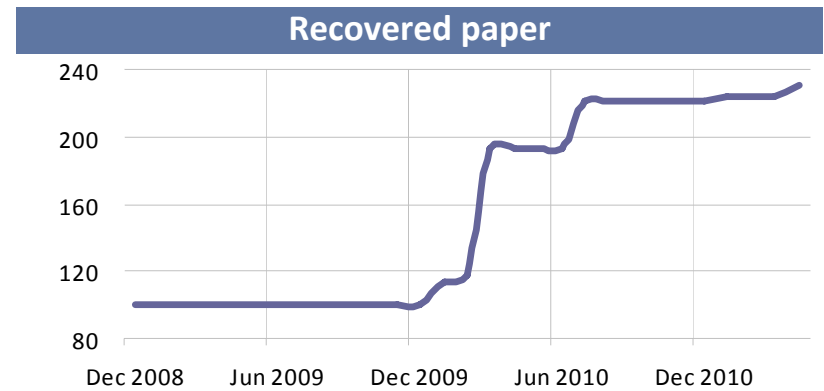
# Debt reduction – still high on the agenda

- Net interest-bearing debt NOK 9.0 bn
  - Marginally up from NOK 8.9 bn in Q4
  - Cash from operations and gains from cash flow hedge more than offset by working capital outflow
- Sale of forest in Brazil
  - Reducing NIBD of NOK 335 mill in Q2
  - Gain of NOK 43 mill booked as increased value in Q1, under other gains and losses
- Sale of US sales office
  - Closing expected end of Q2
  - Positive effect on working capital
- Sale of Klosterøya



# Input factors

- Cost pressure on all raw materials
- Significant price increase partly offset by higher efficiency



# Fire at Saugbrugs

- Fire in the cable system in TMP plant early February
- No personal injuries, but heavy property damage
- 1/4 of production on stream, full production expected June/July
- Force majeure, but customers expressed support and promised to buy when paper is available
- Self retention on business interruption of NOK 13 mill booked in Q1
- Property: Write-down and estimated insurance compensation booked as Other gains and losses



