

Norske Skog

**ABN Amro Paper Seminar
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Agenda

- Norske Skog headlines
- Q3 Financials
- Market overview
- Cost development
- New business
- Actions and summary



Norske Skog headlines

Norske Skog Headlines

- The ONLY global producer within publication paper grades
- Widespread geographic footprint with strong market positions in all major regions except North America, and presence in high growth regions
- Streamlined operations with high competence in core areas
- Far-reaching profit improvement program on track



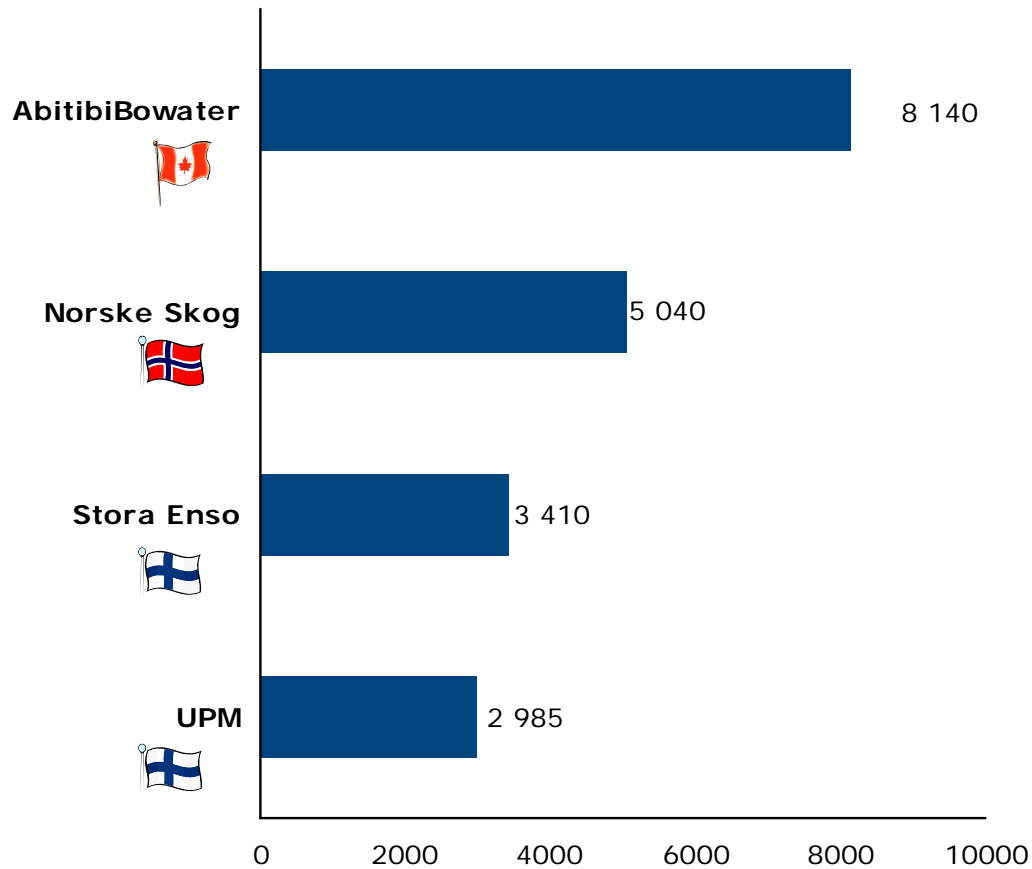
Source: Company Information

The world of Norske Skog

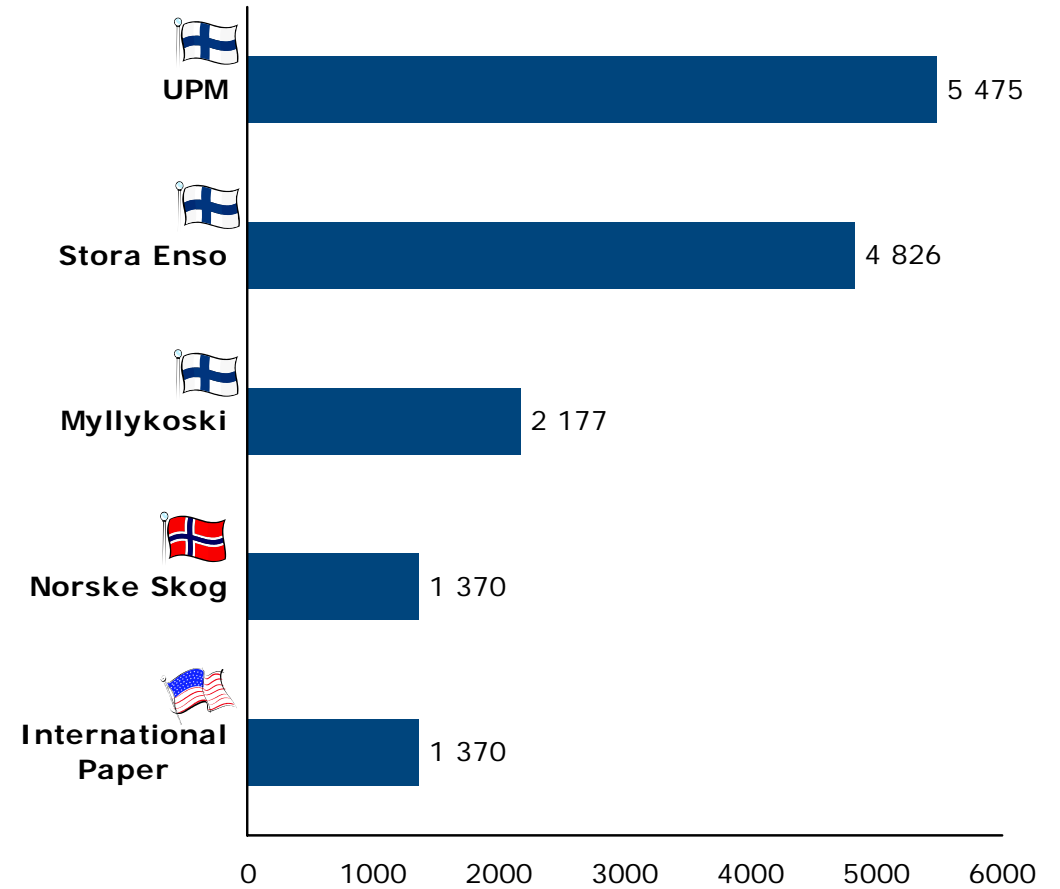


A Leading Global Producer

Newsprint
1 000 tons / year



Magazine Paper
1 000 tons / year



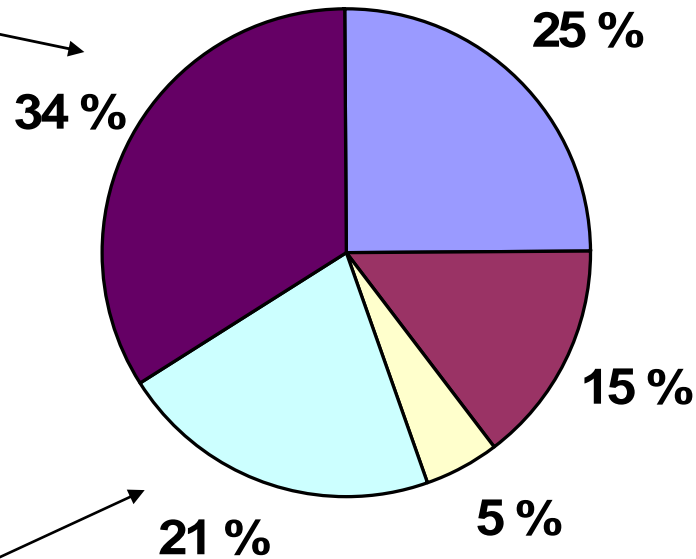
Source: Company Report.

