



2011 Fourth Quarter and Full Year Review

Roger W. Stone
Chairman and Chief Executive Officer

Andrea K. Tarbox
Vice President and Chief Financial Officer

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Forward Looking Statements

Forward-Looking Statements

The information in this presentation and statements made during this presentation may contain certain forward-looking statements within the meaning of federal securities laws. These statements reflect management's expectations regarding future events and operating performance.

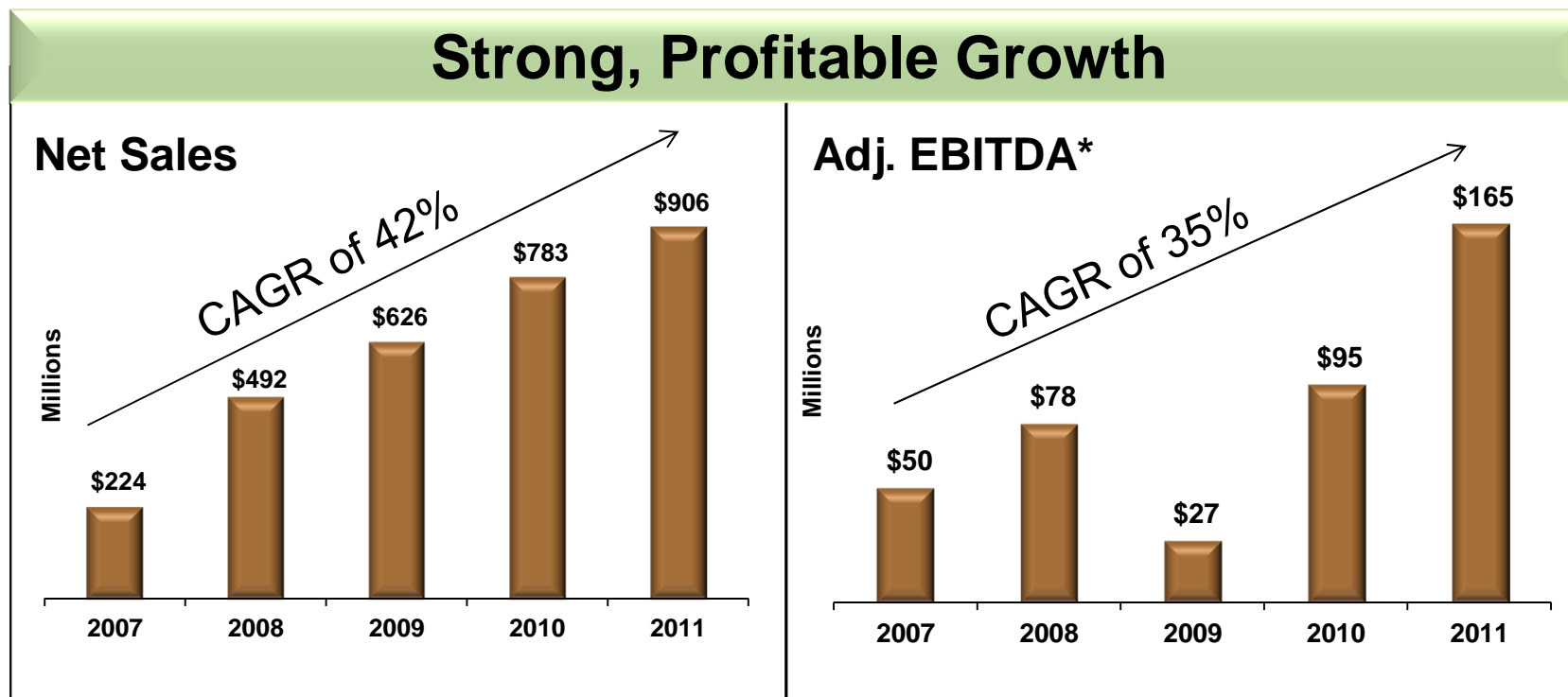
Risk Factors

These forward-looking statements involve a number of risks and uncertainties. A list of the factors that could cause actual results to differ materially from those expressed in, or underlying, any forward-looking statements can be found in the Company's filings with the Securities and Exchange Commission, such as its annual and quarterly reports. The Company disclaims any obligation to revise or update such statements to reflect the occurrence of events after the date of this presentation.

Non-GAAP Financial Measures

This presentation refers to non-U.S. GAAP financial information. For a reconciliation to U.S. GAAP financial measures, please refer to the appendix.