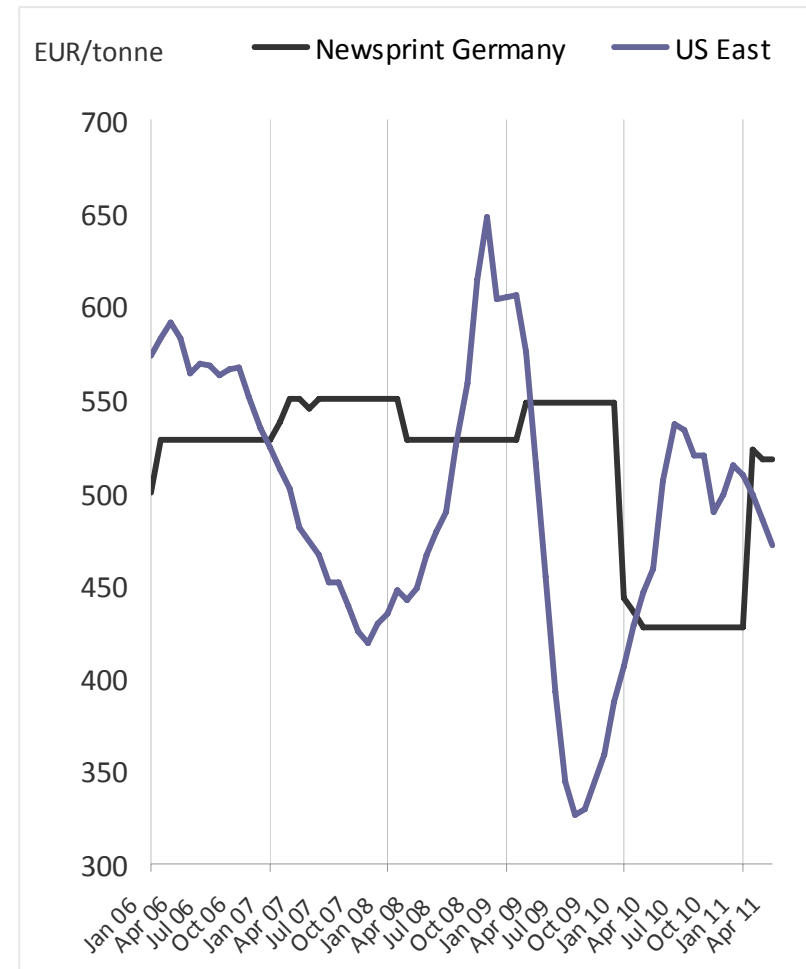
# Demand 2011 per region/segment

Region/segment	Annual change (YTD) *	Comments
World standard newsprint	-4.2 %	
North America standard newsprint	-6.1 %	
Europe standard newsprint	-1.4 %	Western Europe (-3 %) Eastern Europe (+8 %)
Europe magazine paper (incl. improved newsprint etc)	-0.5 %	SC (-5 %), LWC (0 %) Improved NP etc. (+6 %)