Note: Bowater and Abitibi have completed merger of their operations 29 Oct 2007.

Norske Skog's global capacity

Total capacity ~ 6.475 mill. tons

40 % Norway
60 % Continental Europe



49 % Norway
51 % Continental Europe

Newsprint: 79 % of total
Magazine: 21 % of total

32 % of total **newsprint** capacity is in Asia

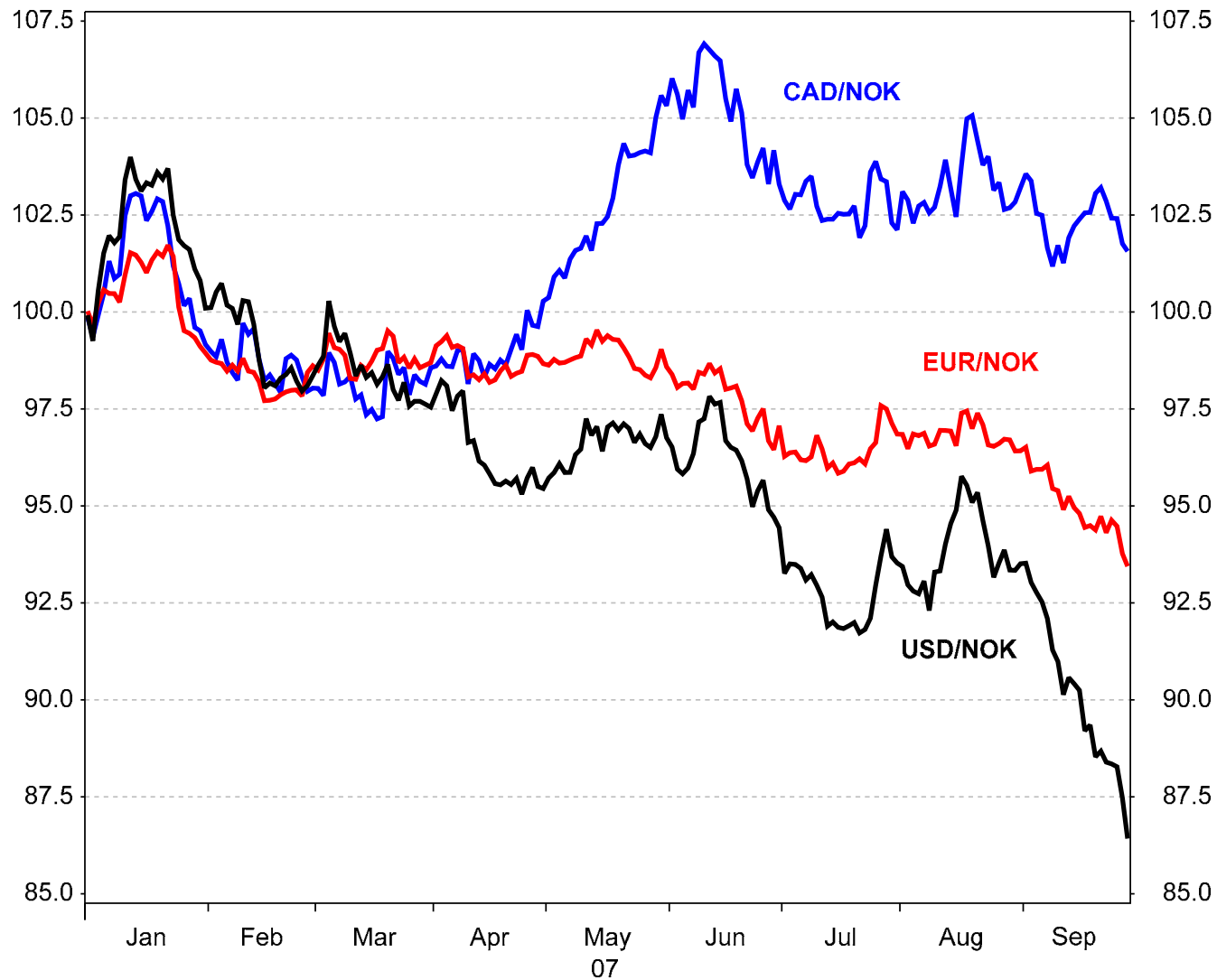
Export share of Norwegian production 90%

Source: Annual report 2006

Q 3 in brief

Currency changes 01.01.-30.09.2007

(Index – 01.01.07 = 100)