KapStone Delivers



*Adjusted to exclude alternative fuel mixture credits, non-cash stock compensation, acquisition related costs, and dunnage bag business sold in March 2009

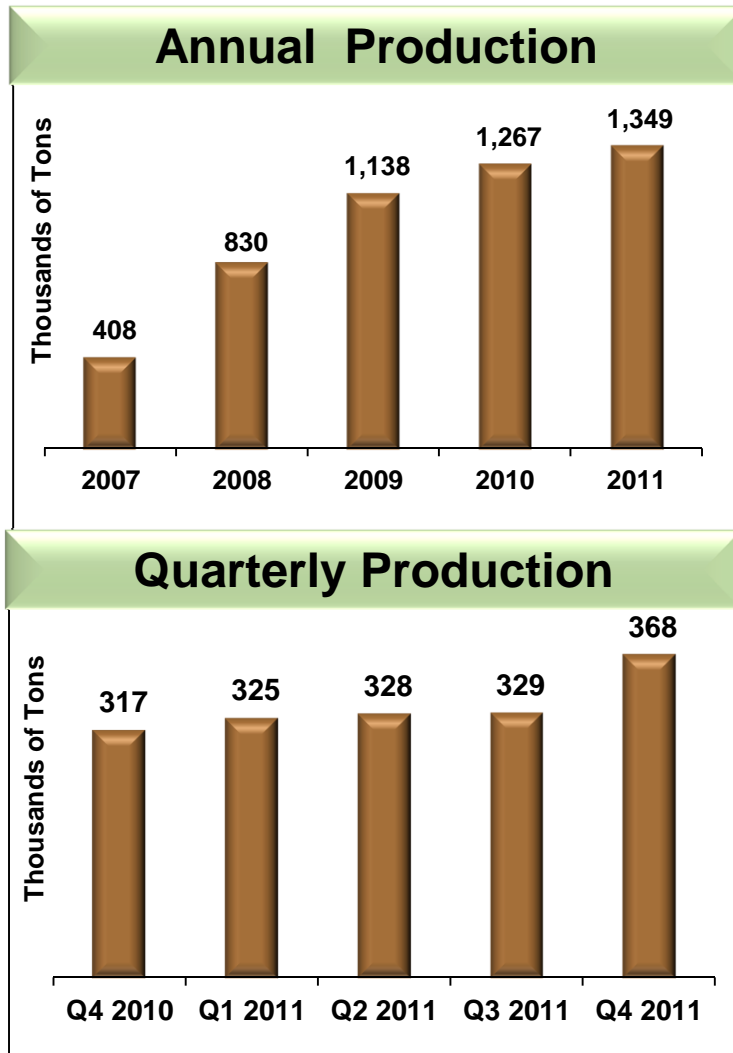
Full Year Financial Results

| | Years Ended December 31, | | | |
|---------------------------|---|----------------|----------------|-------------|
| | (\$ in Millions, except per share data) | | | |
| | <u>2010</u> | <u>2011</u> | <u>Inc.</u> | <u>Inc.</u> |
| Net Sales | \$ 783 | \$ 906 | \$ 123 | 16% |
| EBITDA | \$ 113 | \$ 157 | \$ 44 | 39% |
| Adj. EBITDA* | \$ 95 | \$ 165 | \$ 70 | 74% |
| Net Income | \$ 65 | \$ 124 | \$ 59 | 91% |
| Adj. Net Income** | \$ 29 | \$ 67 | \$ 38 | 131% |
| Diluted EPS | \$ 1.38 | \$ 2.61 | \$ 1.23 | 89% |
| Adj. Diluted EPS** | \$ 0.62 | \$ 1.41 | \$ 0.79 | 127% |

*Adjusted to exclude alternative fuel mixture credit , non-cash stock compensation, and acquisition related costs