Non-Japan Far East Standard newsprint	-9.1 %	High growth in India, China weak
Australasia standard newsprint	-9.5 %	
Latin America standard newsprint	1.9 %	Highest growth in Brazil Increased customer inventories

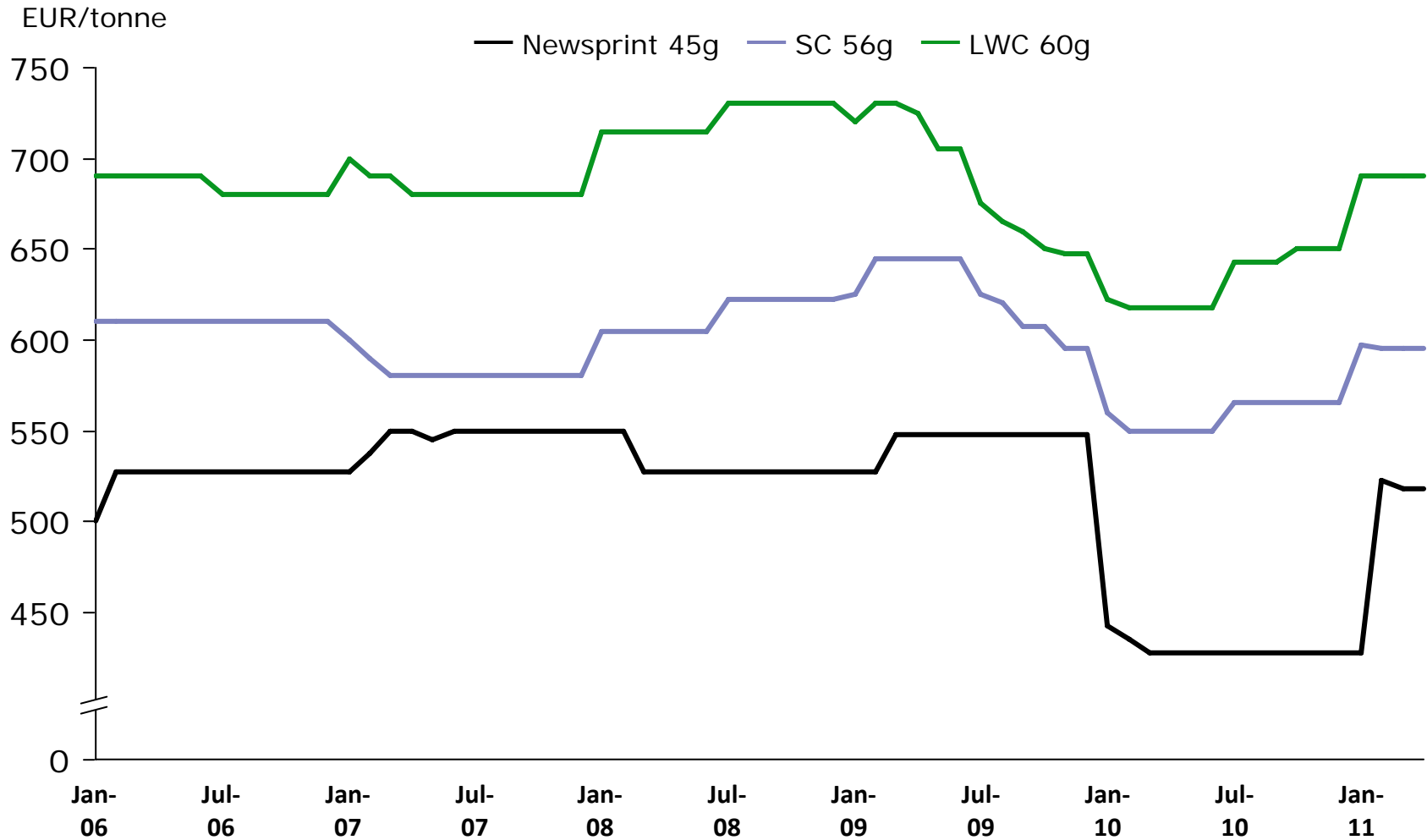
\*) Change in January-March 2011 vs same period in 2010