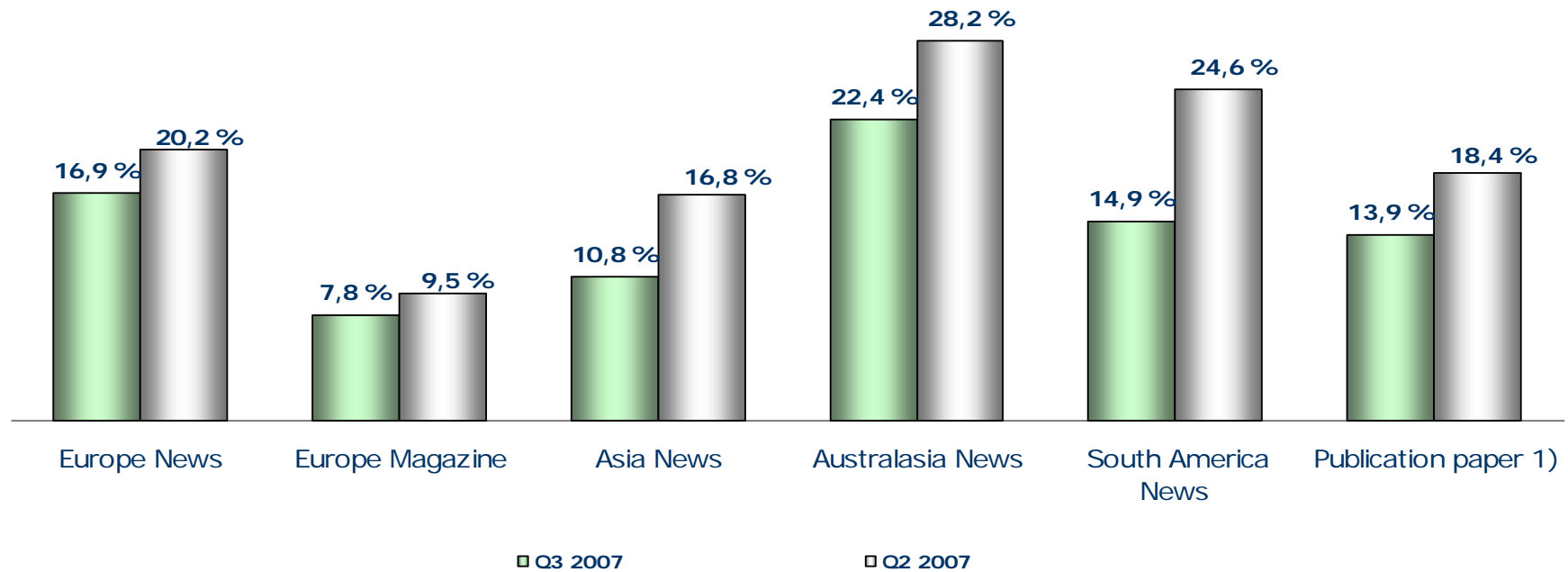
Source: Reuters EcoWin

P & L -Key figures Q3 2007

	Q3 2007	Q2 2007	Q3 2006
Revenue	6 641	6 794	7 192
EBITDA*	850	1 129	1 322
EBIT *	139	416	495
Interest / Other financial items	(277)	(242)	(278)
Currency gain/loss	370	187	(243)
Pre Tax profit	280	173	(3 779)
EBITDA margin*	12,8 %	16,6 %	18,4 %

* Clean figures

EBITDA margins per segment Q3 2007 vs Q2 2007



1) Publication paper is stated without Tasmanian Forests, Recovered Paper Trading, Wood Trading and Energy Trading

Balance sheet & cash flow – Key figures Q3 2007

		Q3 2007	Q2 2007	Q3 2006
Net CF from operating activities	Mill. NOK	772	266	1 645
Investments	Mill. NOK	(449)	(499)	(346)
CFPS	NOK	4.07	1.40	6.68
Total assets	Mill. NOK	44 214	47 071	45 265
Net interest-bearing debt	Mill. NOK	16 231	17 462	17 784
Gearing		0.98	1.04	1.02
Equity per share	NOK	87	88	93
ROCE, adjusted	%	1.54	4.49	5.00

Debt situation – Some facts

- Gross interest-bearing debt at 30.09.07 NOK 18.3 billion (net NOK 16.2 billion)
 - Of this, covenants apply to NOK 4 billion
- Covenants:
 - Gearing < 1.4 – at 30.09.07: 0.98
 - “Net tangible worth” = Equity less goodwill $> \text{NOK } 9$ billion - at 30.09.07 NOK 13.5 billion
- No large maturities until 2010
- NOK 2 billion in cash at 30.09.07



Markets

Publication Paper - A Global Yet Regional Market

■ Europe

- Low growth and overcapacity on newsprint
- Overcapacity also on magazine paper
- Adverse effect of € appreciation
- Restructuring potential

■ Asia

- High growth
- Capacity increases in China

■ Australasia

- Low cost production
- Close to customers

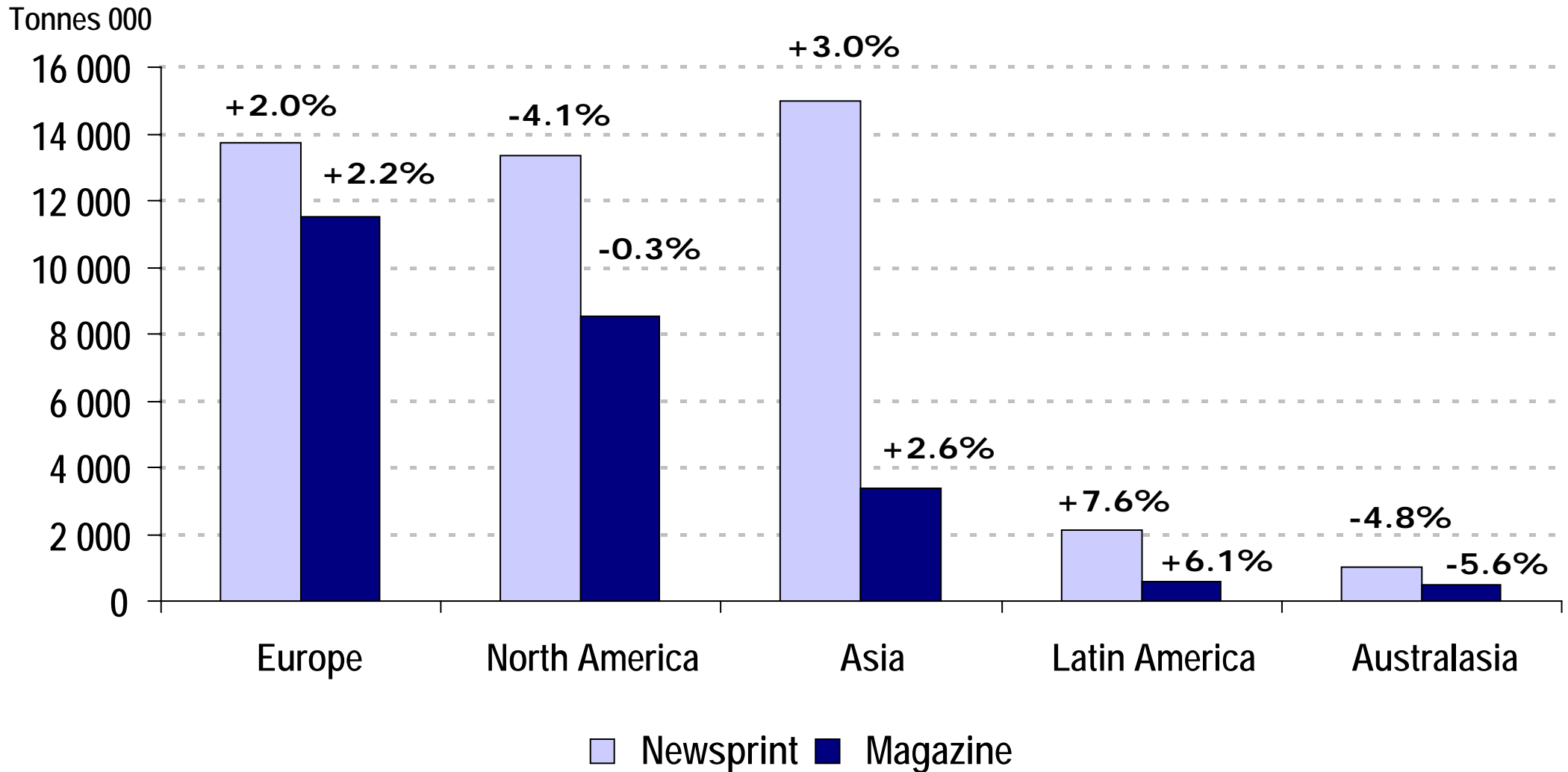
■ North-America

- Declining demand
- Consolidation to provide supply discipline
- Canadian industry currently suffering from strong CAD

■ South-America

- Access to low-cost fibre
- Increasing demand with positive long term outlook

Publication Paper Regional Demand 2006 & Growth 2006 vs. 2005



Sources: Cepiprint, PPPC, NSI
 Newsprint including improved grades
 Magazine including SC-Paper and CMR

Demand changes YTD September 2007 vs. YTD September 2006 (Europe only, elsewhere August)

