

**Norske Skog**

**DnB NOR Markets  
Industry Summit 2007**

Oslo, 30 November 2007

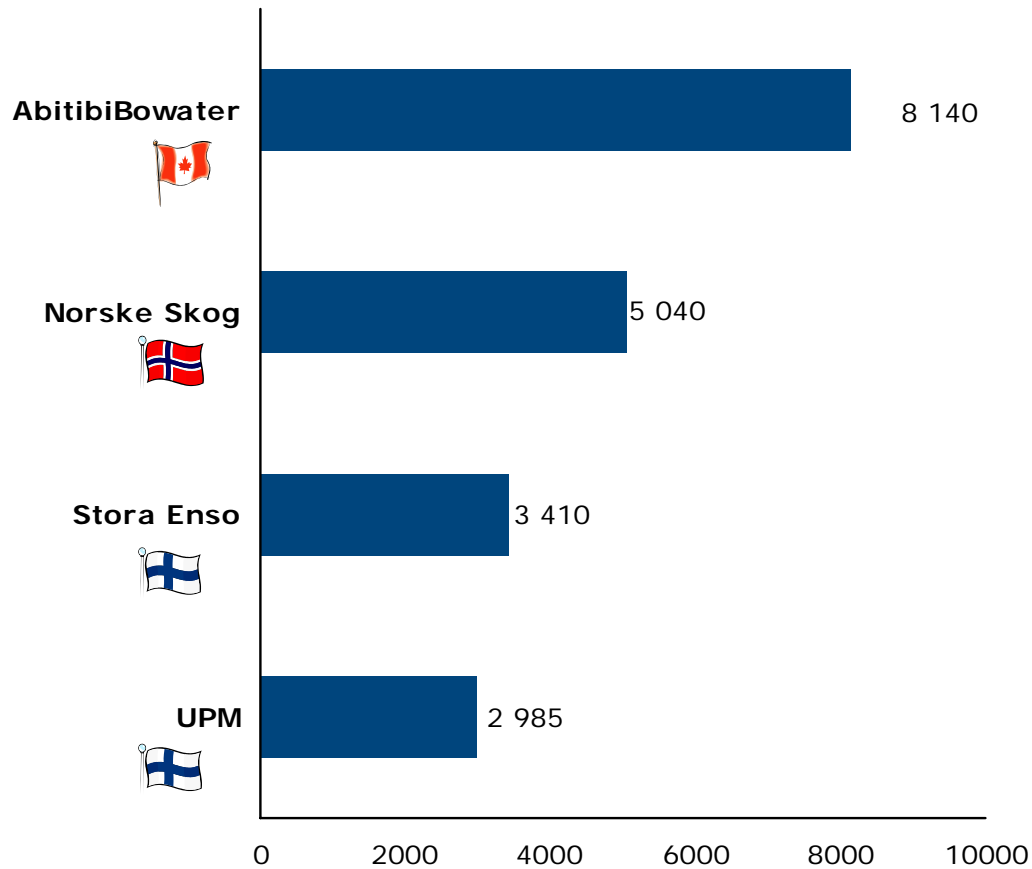
Christian Rynning-Tønnesen, CEO

# The world of Norske Skog

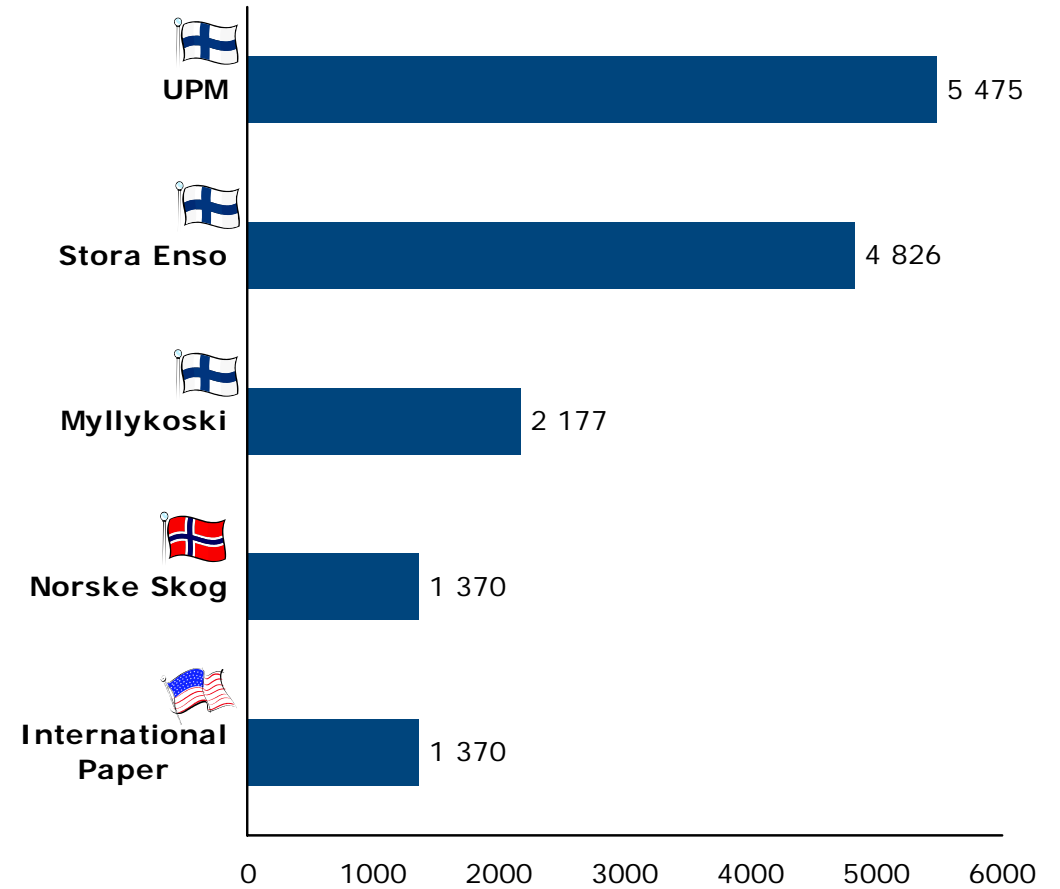


# A Leading Global Producer

Newsprint  
1 000 tons / year



Magazine Paper  
1 000 tons / year



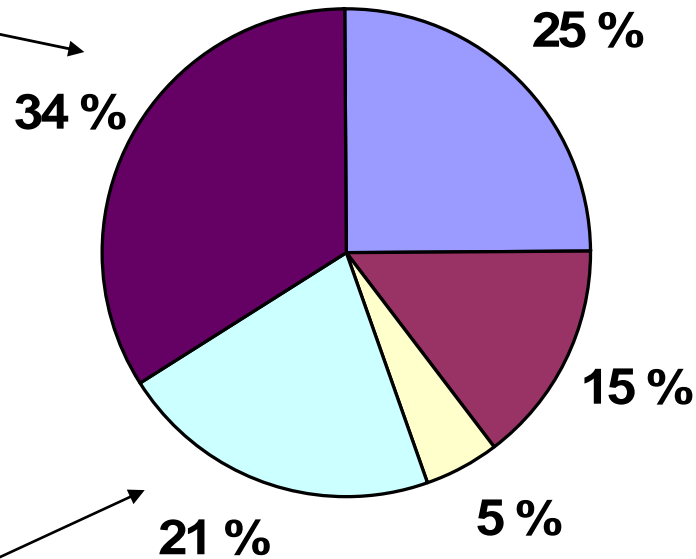
Source: Company Report.