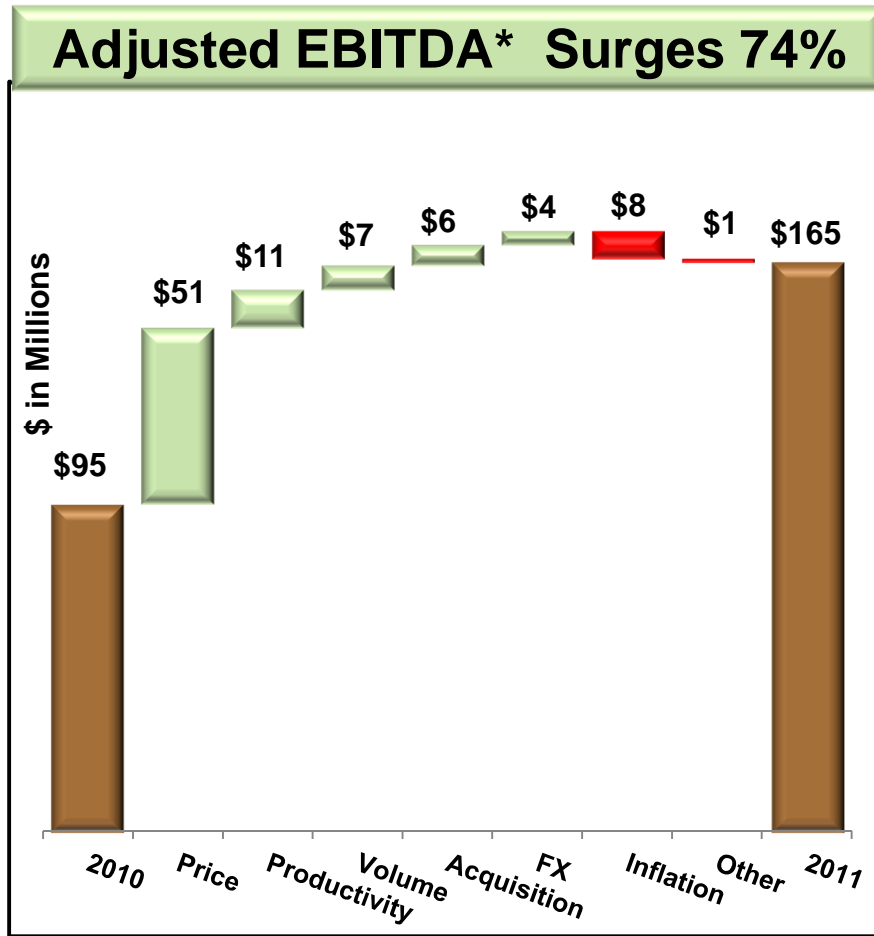
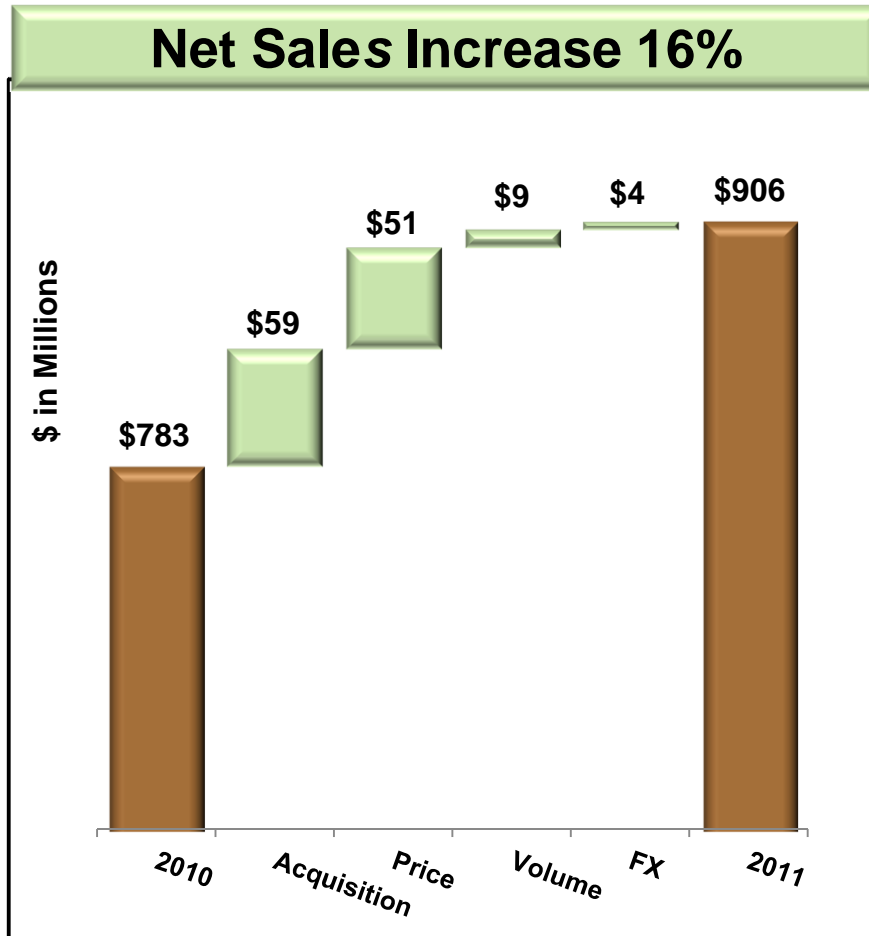
**Adjusted to exclude items above and cellulosic biofuel tax credits