Standard Newsprint World (YTD Aug): (1,1%)

	Standard Newsprint	Standard & Improved Newsprint	Magazine Paper	Total
W. Europe (ytd September)	(0,6%)	(1,1%)	2,4%	0,6%
E. Europe (ytd September)	(0,9%)	(0,5%)	17,4%	5,9%
Europe Total (ytd September)	(0,6%)	(1,0%)	3,9%	1,2%

North America			
Standard Newsprint	Standard & Improved Newsprint	Magazine Paper	Total
(10,5%)	(9,2%)	2,4%	(4,8%)

Standard Newsprint China	Standard Newsprint S Korea
7,8%	1,6%

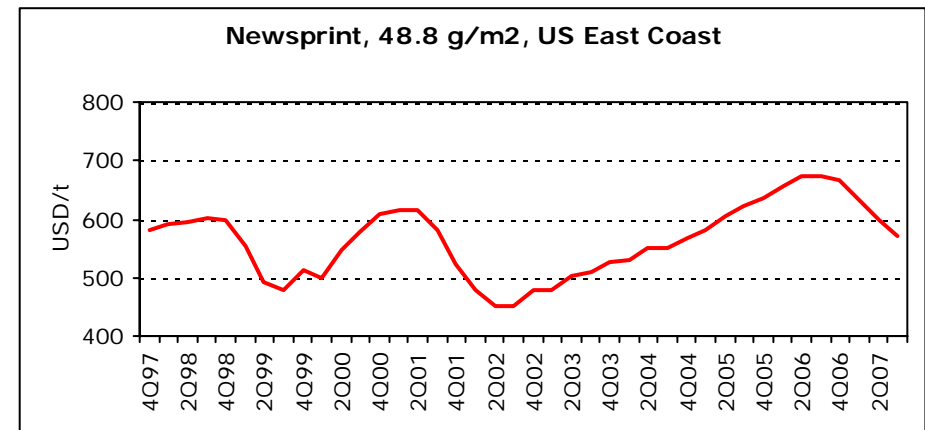
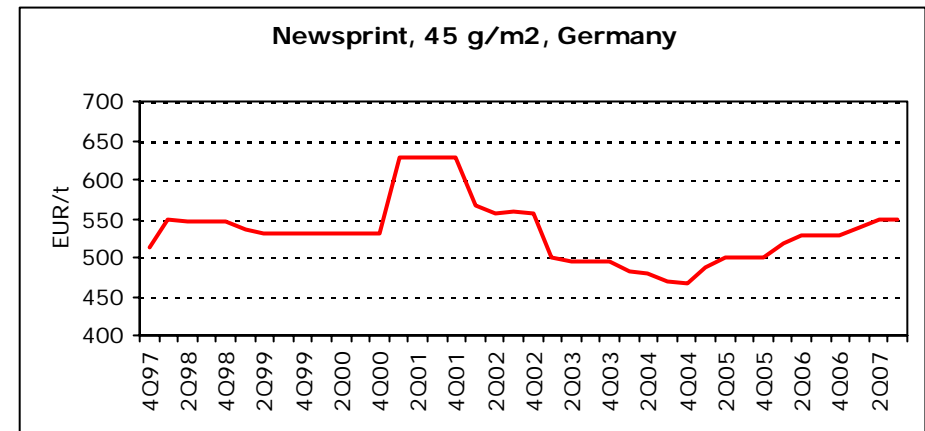
Standard Newsprint Far East Total
2,1%

Australasia	
Standard Newsprint	Standard & Improved Newsprint
5,5%	4,0%

S America
Standard Newsprint
1,6%

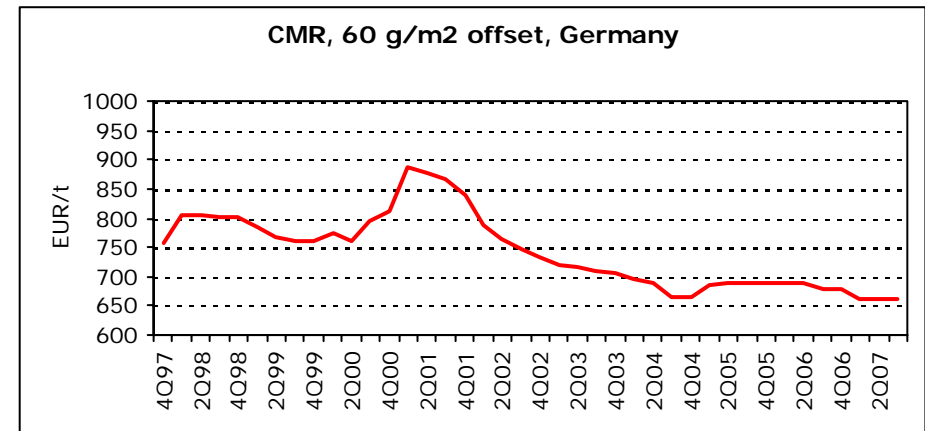
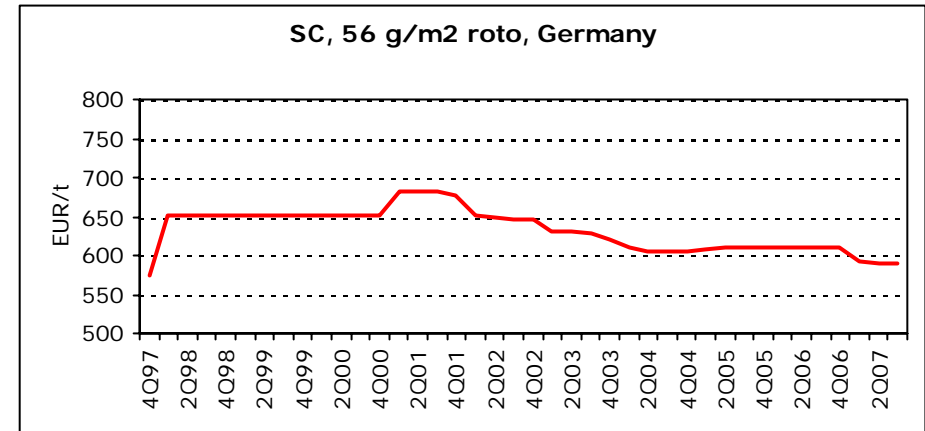
Newsprint – Europe and North America

- Europe:
 - Fairly good demand/supply balance in recent years, and price increases have been implemented
 - Changing market balance during 2006, and actions are needed
- North America:
 - Falling demand for several years, but price increases took place in the years 2002-2006 because of good capacity management
 - Weak pricing environment at present, and actions are needed
 - Newly announced price increases for 2008
- **Demand/Supply balance is crucial, and Norske Skog has taken an active role**



SC & CMR Magazine Paper – Europe

- Good demand development
- Weak pricing for both grades, because of overcapacity
- Closures have taken place, and prices will likely improve in 2008 – but from a very low level
- **As for newsprint: Demand/Supply balance is crucial**



Australasia and South America

■ Australasia

- Norske Skog is the only local producer, with a very high market share
- Longterm volume contracts with pricing formula