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%

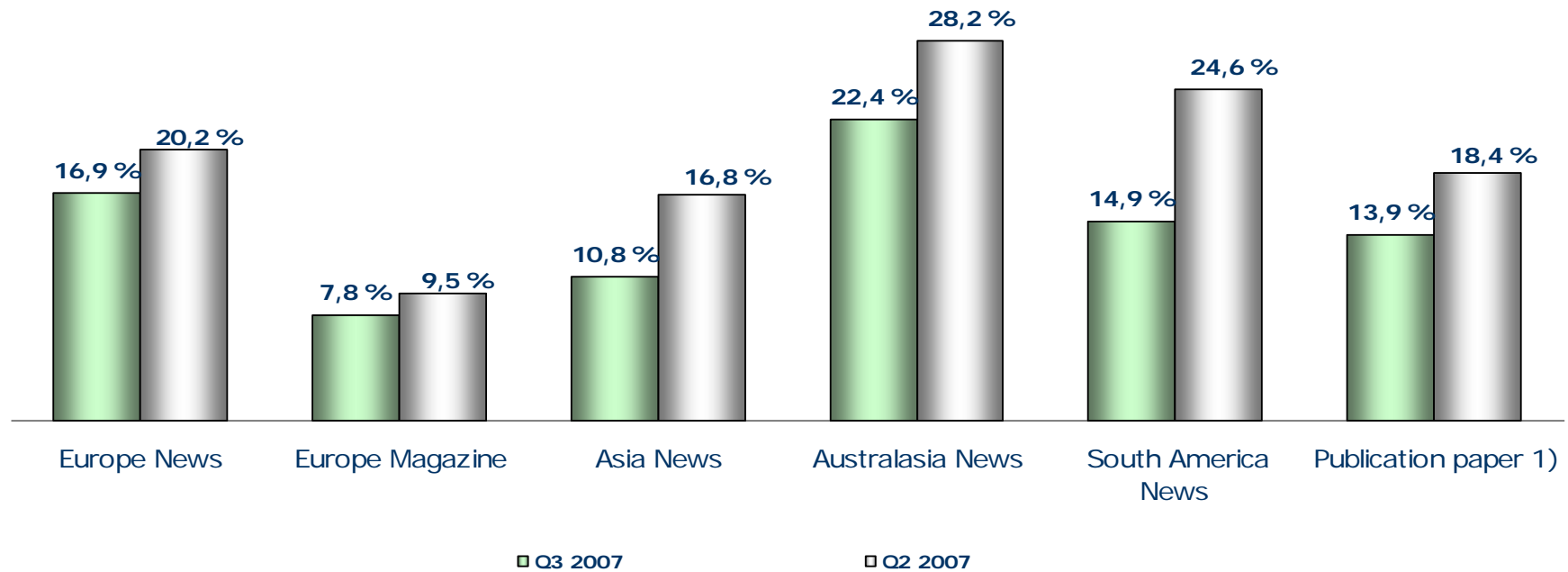
Source: Annual report 2006

# 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

## 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

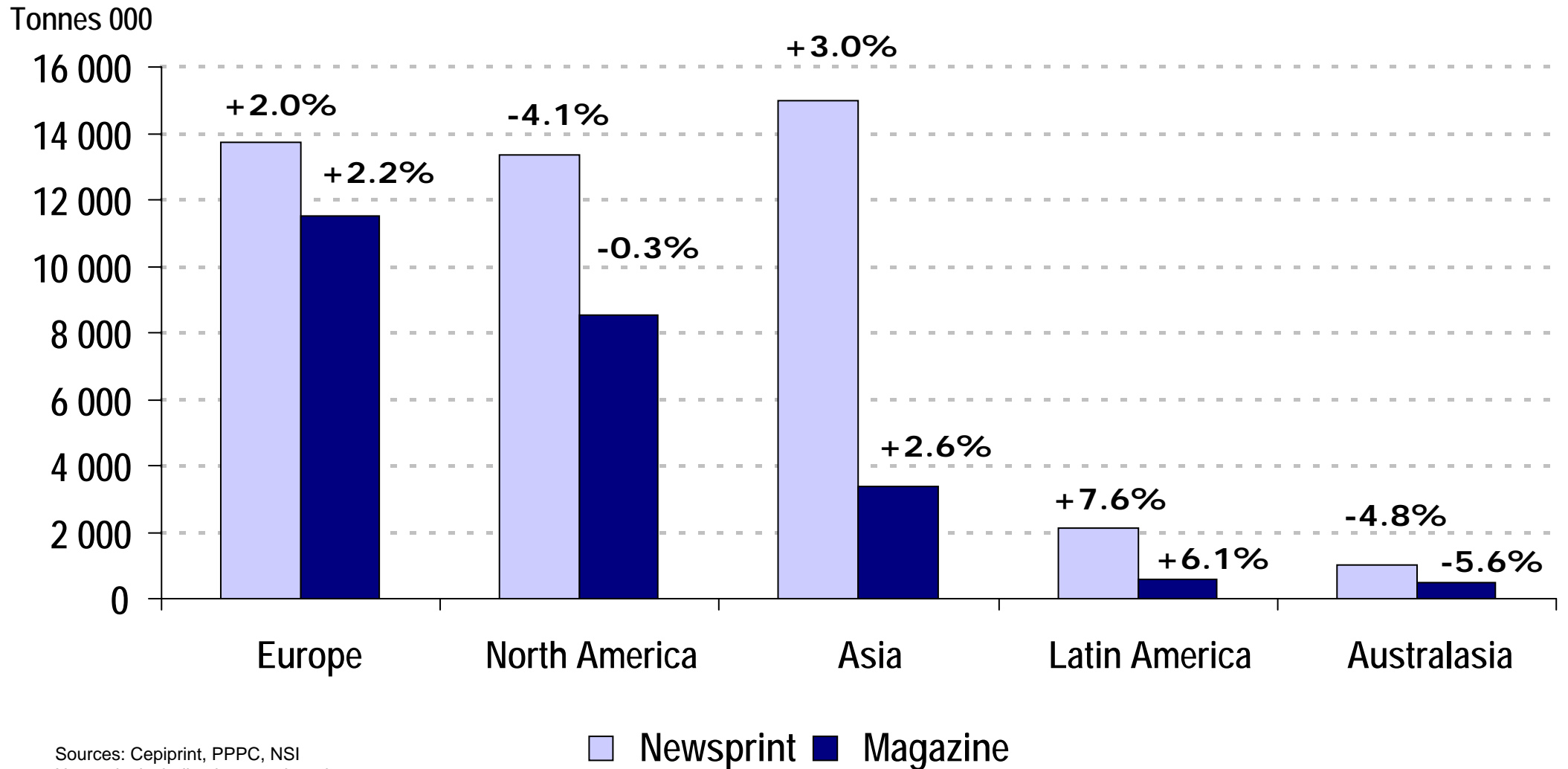
## ■ North-America

- 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 October 2007 vs. YTD October 2006 (Europe only, elsewhere September)

Standard Newsprint World (YTD Sept): (1,0%)

	Standard Newsprint	Standard & Improved Newsprint	Magazine Paper	Total