Mill Production Increases



- Sustained high operating rates from legacy mills and inclusion of two months of production from the acquisition drove record production for the FYE 2011 and for Q4 2011
- Q4 2011 includes 2 months of USC production of 39 thousand tons
 - 2,700 tons lost due to planned annual maintenance outage
- Roanoke Rapids' planned annual outage reduced production by 11,700 tons in Q4 2011 and 10,000 tons in Q4 2010
- Finished goods inventory at year-end essentially unchanged from prior year end and in good position

Full Year 2011 Compared to 2010



*Adjusted to exclude alternative fuel mixture credits, non-cash stock compensation, and acquisition related costs

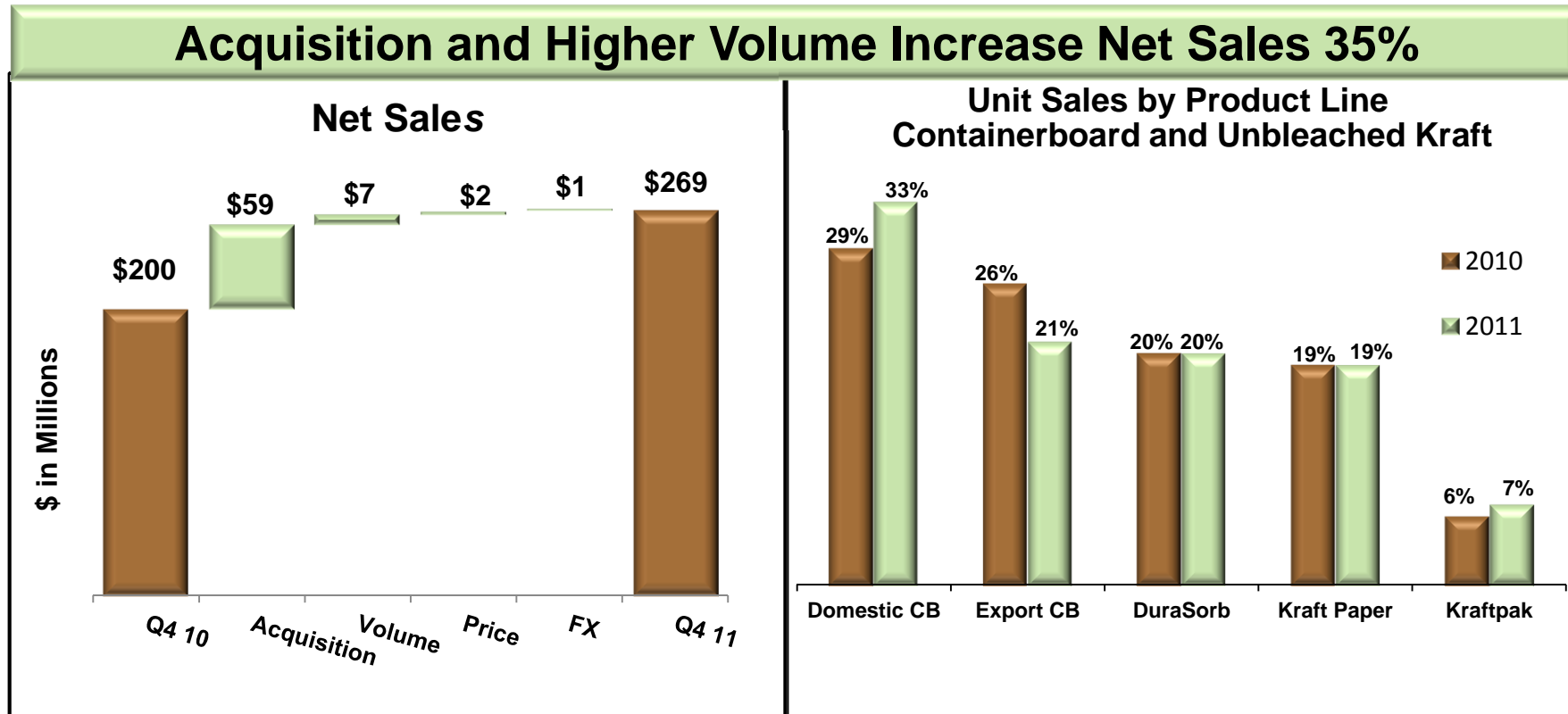
Fourth Quarter Financial Results

| | Fourth Quarter | | | |
|---------------------------|---|----------------|----------------|-------------|
| | (\$ in Millions, except per share data) | | | |
| | <u>2010</u> | <u>2011</u> | <u>Inc.</u> | <u>Inc.</u> |
| Net Sales | \$ 200 | \$ 269 | \$ 69 | 35% |
| EBITDA | \$ 29 | \$ 35 | \$ 6 | 21% |
| Adj. EBITDA* | \$ 30 | \$ 38 | \$ 8 | 27% |
| Net Income | \$ 13 | \$ 74 | \$ 61 | 460% |
| Adj. Net Income* * | \$ 11 | \$ 14 | \$ 3 | 27% |
| Diluted EPS | \$ 0.28 | \$ 1.56 | \$ 1.28 | 457% |
| Adj. Diluted EPS** | \$ 0.23 | \$ 0.29 | \$ 0.06 | 26% |