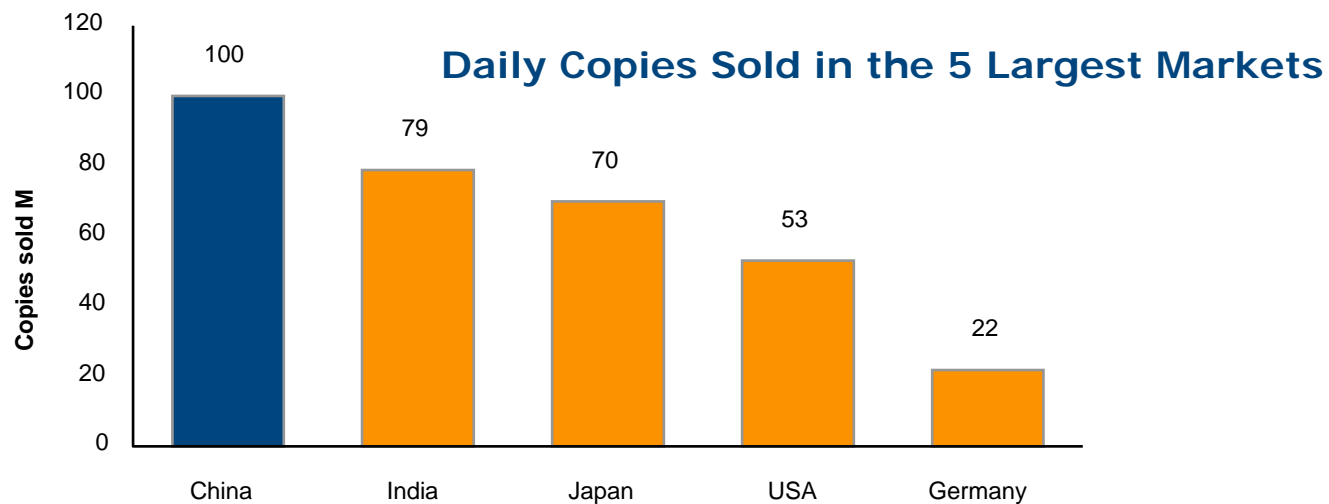
■ South America

- Norske Skog is the biggest local producer
- Longterm good growth
- Volatile pricing, linked to North America
- Norske Skog is expanding its presence by transferring a PM from Norway to Brazil



Newsprint market in China

- Compelling long term potential:
 - Growth driven by increase in readership and GDP
 - Strong growth despite restrictions on advertising and editorial writing
 - Substantial up-side in demand if following “political ambitions” materialize:
 - Shift from “Investment and Exports” to “Retail” driven economy (Peoples’ 16th Party Congress, 2006)
 - Increased subsidies for free circulation of Newspapers to rural areas (Peoples’ 17th Party Congress, 2007)

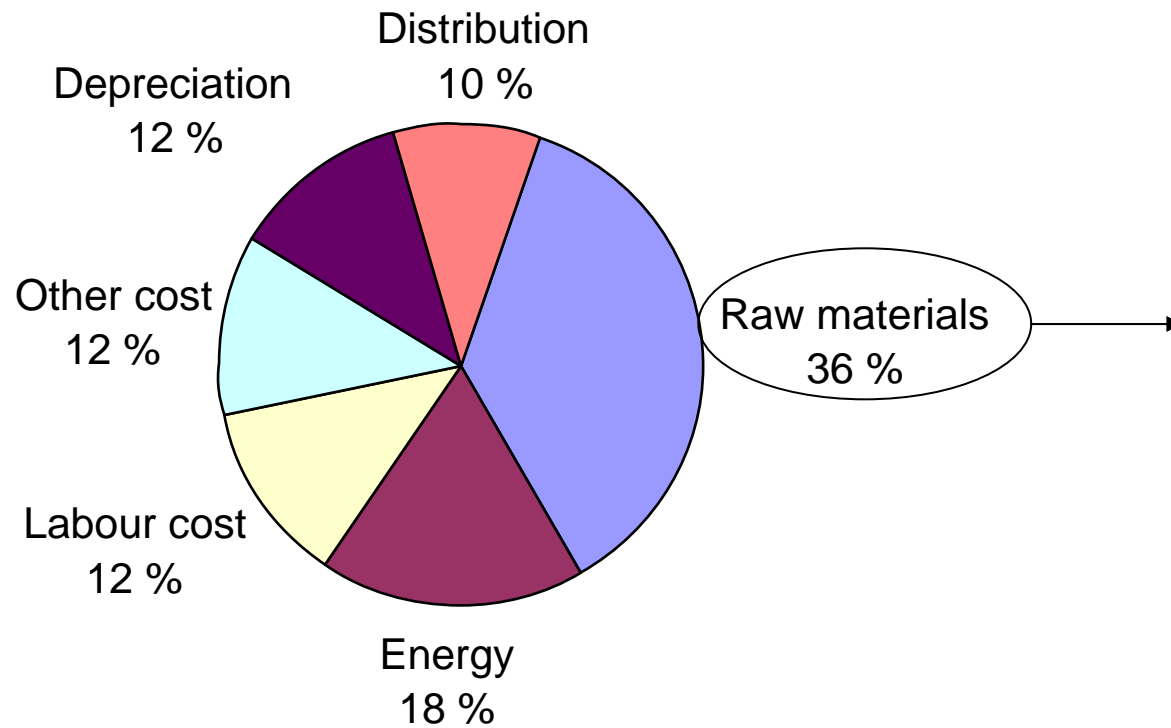


Source: World Association of Newspapers.