W. Europe (ytd October)	(0,3%)	(0,7%)	2,8%	0,9%
E. Europe (ytd October)	1,8%	2,2%	18,9%	8,2%
Europe Total (ytd October)	0,1%	(0,3%)	4,4%	1,8%

North America			
Standard Newsprint	Standard & Improved Newsprint	Magazine Paper	Total
(10,6%)	(9,7%)	1,0%	(4,0%)

Standard Newsprint China	Standard Newsprint S Korea
7,8%	3,3%

Standard Newsprint Far East Total
2,3%

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

S America
Standard Newsprint
1,6%

# Newsprint – Europe and North America

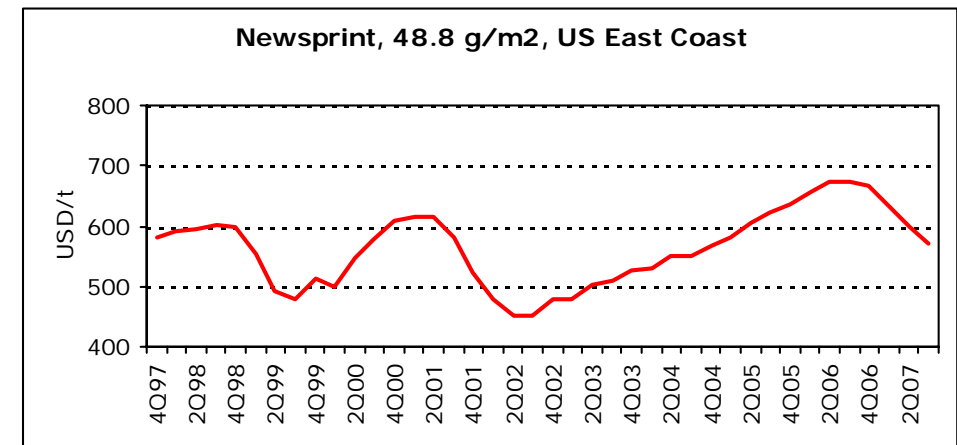
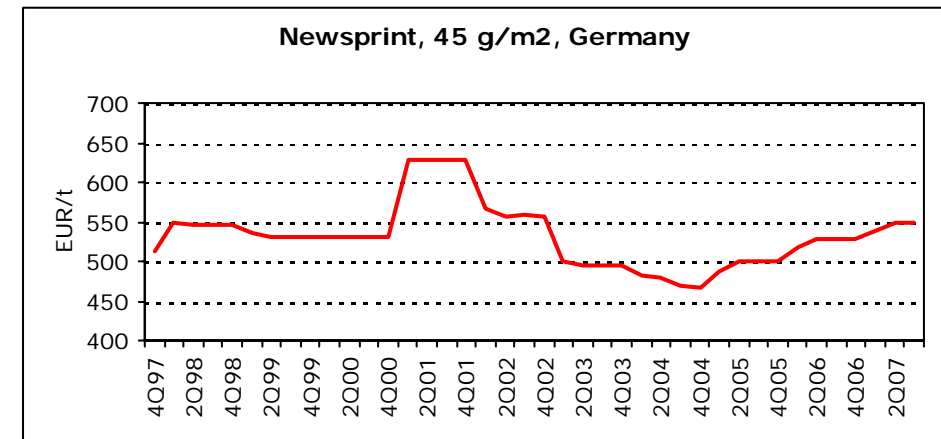
## ■ Europe:

- 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:

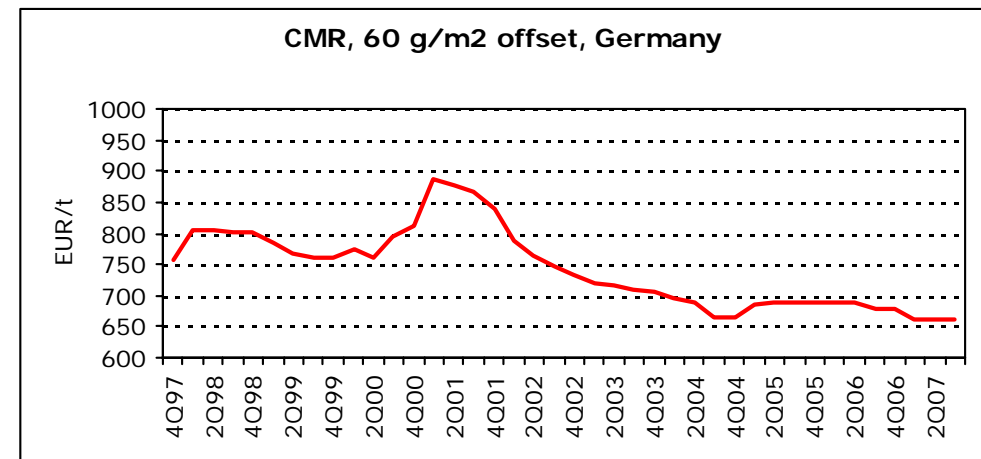
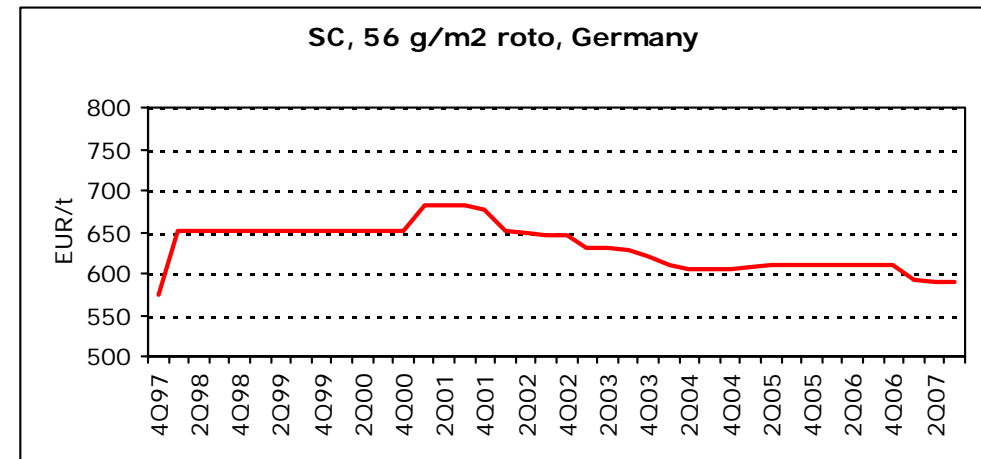
- Falling demand for several years, but price increases took place in the years 2002-2006 because of good capacity management
- Weak pricing environment at present, and actions are needed
- Newly announced price increases for 2008

- **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 in 2007, because of overcapacity
- Closures have taken place, and prices will likely improve in 2008 – especially for coated grades
- As for newsprint: Demand/Supply balance is crucial



# Newsprint Australasia and South America

## ■ Australasia

- Norske Skog is the only local producer, with a very high market share
- Long term volume contracts with pricing formula linked to US
- Low cost fibre and energy

## ■ South America

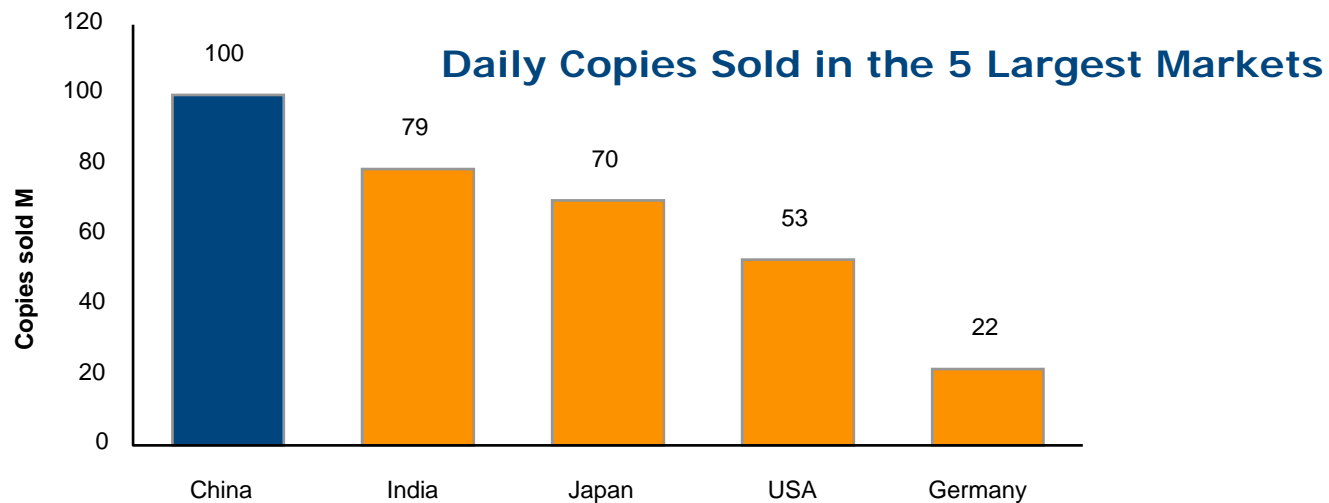
- Norske Skog is the largest local producer
- Long term good growth
- Pricing linked to North America
- Low cost fibre and energy
- Norske Skog is expanding its presence by transferring a PM from Norway to Brazil



# 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’ 16<sup>th</sup> Party Congress, 2006)
  - Increased subsidies for circulation of Newspapers to rural areas (Peoples’ 17<sup>th</sup> Party Congress, 2007)



Source: World Association of Newspapers.