*Adjusted to exclude alternative fuel mixture and cellulosic biofuel tax credits, non-cash stock compensation, and acquisition related costs

**Adjusted to exclude items above and cellulosic biofuel tax credits

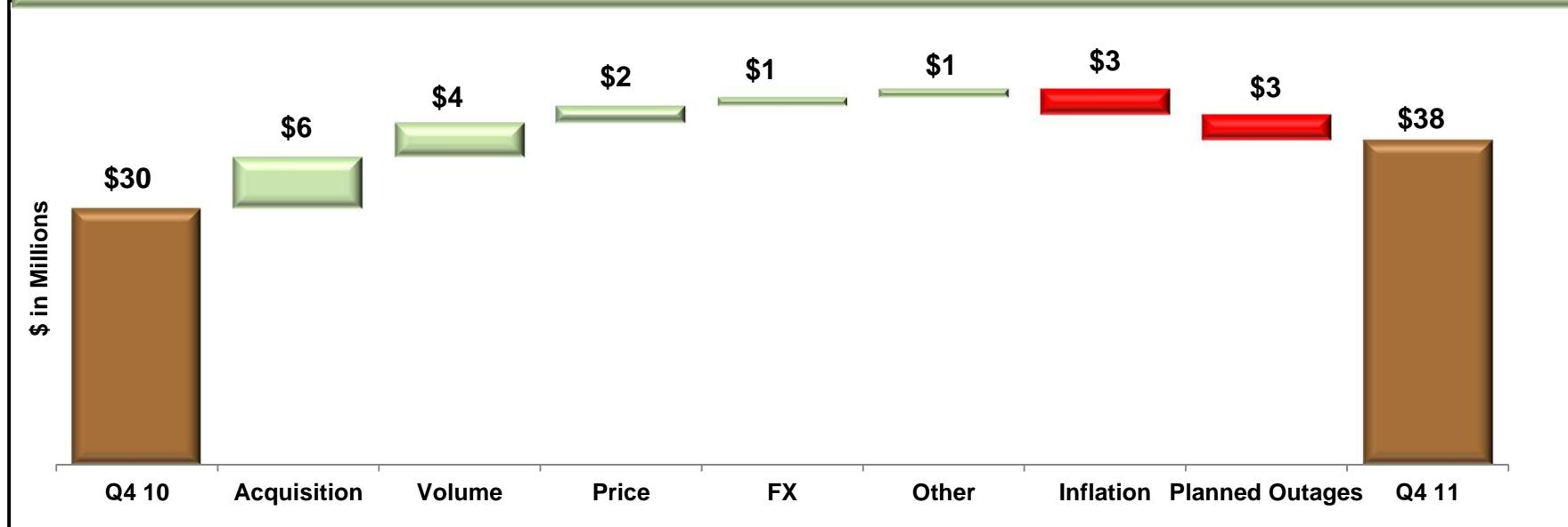
Q4 2011 Compared to Q4 2010



- Average mill revenue per ton was \$620 per ton in Q4 2011 versus \$611 in 2010
- In Q4 2011, sold 332 thousand tons of paper and 1.0 billion square feet of corrugated products compared to 316 thousand tons of paper sold in prior year
 - 35 thousand tons of containerboard were shipped to our packaging plants

Q4 2011 Compared to Q4 2010

Acquisition and Higher Volume Drive Adjusted EBITDA* Up 27%



*Adjusted to exclude alternative fuel mixture and cellulosic biofuel tax credits, non-cash stock compensation, and USC one-time and start-up costs

- Higher caustic soda price was primary component of inflation
- Higher planned maintenance outages were due to more extensive work at RRs and \$1 million for Cowpens (newly acquired mill) annual outage