# Price development - Europe vs. USA

- We expect price increases in Q2 2011
- Average price in Europe last 15 years: €540-550
- US price fluctuation due to currency effects (\$680)
  - EUR/USD = 1.48
- USD price in:
  - Hong Kong = \$675
  - India = \$680



# Price development - Germany





# Financials

Audun Røneid, CFO

# Key financials Q1 2011

Key figures (NOK mill)	Q1 2011	Q4 2010	Q1 2010
Operating revenue	4 594	5 160	4 455
EBITDA	296	479	275
EBITDA, underlying	296	350	228
EBIT before special items	-136	30	-252
Result after tax	169	-198	-1 153

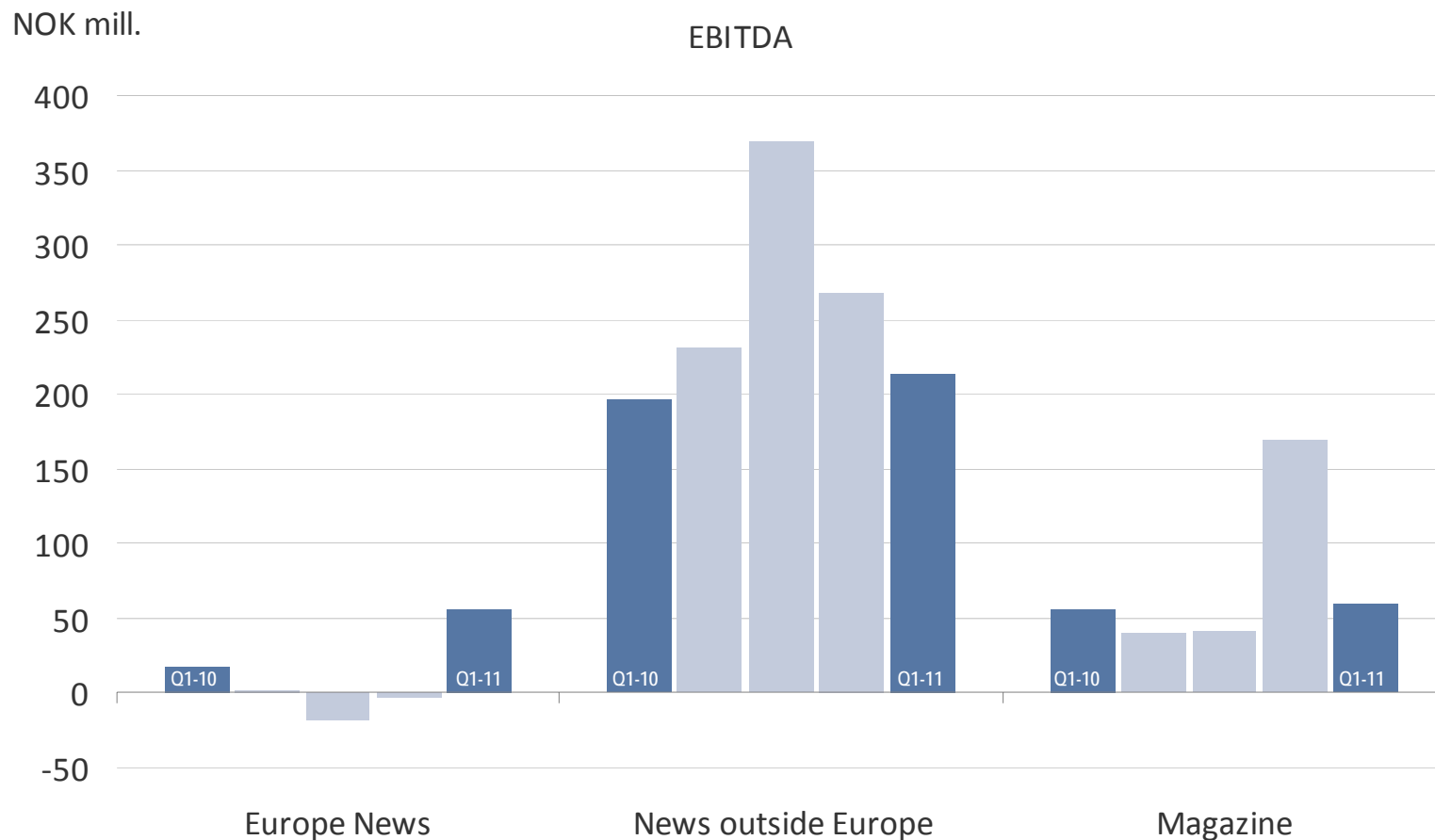
- **Operational**

- Q1-11 underlying EBITDA ex. Energy up slightly from Q4-10
- Price increases partly offset by higher raw material cost

- **Net result**

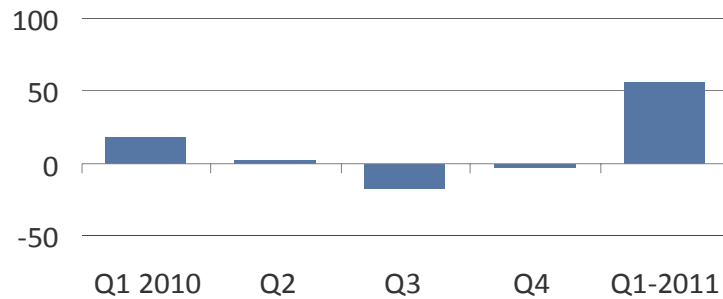
- Positive effect from changes in value of energy portfolio and biological assets
- Positive currency effects on financial items

# Results - segments



# Newsprint Europe

EBITDA NOK mill.

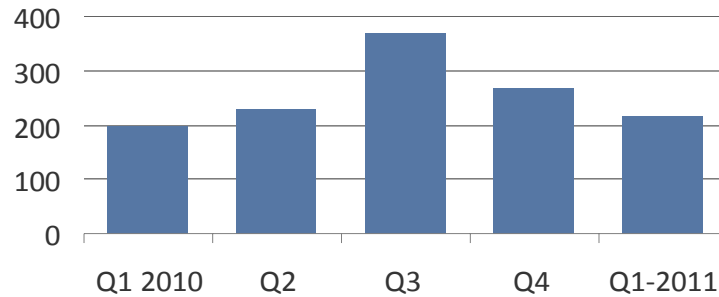


Key figures (NOK mill.)	Q1 2011	Q4 2010	Q1 2010
Operating revenue	1 499	1 551	1 314
EBITDA	56	-3	18
EBITDA, underlying	56	-38	-2
EBITDA margin	3.7 %	-0.2 %	1.4 %
Deliveries (1 000 tonnes)	379	429	356