# Actions

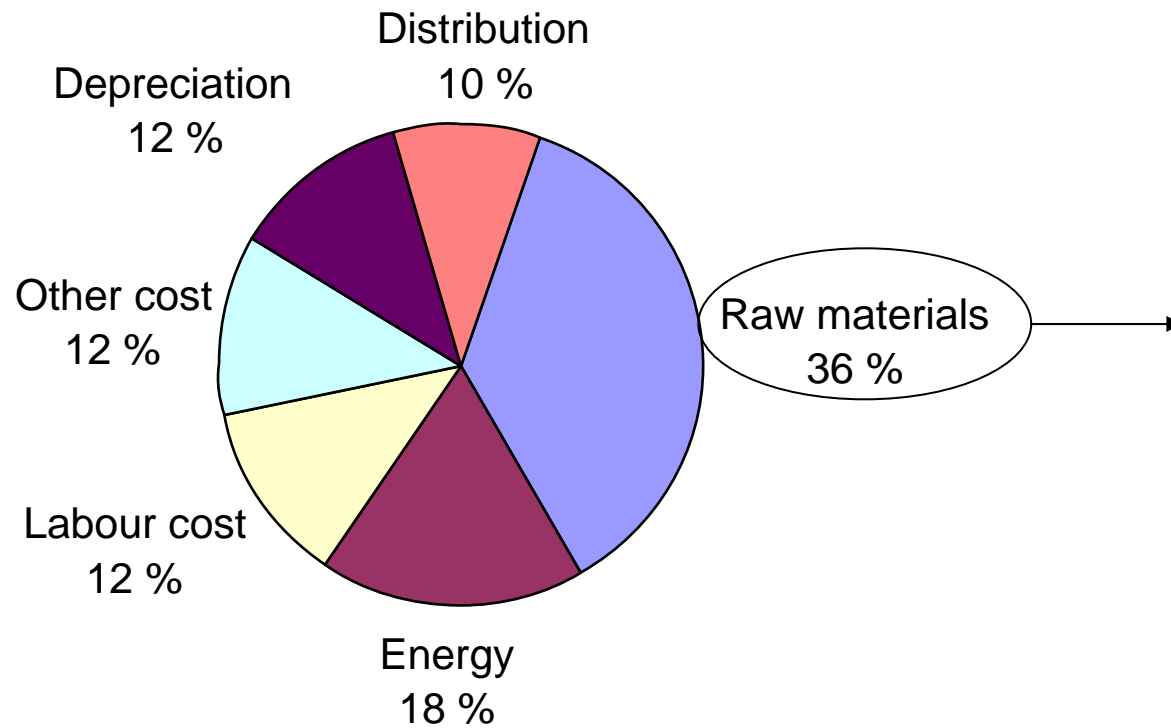


# Changing industry and market trends

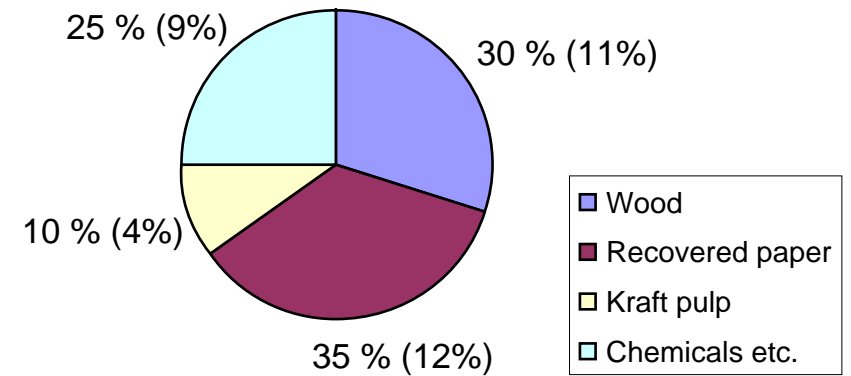
- The old clusters – Nordic countries and Canada – are less important with the increased capacity and self-sufficiency in Asia and South America.
- Additionally the old clusters experience market stagnation or decline in their home regions.
- Location of capacity expanded away from the old clusters' 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