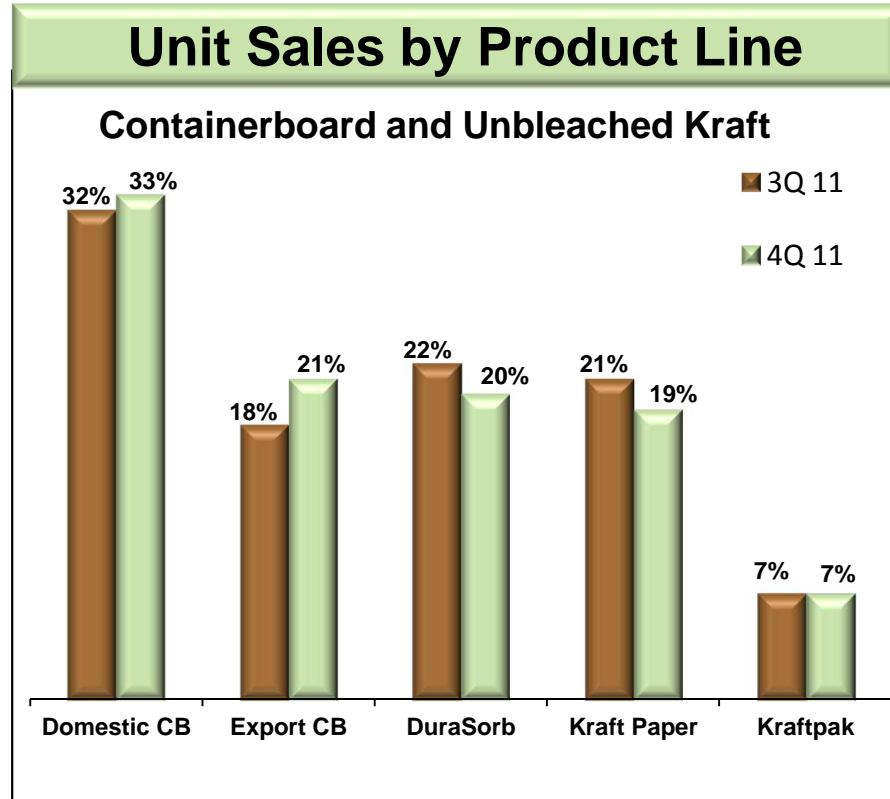
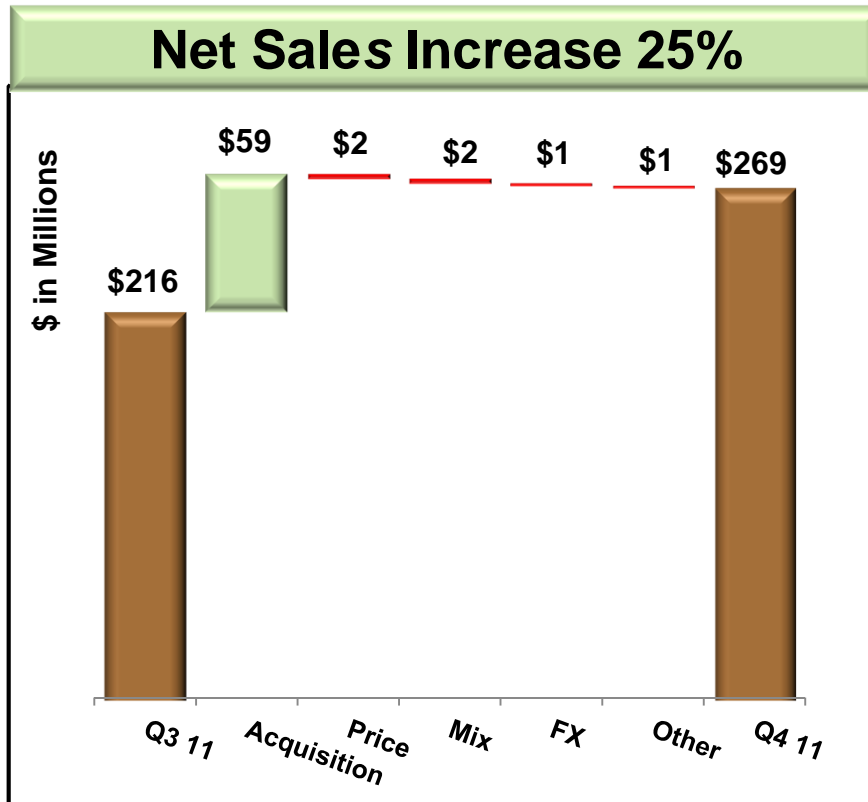
Sequential Quarter Comparison

| | 2011 | | | |
|---------------------------|---|------------|------------------|----------------|
| | (\$ in Millions, except per share data) | | | |
| | <u>Q3</u> | <u>Q4*</u> | <u>Inc/(Dec)</u> | <u>Inc/Dec</u> |
| Net Sales | \$ 216 | \$ 269 | \$ 53 | 25% |
| EBITDA | \$ 42 | \$ 35 | \$ (7) | (17%) |
| Adj. EBITDA** | \$ 42 | \$ 38 | \$ (4) | (10%) |
| Net Income | \$ 16 | \$ 74 | \$ 58 | 363% |
| Adj. Net Income** | \$ 18 | \$ 13 | \$ (5) | (28%) |
| Diluted EPS | \$ 0.35 | \$ 1.56 | \$ 1.21 | 346% |
| Adj. Diluted EPS** | \$ 0.39 | \$ 0.29 | \$ (0.10) | (26%) |