- Improvement mainly due to price increases
  - Still 1/3 of tonnage on old contract prices
- Shipments down vs. Q4
  - Seasonality, and customer stock building in Q4
- Cost inflation for wood, recovered paper and energy
- Operating rate 96%, highest since Q3-08

# Newsprint outside Europe

EBITDA NOK mill.



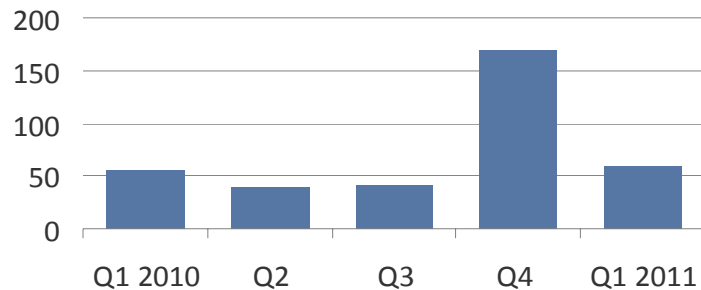
Key figures (NOK mill.)	Q1 2011	Q4 2010	Q1 2010
Operating revenue	1 327	1 504	1 243
EBITDA	214	269	196
EBITDA margin	16.1 %	17.9 %	24.7 %
Deliveries (1 000 tonnes)	278	302	288

- Lower volumes, primarily due to maintenance stop at Boyer
- Lower margins in Australasia due to export sales to Asia
- Result improvement in South America



# Magazine paper

EBITDA NOK mill.

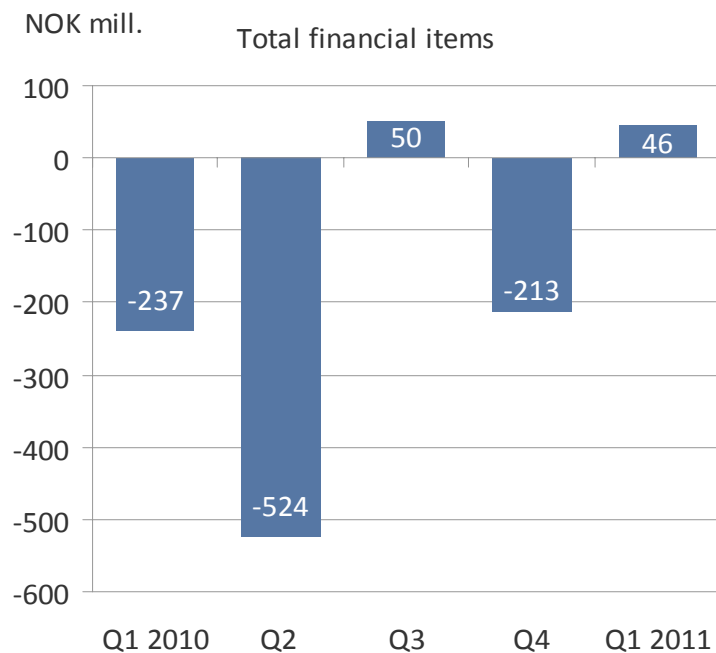


Key figures (NOK mill.)	Q1 2011	Q4 2010	Q1 2010
Operating revenue	1 482	1 691	1 503
EBITDA	60	169	56
EBITDA, underlying	73	85	33
EBITDA margin	4.1 %	10.0 %	2.5 %
Deliveries (1 000 tonnes)	* 262	332	307