# Total cost breakdown - 2006

## Total cost



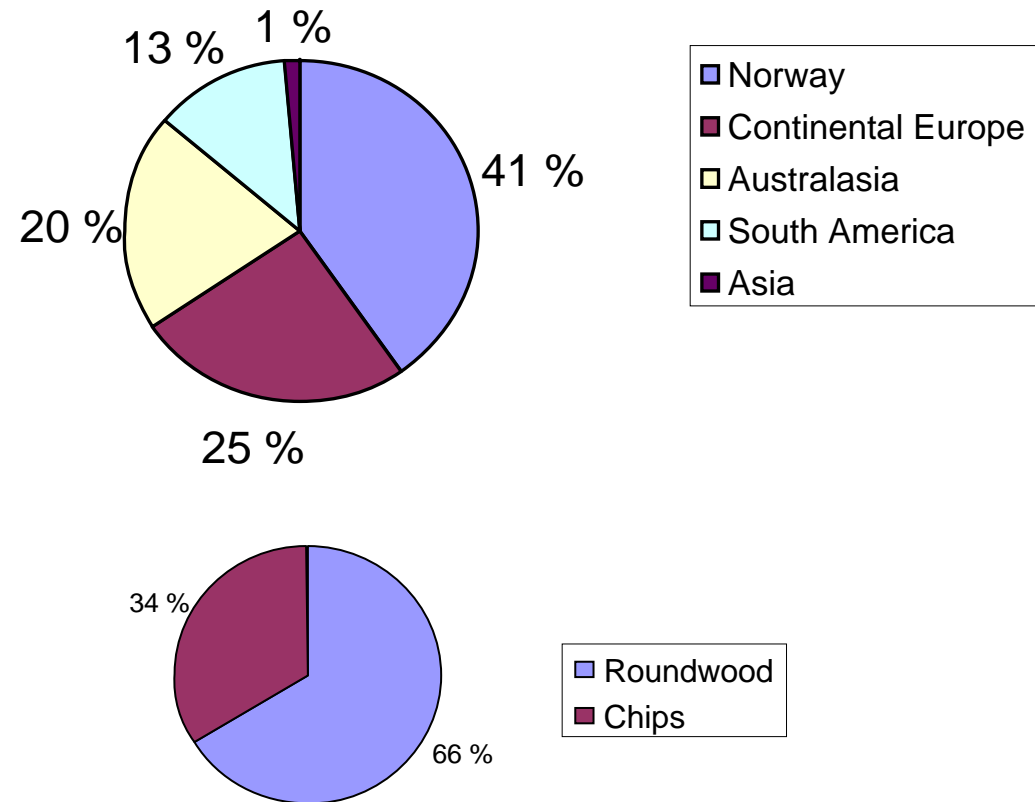
## Raw materials



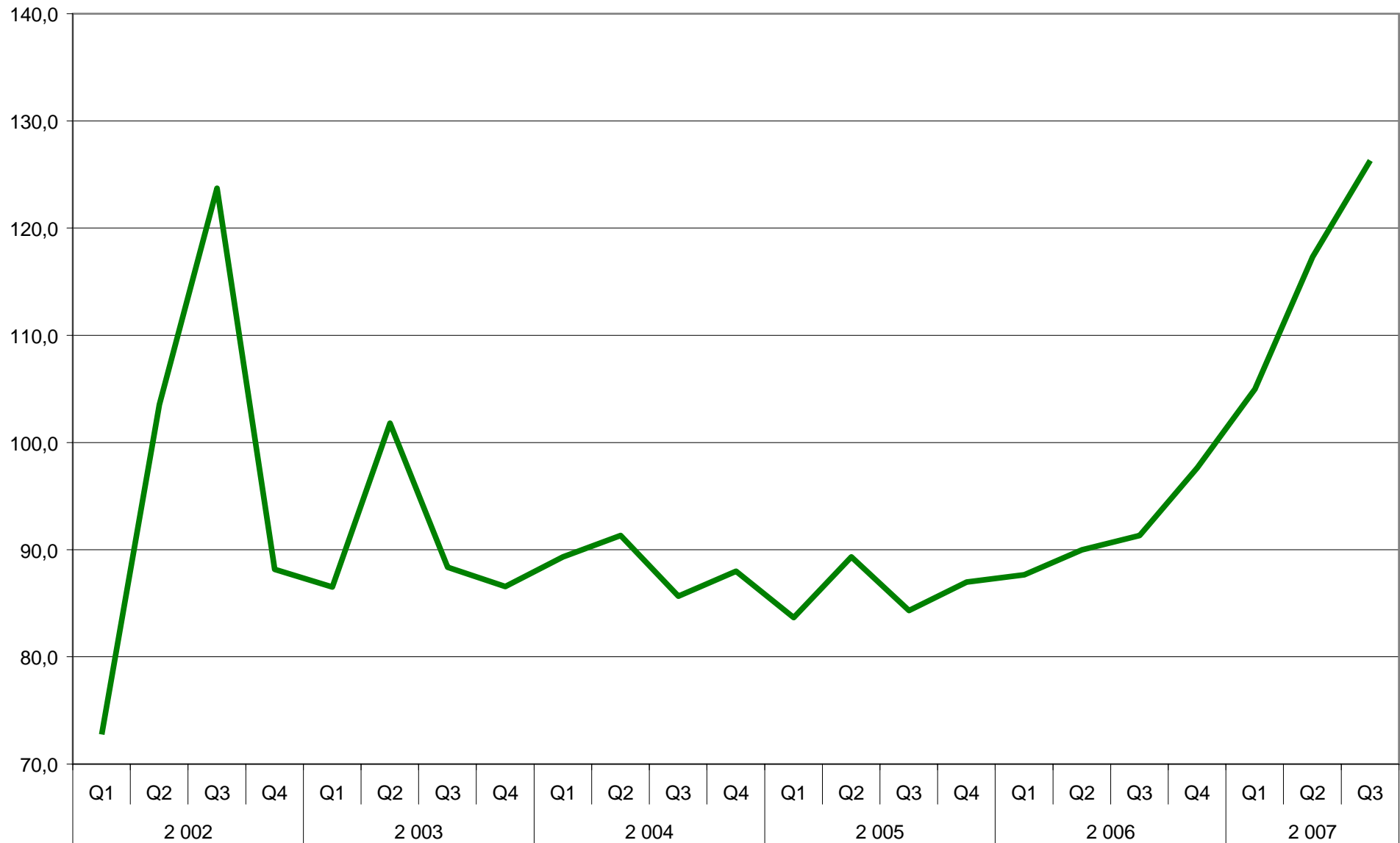
# Wood

- 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 influence price in Finland, with knock-on effect in Sweden
- European market currently looks to have adequate supply, but pricing remains volatile
- Southern hemisphere - 35% of total wood consumption at much lower prices than in Europe