*Includes impact of RR's and Cowpens' annual planned maintenance outages which reduced production and tons available to be shipped by 14,400 tons and increased maintenance expense by \$8 million

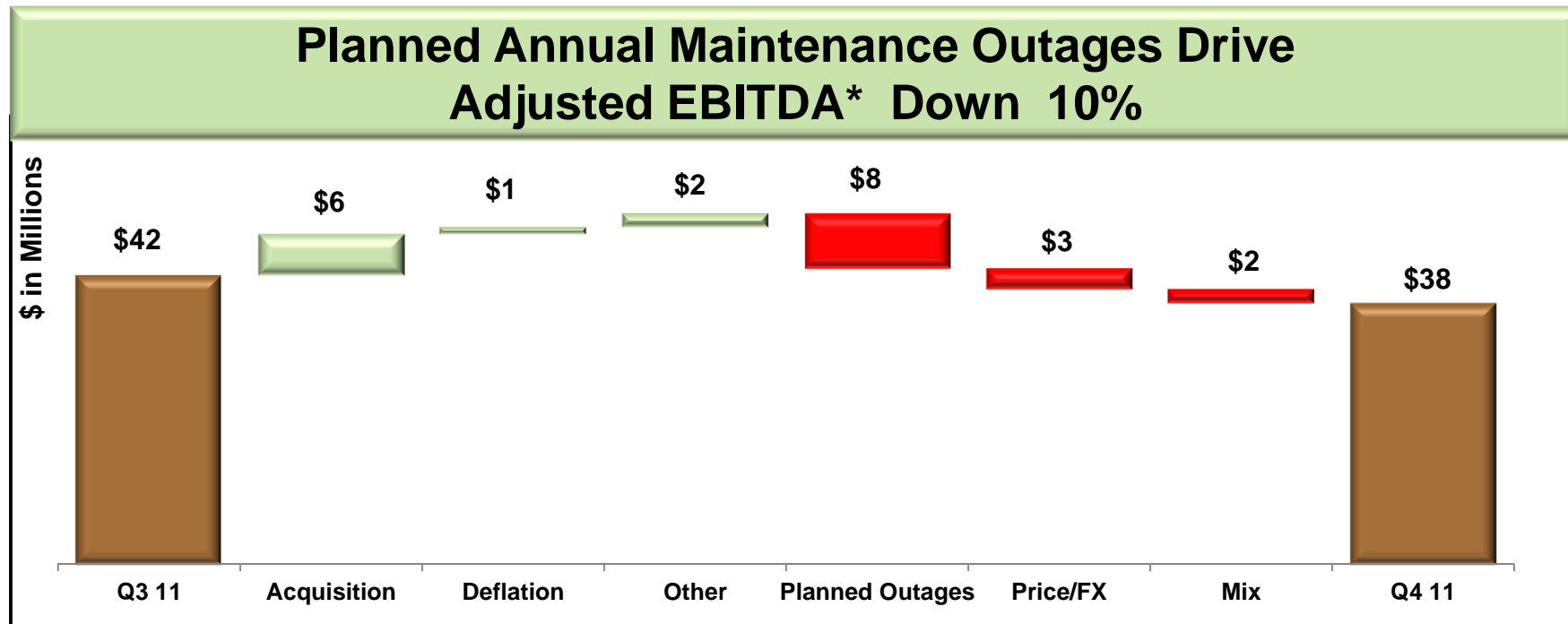
**Adjusted to exclude alternative fuel mixture tax credits, non-cash stock compensation, and acquisition related costs

Q4 2011 Compared to Q3 2011



- Average mill revenue per ton by \$19 to \$620 in Q4
 - Price decline in Q4 due to lower export containerboard prices partially offset by kraft paper increases.
 - Less favorable mix due to seasonal decline in Durasorb and kraft paper