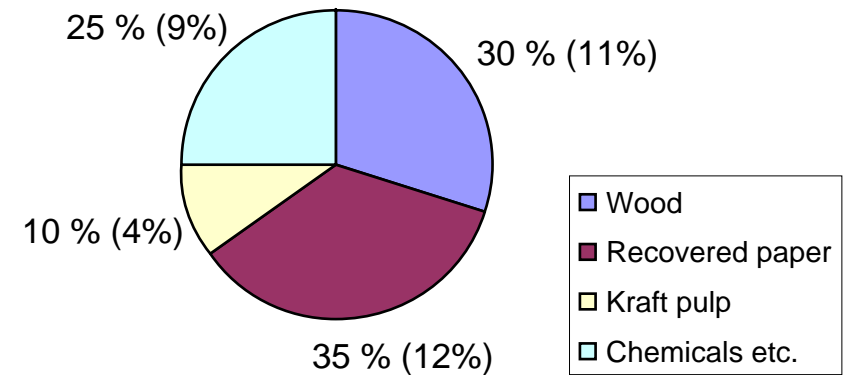
Cost development

Total cost breakdown - 2006

Total cost



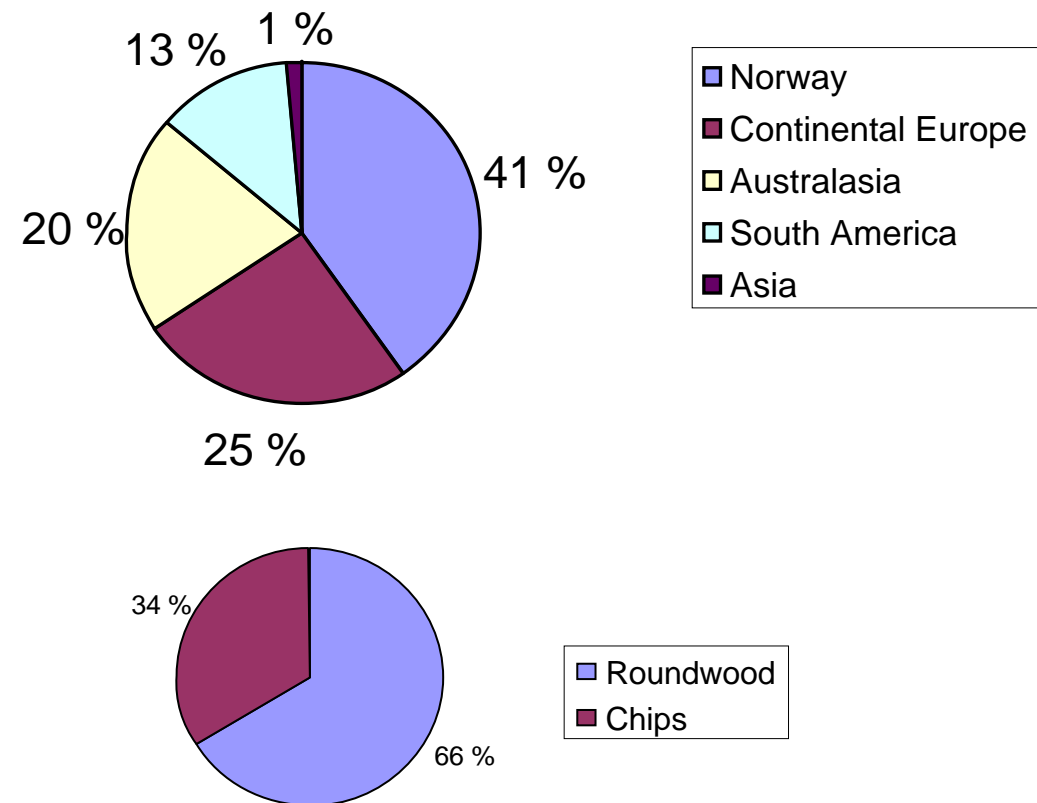
Raw materials



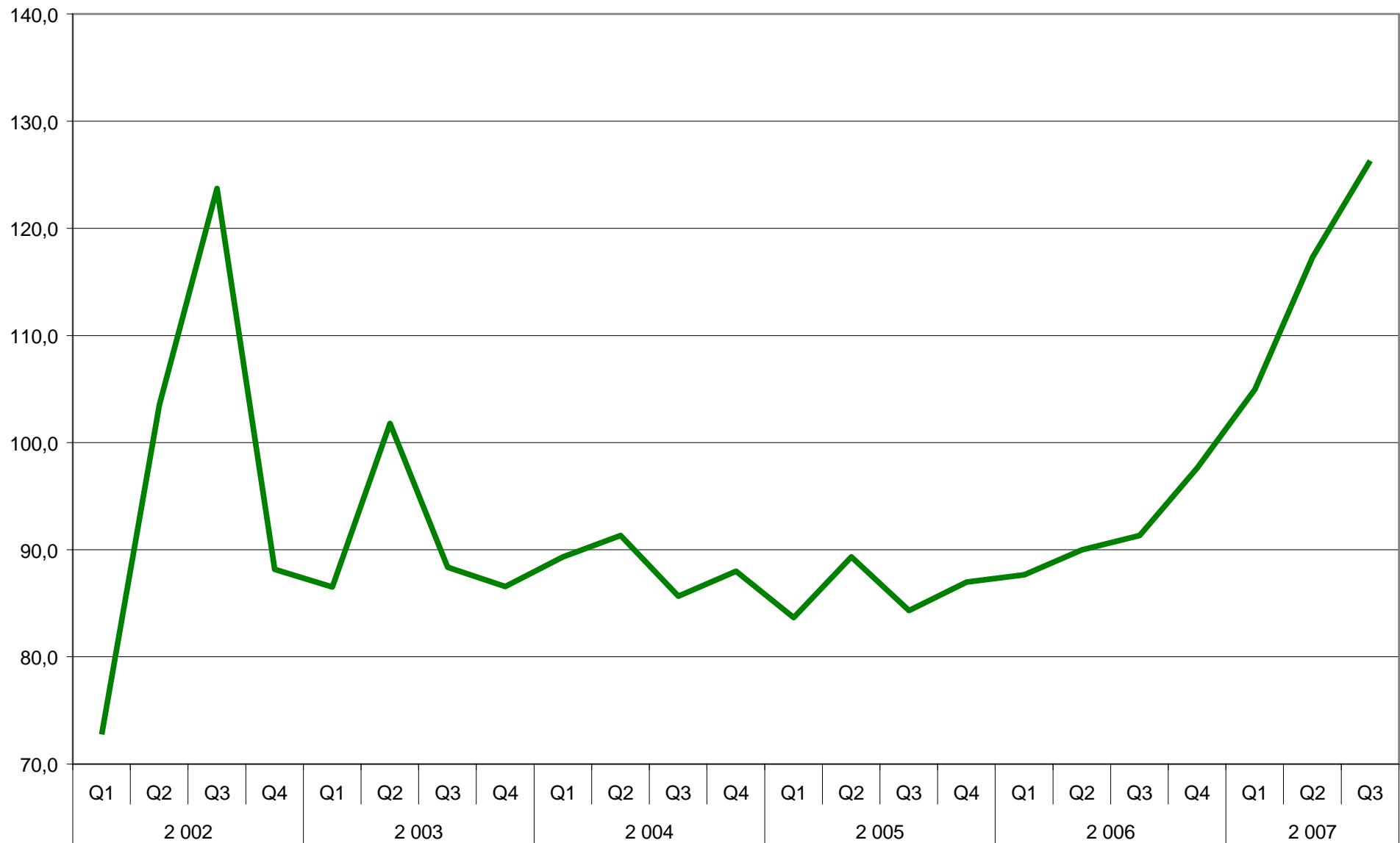
Wood

- Increased prices in continental Europe autumn 2006 – demand driven (Building industry, board and bio energy)
- Lower prices following storm felling in Germany first half year 2007 – expected to increase back to level at the end of 2006
- Russian export taxes implemented summer 2007
- European market: Adequate supply, but pricing remains volatile
- Southern hemisphere - 35% of Norske Skog's wood consumption, much lower prices than in Europe