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



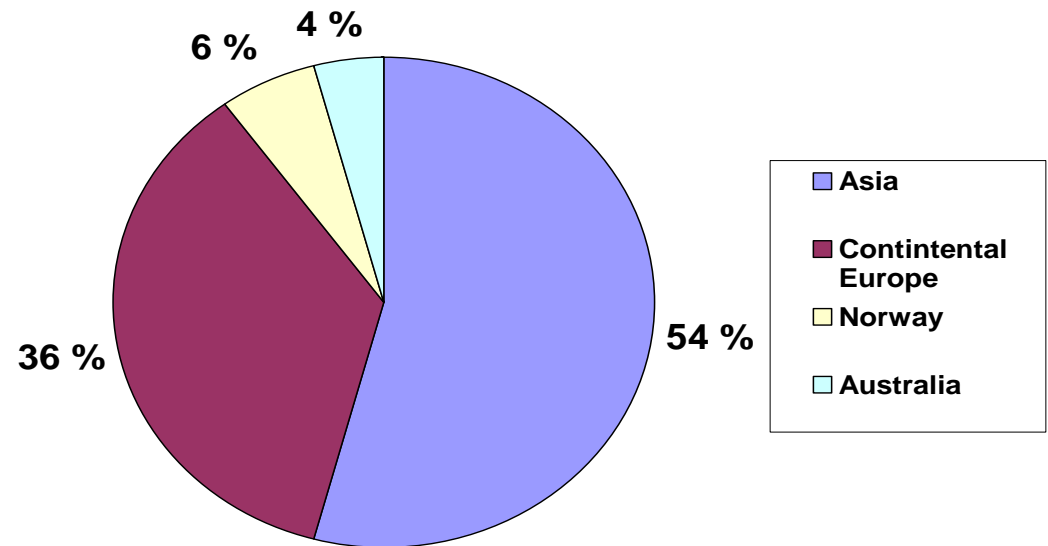
# Recovered paper prices in Germany (CEPI) 2002 – 1 HY 2007 – Old newspapers/magazines



# Recovered Paper

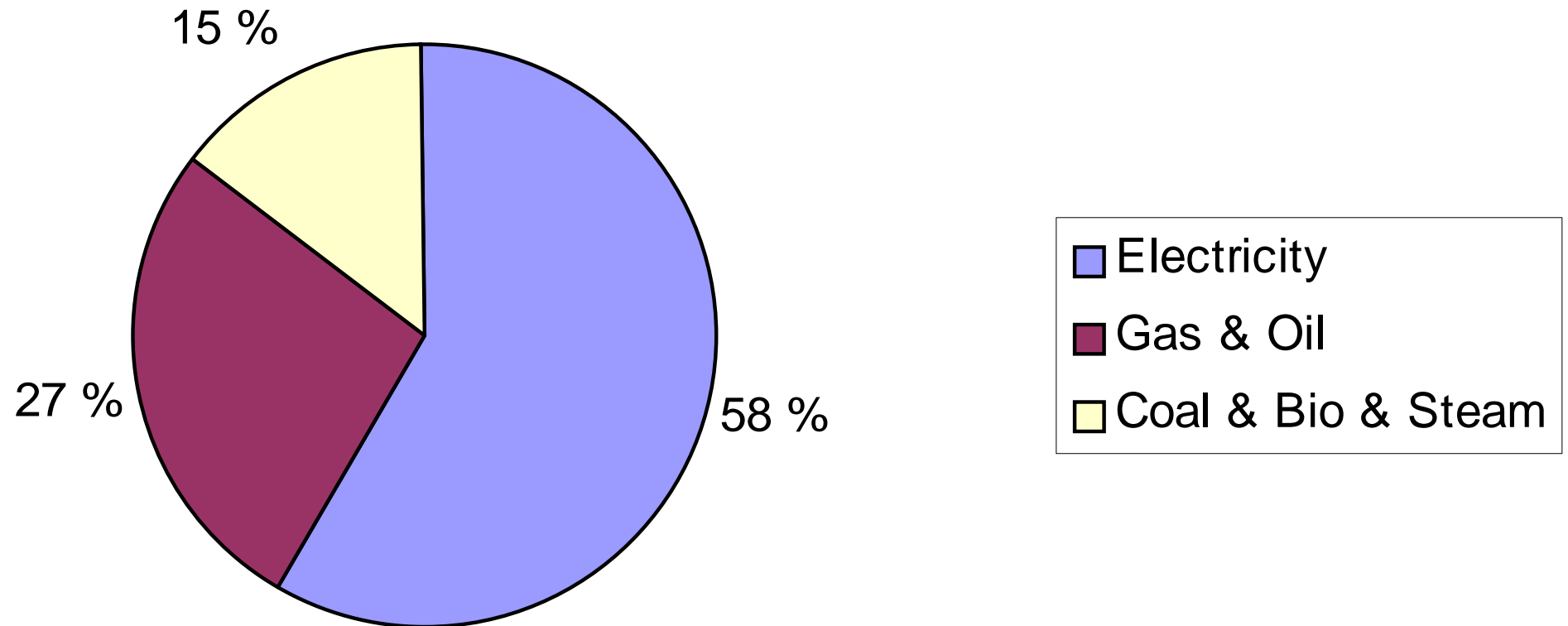
- Increased Global RP prices in 2007 – mainly driven by the new capacities in China
- From October 1st 2007, Sea-freight rates Europe-Asia increased. The expected result could be:
  - Decrease in Europe
  - Increase in the Far East