\*) Reduced volume due to fire at Norske Skog Saugbrugs in February

- Revenue and deliveries affected by the fire at Saugbrugs
  - Negative EBITDA effect of NOK 13 mill due to self retention
- Excluding one offs – underlying EBITDA for Q1 not materially changed vs. Q4
- Price increases offset by cost increases on raw materials
- Demand for SC and LWC in Europe down 1.7%, but strong export markets

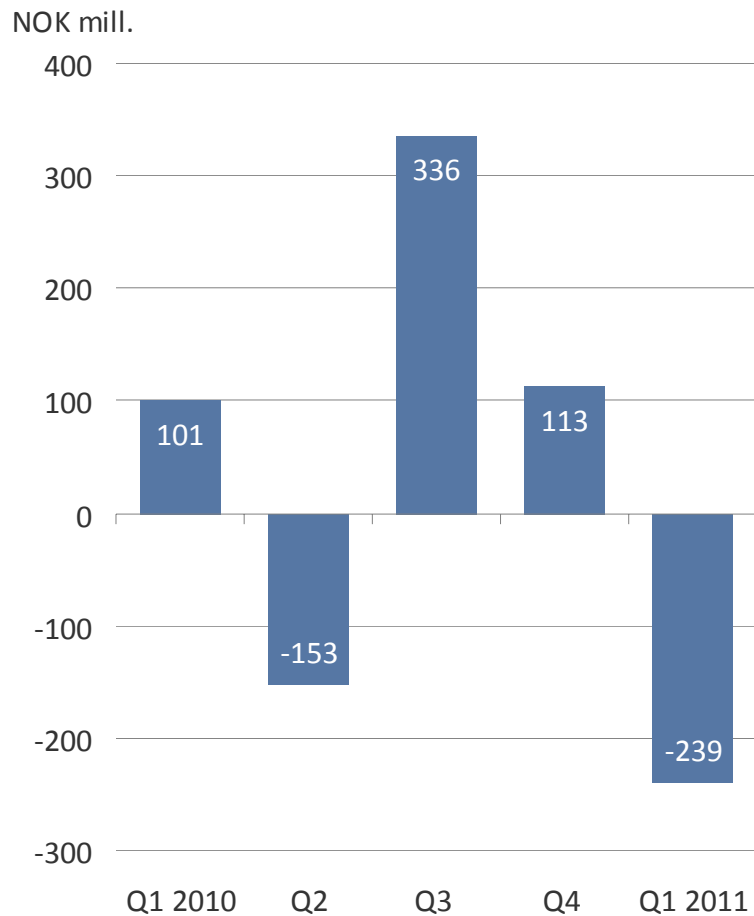
# Financial items



- Stronger NOK vs. all currencies
- Gains on cash flow hedges and translation differences on debt

NOK mill.	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Currency elements	-48	-329	261	-20	216