**Wood consumption 2006 ~
6,4 mill. m3**

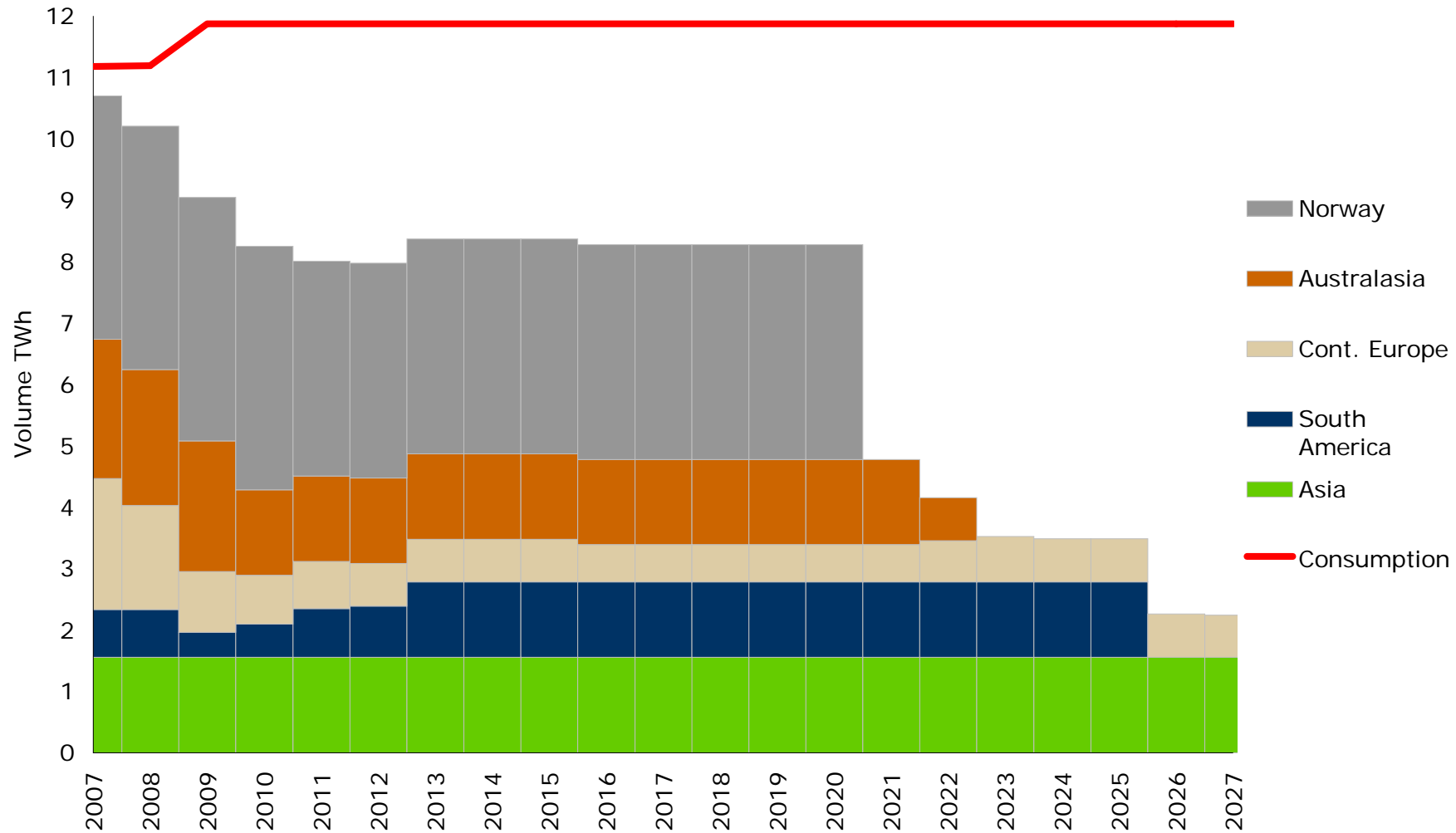


Recovered paper prices in Germany (CEPI) 2002 – 1 HY 2007 – Old newspapers/magazines



Norske Skog's long term electricity hedging

Two Thirds of electricity consumption hedged until 2020



Source: Company Information

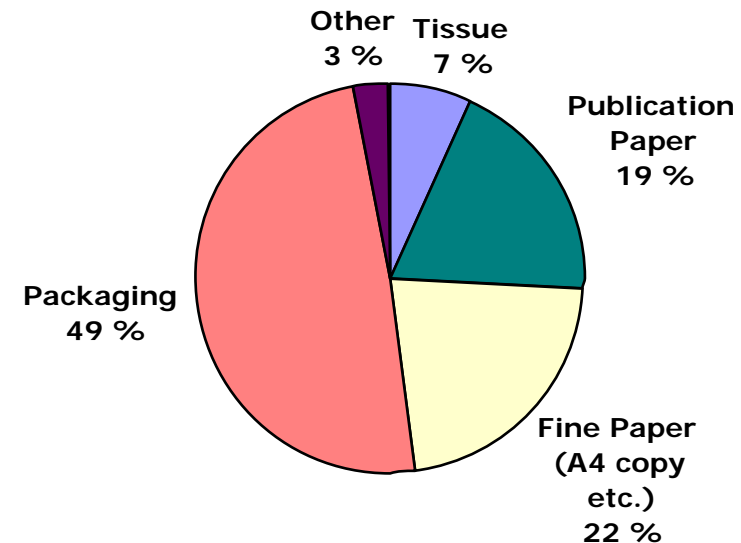


New businesses

Possible rebuilding of paper machines – Several grades to choose among

- As part of Norske Skog's asset review: Conversion of newsprint PMs into other grades is an opportunity
- Possible conversions should not trigger big investments

World total demand
~360 mill tonnes (2006 E)



Source: RISI Global Industry Statistics Database

Biofuel

- Woody biomass (lignocellulose) excellent feedstock for biofuels
- Biomass supply to a Norwegian 400-500MW BTL plant possible
- Technology is considered feasible
- Economics are still challenging