NSI RP Consumption 2006  
3,4 Million ton



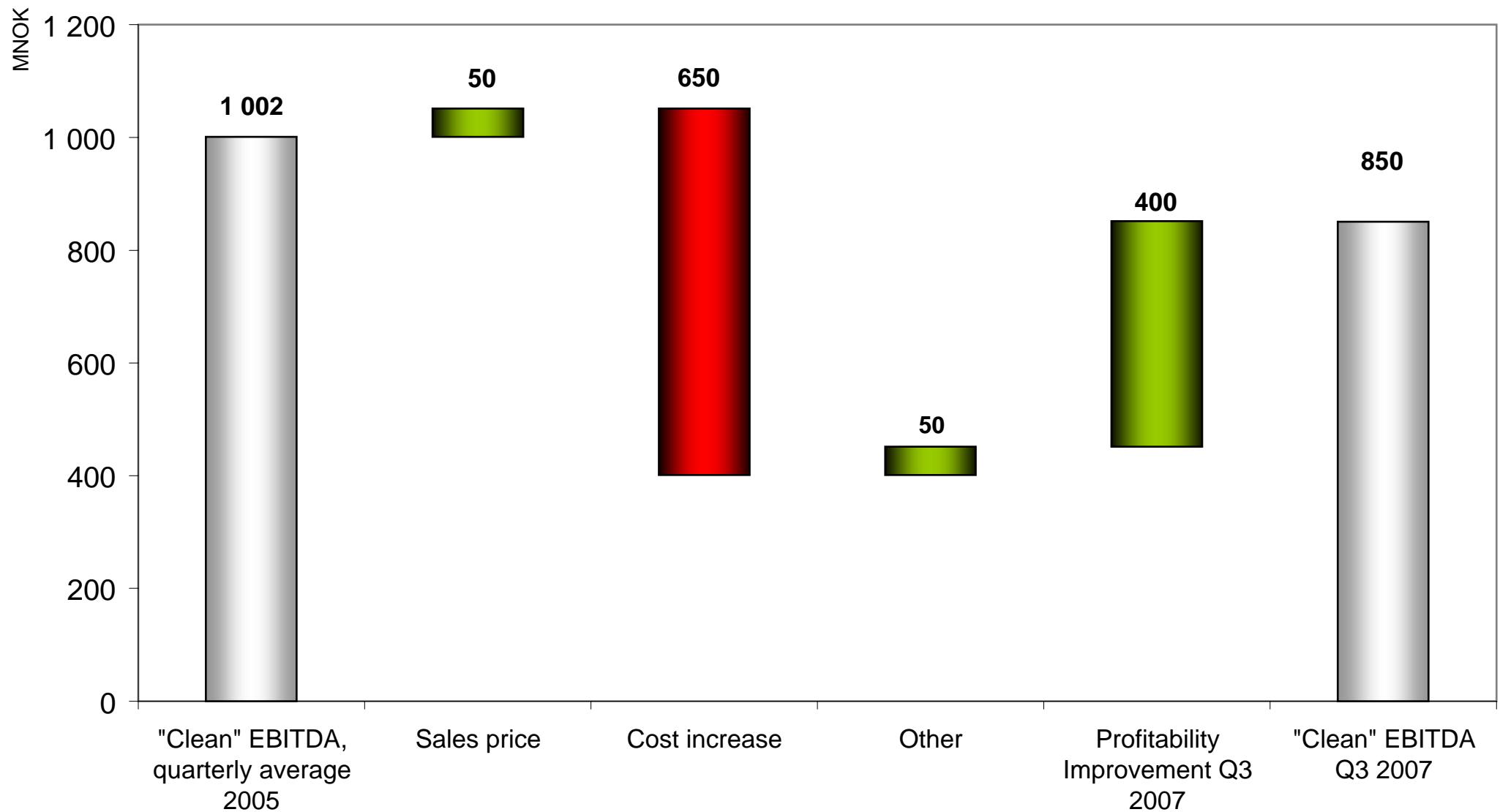
# Energy consumption by source and region

Energy consumption (excluding self generated thermal)  
~ 19 Twh (= 19 billion kWh)



# Profitability improvement program, Q3 2007

Adjusted EBITDA development quarterly average 2005 – Q3 2007



# Asset review

- Overcapacity is the largest challenge for our industry
- 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

## Closures 2006 (in tons):

Union	265 000 (2 PM's in Norway)
Jeonju	180 000 (2 PM's in Korea)
<u>Tasman</u>	<u>130 000 (1 PM in New Zealand)</u>
<u>TOTAL</u>	<u>575 000</u>

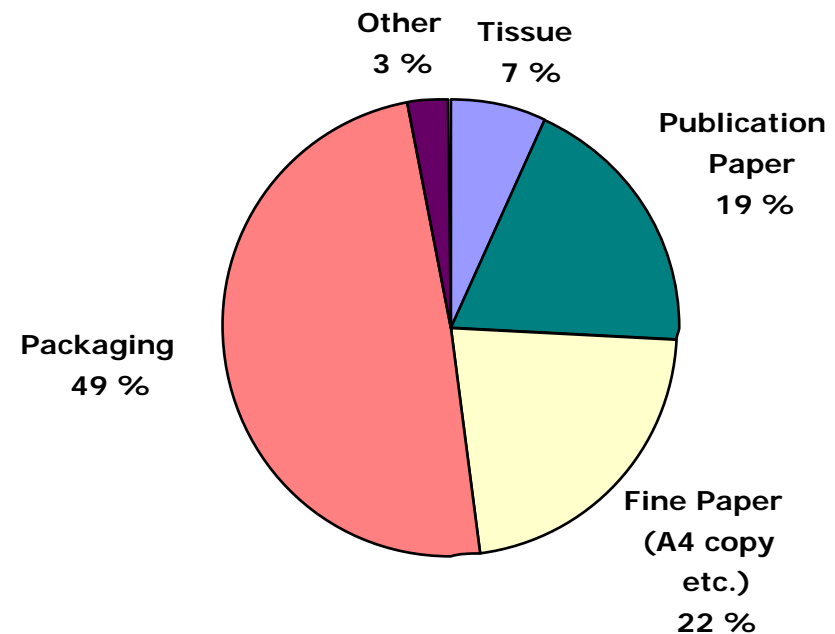
## Market downtime 2007/08:

2. HY 2007	70 000 tons newsprint Europe
2008	200 000 tons newsprint Europe

# 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

# Bio fuel

- Woody biomass excellent feedstock for bio fuels
- Technology is considered feasible
- Economics are still challenging



# 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

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