Q4 2011 Compared to Q3 2011



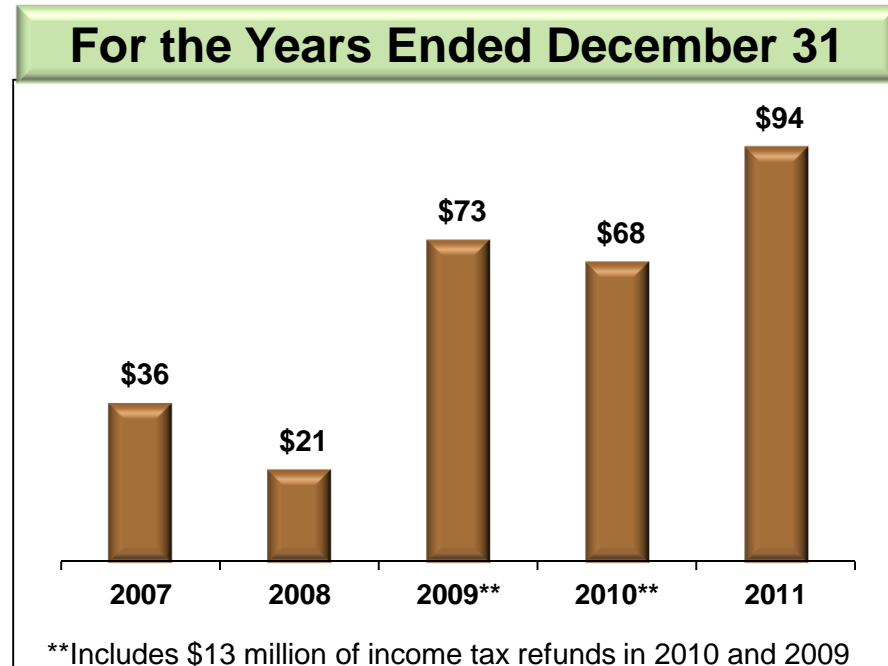
*Adjusted to exclude non-cash stock compensation, and acquisition one-time and start-up costs

- Deflation resulted primarily from lower wood costs
- Lower prices on export containerboard and weaker Euro
- Seasonal slowdown for DuraSorb and Kraftpak - less favorable product mix

Adjusted Free Cash Flows*

Adjusted free cash flow was \$94 million for the 2011 full year, or \$1.98 per diluted share

- Capex for 2011 was \$43 million of which approximately \$25 million was maintenance related
- Remainder of Capex spending for strategic or cost reduction projects



*Calculated by adjusting cash flow from operations for capital expenditures, AFTC, and results of dunnage bag business sold in 2009

Strong Balance Sheet at December 31, 2011

- Net debt \$347 million
- Current interest rate on debt 2.27%
- Debt to EBITDA ratio per bank agreement 1.83
- At Dec. 31, 2011, KapStone had \$8 million of cash and \$142 million of revolver borrowing capacity
 - In addition, KapStone's credit facility has a \$300 million accordion provision to provide for future borrowing under the same terms and conditions

Tax Notes

| | Quarter Ended December 31, | | Year Ended December 31, | |
|--|----------------------------|--------------|-------------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Provision (benefit) for income taxes | (56,678) | 3,171 | (23,640) | (2,407) |
| Effective tax rate | <u>(323.5%)</u> | <u>19.4%</u> | <u>(23.6%)</u> | <u>(3.8%)</u> |
| Income Tax adjustments: | | | | |
| Reversal of tax reserves for AFTC | 63,026 | - | 63,026 | - |
| AFTC and Cellulosic biofuel credit | - | 388 | - | 23,825 |
| Domestic manufacturing deduction | - | 422 | (1,148) | 1,148 |
| Other discrete tax adjustments | (80) | 1,845 | (80) | 1,362 |
| Adjusted provision (benefit) for income taxes | <u>6,268</u> | <u>5,826</u> | <u>38,158</u> | <u>23,928</u> |
| Adjusted effective tax rate | <u>35.8%</u> | <u>35.6%</u> | <u>38.0%</u> | <u>38.2%</u> |

- The USC acquisition provides KapStone with \$37 million of pre-tax NOLs
- Projected book tax rate to be approximately 38.5% in 2012
- Cash federal income tax rate expected to be less than 10%

Summary of Key Assumptions for 2012

- **Full year of USC results**
 - **Only two months included in 2011**

- **Planned outages and major maintenance**
 - **Roanoke Rapids Mill – Q4 2012**
 - **Approximately \$1 million higher than 2011**
 - **Charleston Mill – comparable to 2011**
 - **Cowpens – Q4 2012**
 - **Comparable to 2011**
 - **Expected maintenance cost: \$1.2 million**
 - **Expected lost production and potential sale tons: 2,700 tons**

Summary of Key Assumptions for 2012

- **Input costs**
 - **Expect overall flat to slight upward cost pressure**
 - **Primarily driven by stable wood prices offset with slightly lower OCC**
 - **Partially offset by higher energy and caustic soda**
- **CAPEX - Approximately \$60 million**
 - **Including approximately \$10 million for USC including the replacement of the ERP system**
- **FX**
 - **Slight negative compared to 2011**
 - **Avg. rate for 2011 was 1.39**