Actions and summary

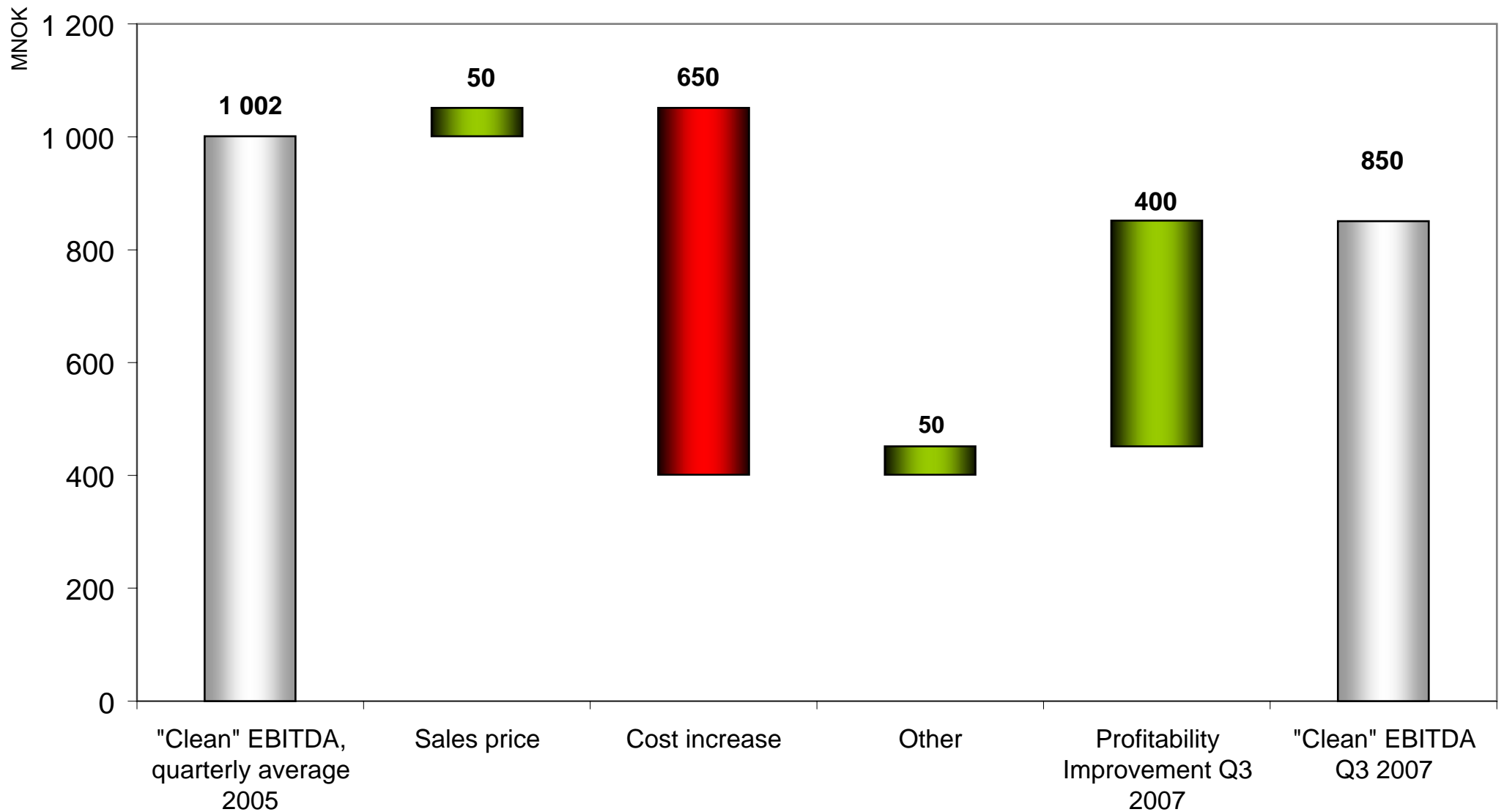


Changing industry and market trends

- The old clusters – Nordic countries and Canada – are less important with the increased capacity and self-sufficiency in Asia and South America.
- Additionally the old clusters experience market stagnation or decline in their home regions.
- Location of capacity expanded away from the old clusters' home base, because of
 - Recovered paper based production
 - Recently: Increased wood, energy and transportation costs
- Norske Skog has reacted to this with expansion outside Europe and withdrawing from North America
- The industry in general has not adapted fast enough:
 - Overcapacity, limited pricing power, weak results

Profitability improvement program, Q3 2007

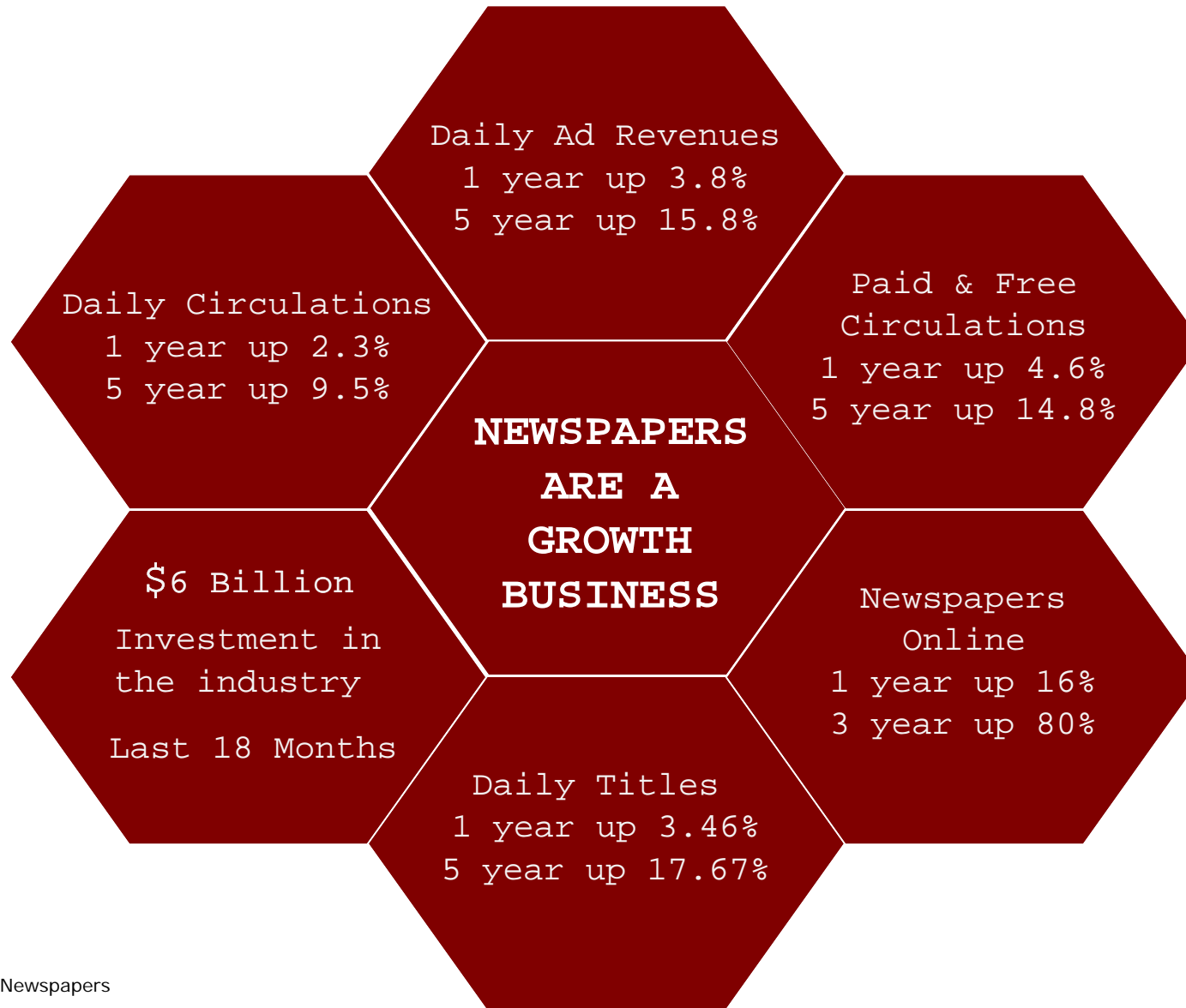
Adjusted EBITDA development quarterly average 2005 – Q3 2007



Asset review

- Overcapacity is our biggest challenge
- Permanent solutions are needed
- We will perform a global review of all our paper machines, focusing on:
 - Cost base
 - Profitability
 - Market outlook
 - Possible conversions
- Candidates for conversions and/or permanent closures will be identified during first half of 2008

Seen from our customers perspective



Source: World Association of Newspapers (WAN)

Summary

- The industrial challenge is to manage declining consumption in North America and balanced growth in Asia

- Norske Skog's major focus in 2008
 - High focus on the profitability improvement programme
 - Curtailments in European newsprint production and global asset review to design optimal structure
 - Seek industrial consolidation

Norske Skog

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