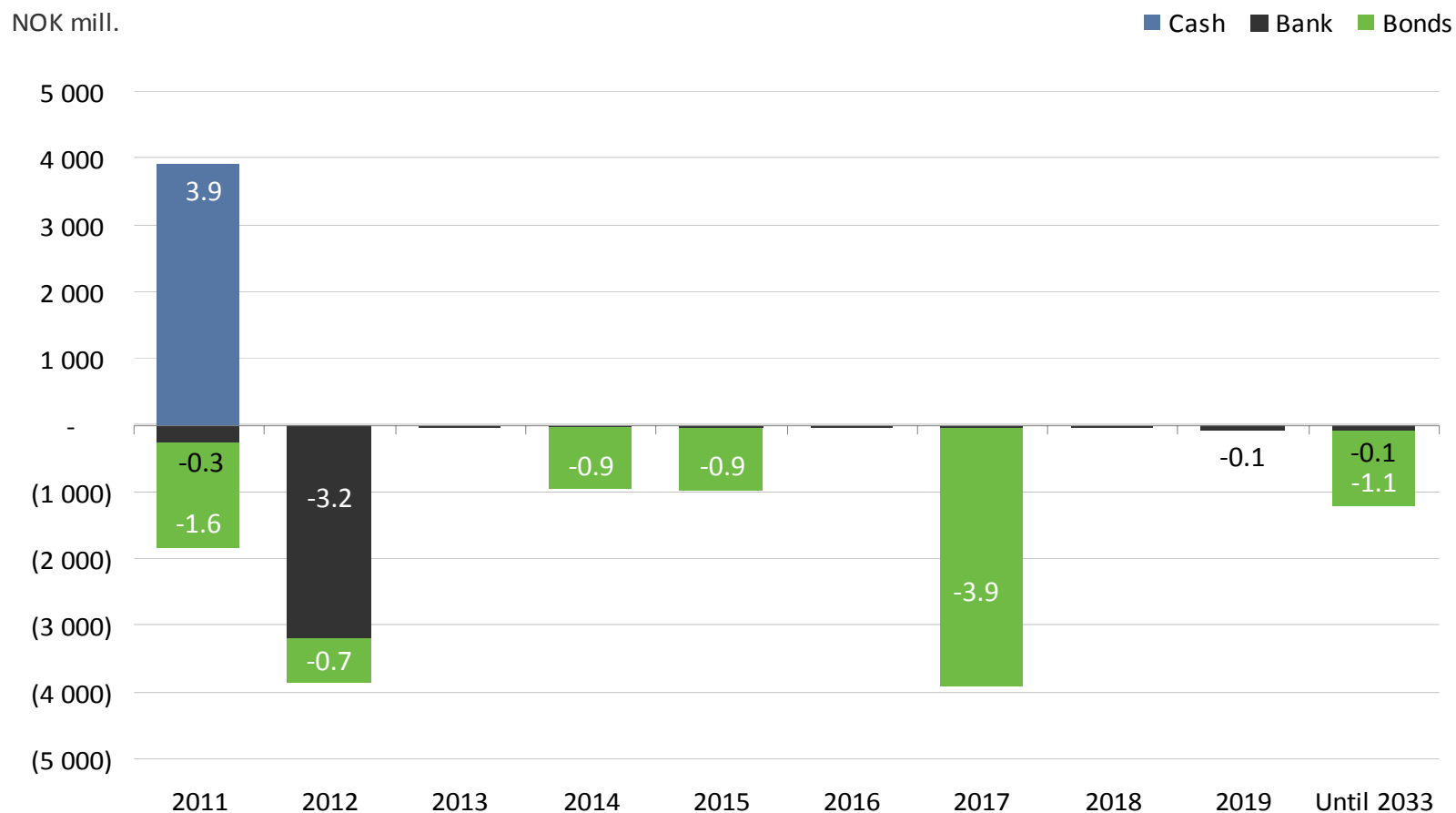
# Cash flow



Cash flow from operations, after financial items and taxes

- EBITDA NOK 296 mill
- Working capital outflow of NOK 548 mill
  - Seasonality
  - Price increase on finished goods and on input factors
  - Reversal/payment of earlier provisions
- Capex of NOK 68 mill in Q1

# Cash and debt maturity profile



Per 31 March 2011



# Outlook

Sven Ombudstvedt, President and CEO

# Outlook for 2011:

- Coming quarters: Improved compared with Q1
- Full effect of price increases on newsprint in Europe in Q2
- Increased shipments in most regions
- Continued high prices on most input factors
- No significant result in the Energy segment
- Full year: Better than 2010, but unsatisfactory

# Management focus going forward:

- Strategic:
  - Positioning for active role in industry consolidation
  - Legal clean up
- Operational:
  - Re-establish earlier price level and margin in Europe
  - Further reduction of debt and fixed costs
  - Sale of non-core assets
  - Refinancing



Q & A